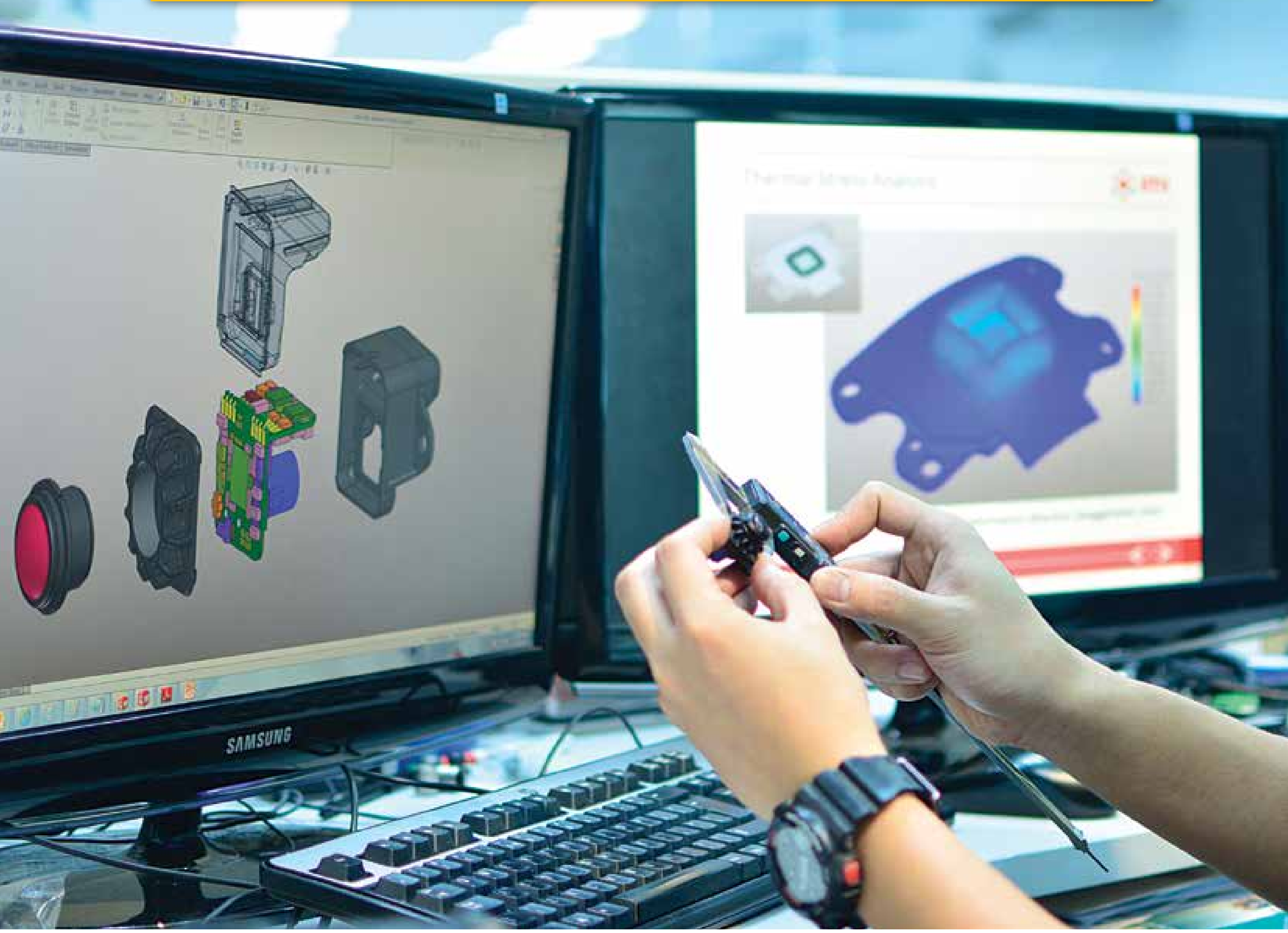
Let’s innovate solutions

2014 Annual Report & Sustainability Report

At IMI, innovation isn't limited to a centralized lab or think tank. Our expanding footprint gives us access to a pool of global talents across multiple disciplines that is unmatched in the regions where we play in. This has allowed us to aggressively pursue new opportunity areas that promise to revolutionize daily life through embedded platforms. Rapid advancements in The Internet of Things are increasing the demand for design and manufacturing expertise– services that IMI, thanks to foresight and a solid strategy for growth, is well-positioned to provide beyond its core portfolio. As the world changes and people embrace a connected existence, we are committed to becoming a transformational presence in our industry, advocating and partnering for technology solutions that truly improve lives.



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OUR STORY

IMI: INNOVATING SOLUTIONS

As one of the leading global providers of electronics manufacturing services (EMS) and power semiconductor assembly and test services, Integrated Micro-Electronics Inc. innovates solutions for diversified markets that include those in the automotive, industrial, medical, telecommunications infrastructure, storage device, renewable energy, and consumer electronics industries.

IMI stays relevant; we play in an industry that has become an intrinsic and driving part of the global economy. We are very much aligned with the global megatrends, allowing us to participate in shaping the future.

Being part of a dynamic industry, we have combined the different elements that comprise the necessary technologies and capabilities of an "EMS plus" provider.

OUR EXPERTISE

OEMs: TECHNOLOGY R&D → DESIGN & ENGINEERING → NPI* → MANUFACTURING → SUPPORT & FULFILLMENT → OEMs: BRAND MARKETING

DESIGN & ENGINEERING

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

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

SUPPORT & FULFILLMENT

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

OEMs- Original Equipment Manufacturers
NPI- New Product Introduction
EMC- Electromagnetic Compatibility
PCB- Printed Circuit Board
FPCB- Flexible Printed Circuit Board

FINANCIAL HIGHLIGHTS

In US$ Million (except EPS)

	2014	2013	Variance	%
Revenues	**844.5**	745.0	99.5	13%
Net income*	**29.1**	10.5	18.6	178%
EBITDA	**52.9**	36.4	16.5	45%
Total assets	**552.7**	488.2	64.5	13%
Equity*	**244.1**	192.6	51.5	27%
Earnings per share (EPS)	**0.017**	0.006		
Return on average equity	**13.3%**	5.4%		
Current ratio	**1.73**	1.53		
Debt-to-equity ratio	**0.41**	0.48		

* attributable to the equity holders of the parent

▲13%
REVENUE

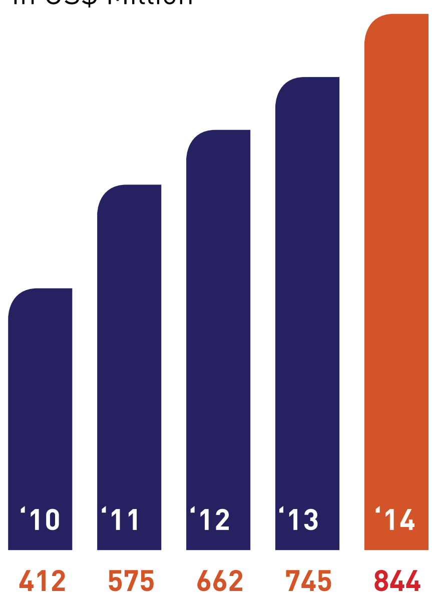
$10.5M → $29.1M
NET INCOME

6%
EBITDA MARGIN

$117.6M
CASH BALANCE

ANNUAL REVENUES

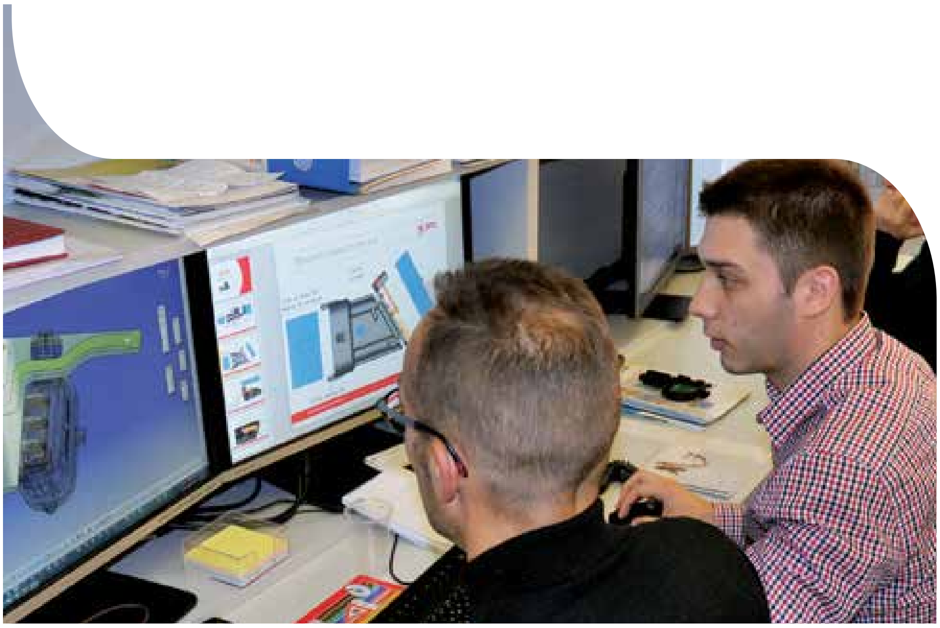
In US$ Million



COMPOUND ANNUAL GROWTH RATE

IMI outperformed industry's 4-year CAGR by more than 2x.

OUR LOCATIONS



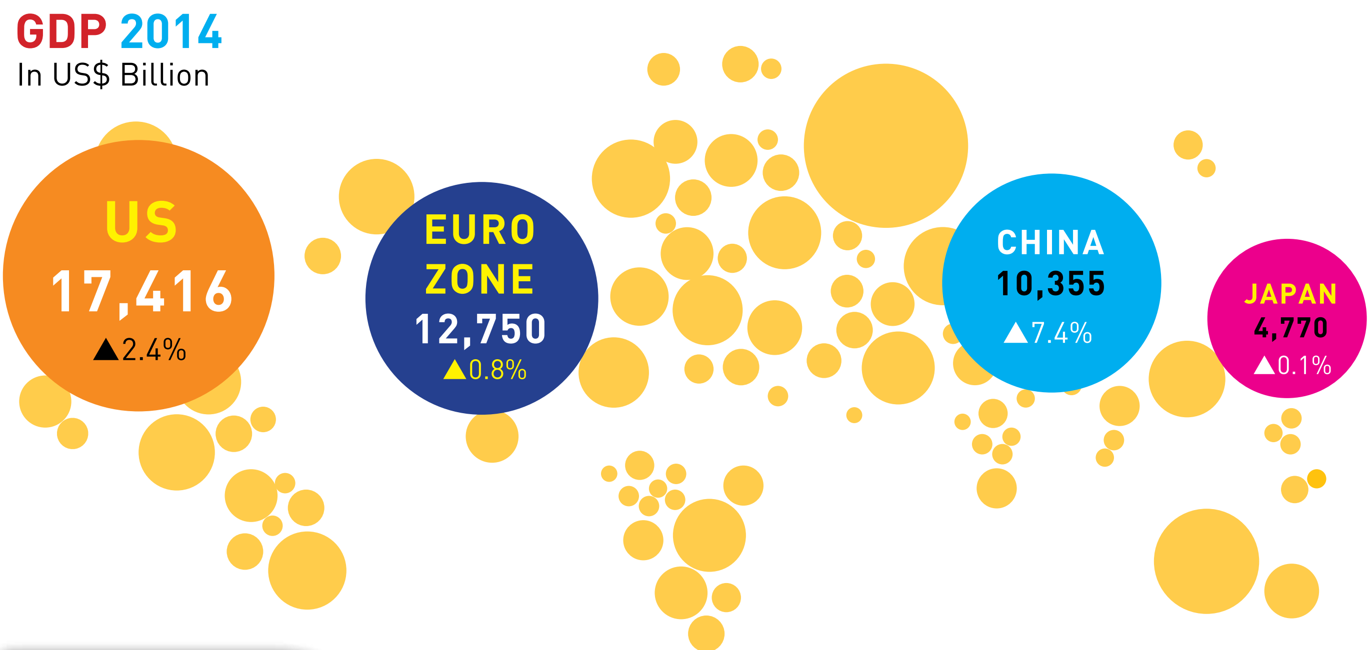
MANUFACTURING PLANTS AND DESIGN & ENGINEERING CENTERS

AUTOMOTIVE · MEDICAL · RENEWABLE ENERGY · CONSUMER · COMPUTING · INDUSTRIAL · COMMUNICATIONS

	HEADCOUNT	PRODUCTION SPACE	MAIN MARKETS
PHILIPPINES Laguna, Taguig, Cavite	10,039*	107,822	Automotive, Consumer, Industrial, Medical, Computing, Communications
CHINA Shenzhen, Jiaxing, Chengdu	5,877	57,100	Automotive, Consumer, Industrial, Medical, Computing, Communications
BULGARIA Botevgrad	1,864	25,878	Automotive, Consumer, Industrial
CZECH REPUBLIC Tremošná	180	7,740	Automotive, Consumer, Industrial
MEXICO Guadalajara	690	22,055	Automotive
USA Fremont and Tustin, California	6	2,327	Automotive, Medical, Industrial, Renewable Energy

*including 3,232 outsourced employees

OUR MARKETS

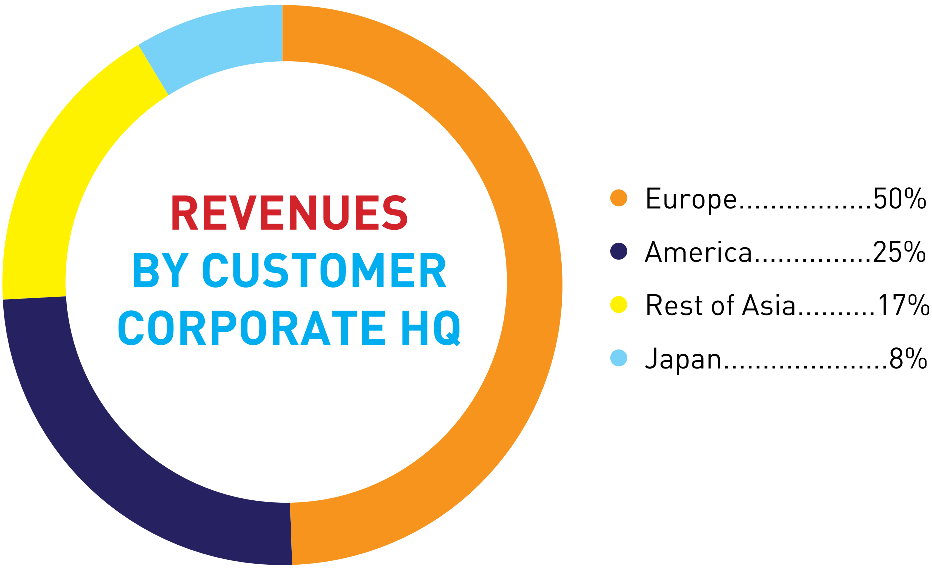


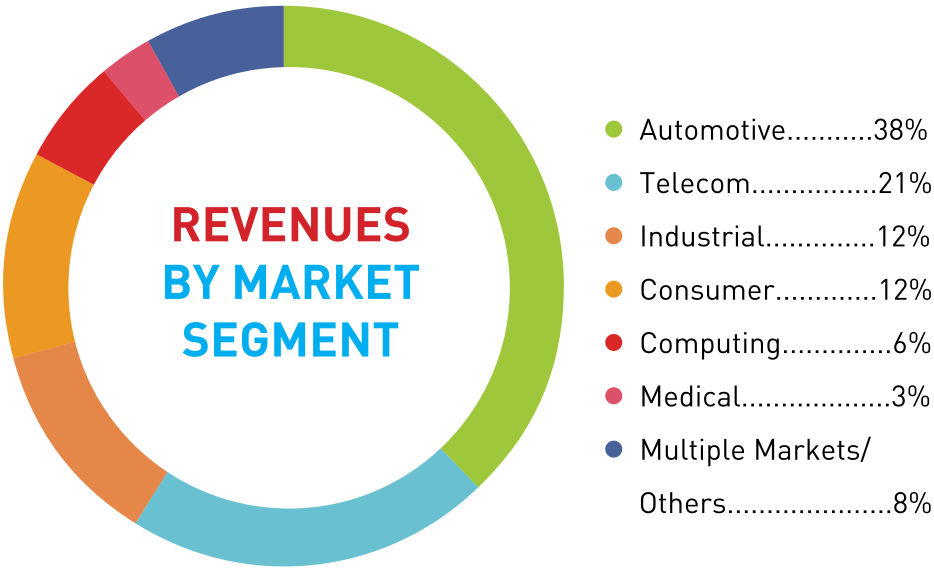
REVENUE PER SITE

IN US$ MILLION

249.9*
325.6
188.3
24.3
56.0
0.4

*EMS Operations $204.9
PSi Technologies $44.9





CHAIRMAN'S MESSAGE

Fellow Shareholders:

2014 was a constructive and encouraging year for the electronics manufacturing services industry. Coming off a challenging period in 2013, the EMS industry made a resounding comeback in 2014.

At IMI, we felt the positive impact of revitalized global demand for electronic products. Despite some volatility in the market, IMI was able to ride with the renewed demand for products and experienced growth in revenue, profits, and innovation.

In 2014, IMI grew at a faster rate than the industry average. Revenues increased by 13 percent, from $745 million to $844.5 million, and our net income nearly tripled from $10.5 million to $29.1 million.

IMI's remarkable growth is a result of various drivers– a wider and more diversified geographic footprint, a steady increase in demand from OEM customers, and a deep focus

“IMI’s remarkable growth is a result of various drivers— a wider and more diversified geographic footprint, a steady increase in demand from OEM customers, and a deep focus on product innovation and customer service.”

on product innovation and customer service. More importantly, we have improved our use of manufacturing technology and design intelligence in our products and operations.

In 2014, we continued to participate and ride with the increased demand in the telecommunications, automotive and storage device markets; all of which drove our strong topline growth this year. The high demand for telecommunications infrastructure devices, following the rollout of fourth-generation technology, boosted IMI China’s revenues by 17.5 percent. The sustained growth of global automotive unit production drove the 14.4 percent improvement in IMI’s revenues from its operations in Europe and Mexico. In the Philippines, IMI’s EMS operations registered an 8.3 percent revenue growth, lifted by our storage device and automotive electronics businesses. In addition, our semiconductors unit posted a 4.3 percent improvement, supported by increased demand.

While we remain focused on capitalizing on the opportunities presented by the global environment, we continue to seek new and improved ways to boost our efficiency, add greater value to our customers, and ultimately, remain relevant to the evolving end markets for our products. For instance, our team of engineers in Asia and Europe have developed and designed innovative technologies for automation and robotics, resulting in greater cost efficiencies in our operations.

Looking ahead, the advent of innovative technological trends, catering to evolving lifestyle demands, continue to support the overall positive environment in global electronics manufacturing.

As we increasingly transition to higher value end-to-end product offerings for niche markets in telecommunications, automotive, and industrial electronics, and as the momentum in the global electronics industry remains healthy, we are optimistic that we can sustain our growth trajectory through the next couple of years.

As a final word, let me thank the board of directors for their guidance and engagement across a number of committees, the management and staff of every IMI team across the globe for their professional commitment to our goals, and our partners and customers for their continued trust and support to IMI.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

PRESIDENT'S REPORT

What are the key messages from IMI's performance in 2014?

We're happy to report that our numbers out of 2014 are excellent, which bear out two key messages for the year in review. First, 2014 was an outperforming year, which was partly due to the recovery of the global economy, in particular the United States. It gave us some tailwinds that helped us surpass our targets. Second and more importantly, the strategic activities we started in 2010—focus on the right markets, consolidation of factories, expansion of the global footprint, and development of human capital and equipment—have begun to bear fruit.

Our revenues are up by 13 percent to $844.5 million, from $745 million in 2013—a growth faster than the global electronics manufacturing services (EMS) industry, which merely posted a single-digit growth rate. IMI's corresponding net income reached $29.1 million, almost thrice of last year's $10.5 million.

Despite China's economic slowdown, IMI China posted $325.6 million revenues, up 17.5 percent from last year's due to volume expansion in the telecommunications segment. IMI played a crucial role in China's 4G-technology rollout that resulted in an increased demand for telecommunications infrastructure devices.

"Now we have the additional equity to allow us more options not only organically, but also for other activities such as mergers and acquisitions."

Propelled by the steady growth rate of global automotive unit production in 2014, IMI's Europe and Mexico operations recorded an increase in revenues of 14.4 percent to $268.6 million year-over-year.

IMI's EMS operations in the Philippines recorded $204.9 million in revenues, an 8.3 percent year-on-year growth bolstered by an increase in its storage device and automotive electronics businesses.

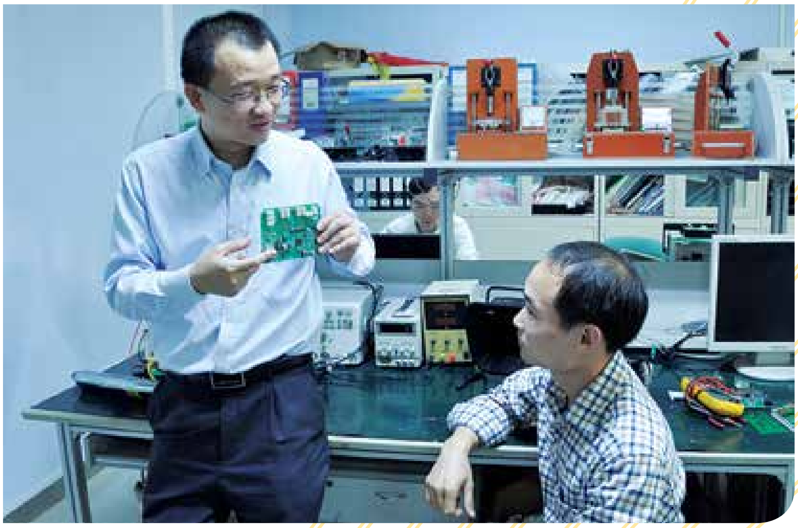
PSi Technologies Inc., IMI's subsidiary, posted $44.9 million in revenues, up 4.3 percent year-over-year due to a greater demand for power semiconductors.

Seventeen new customers commenced mass production in 2014.

A milestone in 2014 was IMI's successful public offering (IPO) in December, of 215,000,000 common shares at an offer price of P7.50 per share, listed on the Philippine Stock Exchange. How do you see IMI's IPO carrying on?

The IPO was successful: Our float was fully subscribed, raising a capital of P1.6 billion ($36 million). The net proceeds will be used for capital expenditure, business expansion, debt refinancing, and to bolster technical manufacturing capabilities in key sites.

Now we have the additional equity to allow us more options not only organically, but also for other activities such as mergers and acquisitions. We continuously look for these, in the



The Design and Development (D&D) Group continues to strengthen competencies in layout design, hardware design, embedded software development, mechanical design, and mechatronic design. D&D Philippines focused on enhancing its automotive camera platforms. In 2014, IMI released samples of two low-voltage differential signaling (LVDS) minicube camera platforms, offering the smallest footprint and demonstrating advanced heat dissipation features.

medium and long term, where we feel we can leverage the foundation of what we have built, and where the megatrends are heading. And these are not something we identify on our own. These decisions are the result of information jointly shared by our key customers, which consist of their product horizon and what they see in the future because they want us to provide the services aligned to those products.

Please describe how IMI sites across the world ensured that IMI was at the forefront of innovation to maintain industry leadership.

All IMI sites continue to innovate at the assembly lines, strengthening lean manufacturing programs to improve line efficiency. Our productivity levels went up, and we continue to drive more efficient manufacturing processes.

Moreover, the technology groups within IMI collaborate with one another and with customers to develop platforms or baseline technologies in areas such as camera and imaging, motor drives, power modules, lighting systems, short range wireless, human-to-machine interface, sensors, and medical electronics.

D&D China focused on the development of human-to-machine interface systems for intelligent appliances and system components for heating, ventilation, and air conditioning. D&D Bulgaria continued to improve their motor drive platforms mainly for automotive applications, utilizing complex technologies like flip-chip and connector over-molding, reducing the risk of product malfunctions and consequently resulting in cost savings. It also enhanced its power module platforms through improved software development and mechatronic design capabilities.

The Advanced Manufacturing Engineering (AME) Group in Tustin, California, developed a product line of LED lights for high-end applications, an implanted nerve stimulator, and a product line of power modules. They are also involved in many precision sensor applications including imagers and microelectromechanical systems (MEMS).

AME China was established, and its first project was a box build for an engine control unit (ECU) power module. AME Philippines worked on the development of medical products like a defibrillator and a nerve stimulator. They also continued the development of numerous cameras for

automotive and industrial applications. Micro mirror MEMS were integrated for the first commercial laser projector.

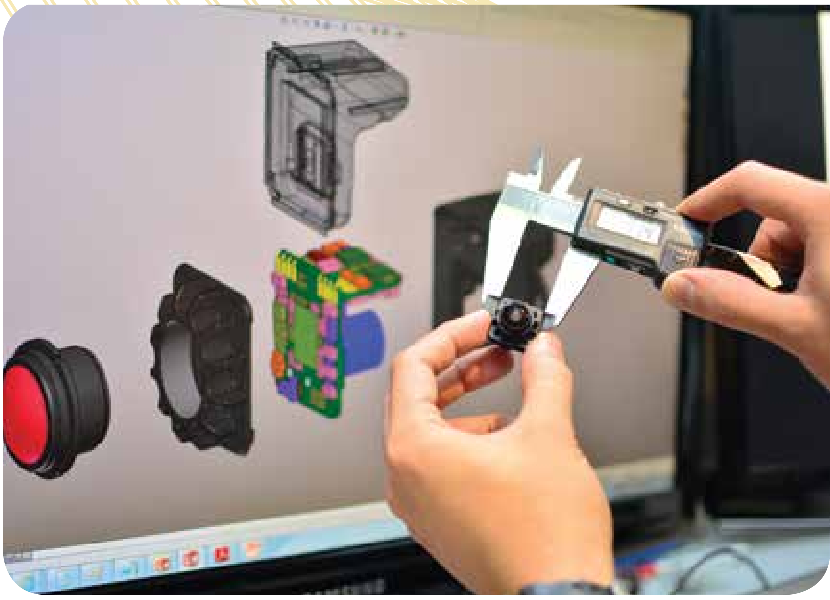
The Test and Systems Development Group based in Asia helped expand the scope of IMI's EMS services to high engineering-content projects. System integration capability was put in place. In 2014, new projects included power supply modules and mechanical systems for semiconductor handlers, complete built-to-configure automated test equipment for semiconductors, and electronic assemblies for computer-controlled cutting (CNC) machines and servo-actuator test systems for testing aerospace products.

Also in 2014, the Automation Group based in IMI Czech Republic developed two robot-based systems to enhance plastic injection operations in IMI Mexico and IMI Bulgaria.

This competency center for high-end automation also supports IMI's cost-effective automation programs in China.

How does IMI intend to pursue its direction as innovator of solutions?

We are now trying to enhance capability across the sites. Where in the past we built the most complex automotive products in the Philippines, we are now transferring that capability to China and Europe. We are spreading key technological manufacturing capabilities in these sites to the different regions. So if the Philippines is good at one thing, we are replicating this expertise in China and in Europe, and vice versa.



It's not simply a matter of wanting to move the project from China to the Philippines. Our customers are now getting a larger share of the market, such that they now have to support a global market rather than a regional one. Our European customers now serve a wider range of customers both in the United States and in Asia. Models of some of the European products being built there, which are specific for Asia, also need to be built outside of Europe, so they now have a factory that is able to do this. We are continuously retooling and making sure that we're able to do that. And the reverse of that is also true. We have customers that only serve out of the Philippines, but now there is a need for these projects to serve the market in China, so it will be much more advantageous to produce it in China for China. From our customers' perspective, this makes us more flexible on how we deliver their product brand.

What are the growth areas for IMI in 2015?

Markets and industries where IMI is right now will persist in the near term. Among these is automotive because the trend here is not that there will be more cars, but rather, the amount of electronics that goes into the car grows in double digits every year. The inflection point is already past that there are more electronics in the car now than there are mechanicals. In 2014, automotive electronics rose by 7 percent to about $205 billion, and will continue to grow at 7.4 percent per year up to 2020 at close to $315 billion.[1]

Assisted driving is upon us. The Advanced Driver Assistance Systems (ADAS) market, where IMI participates strongly, will have a 42 percent compounded annual growth rate (CAGR) from $11 billion in 2014 to $91.9 billion in 2020[2]—by which time we will have the ability to produce fully assisted cars: meaning, a handicapped person can actually be mobile on the road, just by voice.

We see the same level of excitement for medical technologies, which will evolve further particularly in home diagnostics, given the burgeoning world population and the new strains of disease. Medical electronics sales grew 8 percent to about $51 billion in 2014, and will rise by a CAGR of 7.3 percent between 2012 and 2017, reaching $65.4 billion.[3] In fact, the wearables will trigger that trend. The wearable electronics market is expected to grow at a CAGR of

[1] *Strategy Analytics*
[2] *ABI Research*
[3] *IC Insights*

24.56 percent and cross $11.61 billion by the end of 2020, with steady sales of wristwear and footwear category, along with the emergence of the small market size for eyewear and bodywear category.[4] Helping push things along in this direction would be telehealth, which uses electronic information and telecommunications technologies to support long-distance clinical health care.

Because of the infrastructure, the reality of doing remote diagnosis looms large. The technology is there, and IMI is part of this supply chain. We just shipped our prototype for implantable nerve simulators, which will allow wireless long-distance rehabilitation in physical therapy.

Again, this is important for IMI and its products because you need the telecom infrastructure for the Internet of Things (IoT) to happen—for the car to become connected to your lifestyle, your phone, and everything else. According to the McKinsey Institute, the global economic impact of the IoT could reach as high as $2.7 trillion to $6.2 trillion annually by 2025.[5] Automotive electronics, for example, will have to have specific capabilities connecting you to your wearable, your phone, and to the Cloud. And in all these stages IMI plays a part, and we will continue to do so in the foreseeable future.

Now if in this space, and only in the electronics part of the equation, we want to move further up the value chain and closer to the product—that's where we'll be taking our next steps. So, for example, instead of just building the camera or sensor, we could actually build the camera system together with our partners. That way, we move up the value chain. And that is why we now have capabilities for precision engineering plastic and connectors, and so on. That is the future where we see IMI– in the interoperability of things, the connection between the mobile devices in your car, and then, of course, underpinning all of this is security because you need both physical and electronic security. IMI is also involved in the security side of the business.

These are just some of the trends we see at play for the next five years, and we're very much in all these. IMI is also in energy—smart energy—that will be in even greater demand as the world moves forward. We must have power. Without power everything stops. But you can't build too many power plants, and you've got to use very little of that power so that it becomes sustainable. Part of IMI's segment is able to manage power module manufacturing. Again, for example, the car used to run on an internal combustion engine; today it is motor driven and requires power modules.

What do IMI employees and shareholders need to know?

In 2015, I enjoin our IMI workers to continue to drive the efficiencies we've already started, capitalize on being able to be in the right market at the right time, and maintain the best customers in the world. We also cannot be complacent and we must remain focused. But let's not lose the element of fun along the way, because that is at the heart of our business—technology's far-reaching and evolving applications.

By now, IMI's investors will have realized that we have been able to deliver on our long-term strategies, and will continue to do so. We're a growth company, and we see that the market remains underserved; we're in the right segments, and the customer list that we have comprises the top brands in the

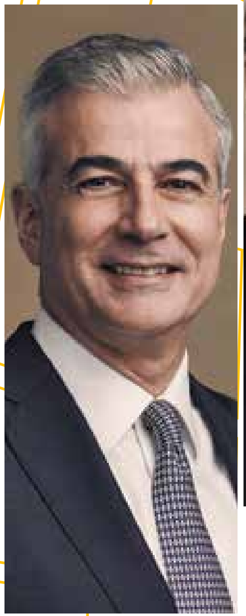
[4] Markets and Markets
[5] McKinsey Institute

- Focus on high-margin industry segments with stringent quality requirements
- Provide global scale through our multiple sites for top global manufacturers
- Diversify into more services, adjacent industries, and even non-electronics manufacturing

business. This speaks volumes about IMI as a company and the products that it builds. Our investors just have to understand that the type of business we're in is a global one: It's a very good thing for somebody in the Philippines to have an opportunity to invest in a global company and still be part of nation building because we continue to be in the Philippines and don't have any plans of moving out.

The world is shifting and there's a lot of focus on Asia, which also bodes well for us because majority of our manufacturing sites are in Asia. However, Asia is growing as a consumer and products must be designed and developed, a role that at this time is being fulfilled by the United States, Europe, and Japan—of which, incidentally, we are also part. So in the end we have the best of both worlds. There aren't many companies in the Philippines that can claim the same, and that they are going to be able to partake of the growth story of the Philippines while at the same time be hedged and not limited by the Philippines, and be part of world economic recovery and growth as well. Again, today, it's less "E" and more "S" in EMS—meaning, it's becoming more about solutions and less about electronics, the latter being just part of the building block. In reality, IMI is innovating solutions.

ARTHUR R. TAN
President and Chief Executive Officer


BOARD OF DIRECTORS

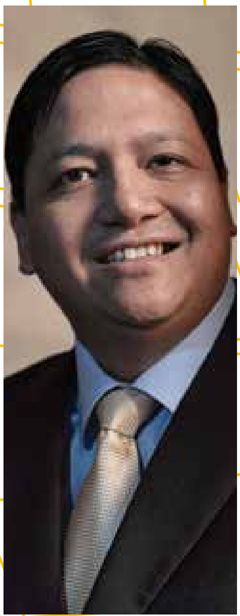
JAIME AUGUSTO ZOBEL DE AYALA, Filipino, 55, has served as Chairman of the Board of Directors of IMI since January 1995. He holds the following positions in publicly listed companies: Chairman and CEO of Ayala Corporation; Chairman of Globe Telecom Inc. and Bank of the Philippine Islands; and Vice Chairman of Ayala Land Inc. and Manila Water Company Inc. He is also the Co-Chairman of Ayala Foundation Inc.; Vice Chairman of AC Energy Holdings Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board; Vice Chairman of the Makati Business Club, and Member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, and Endeavor Philippines; and a Philippine Representative for APEC Business Advisory Council. He graduated with a B.A. in Economics (Cum Laude) at Harvard College in 1981 and took his MBA at the Harvard Graduate School of Business Administration in 1987.

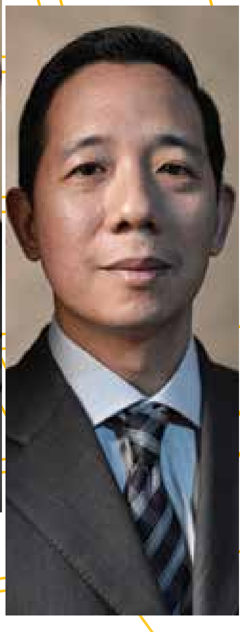
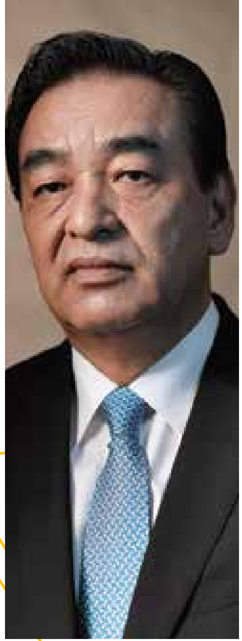
FERNANDO ZOBEL DE AYALA, Filipino, 54, has served as a director of IMI since January 1995. He holds the following positions in publicly listed companies: Director, President, and Chief Operating Officer of Ayala Corporation; Chairman of Ayala Land Inc. and Manila Water Company Inc.; and Director of Bank of The Philippine Islands and Globe Telecom Inc. He is the Chairman of AC International Finance Ltd., AC Energy Holdings Inc., and Hero Foundation Inc.; Co-Chairman of Ayala Foundation Inc.; Director of LiveIt Investments Ltd., Ayala International Holdings Limited, Honda Cars Philippines Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., Manila Peninsula, and Habitat for Humanity International; Member of the INSEAD East Asia Council, World Presidents' Organization and Habitat for Humanity International; 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, National Museum, and the foundation of the Roman Catholic Church. He graduated with a B.A. in Liberal Arts at Harvard College in 1982.

ARTHUR R. TAN, Filipino, 55, 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 and 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 graduated with a B.S. in Electronics Communications Engineering degree from Mapua Institute of Technology in 1982 and attended postgraduate programs at the University of Idaho, Singapore Institute of Management, IMD, and Harvard Business School.

DELFIN L. LAZARO, Filipino, 68, has served as Director of IMI since May 2000. He is a member of the Management Committee of Ayala Corporation. His other positions include: Chairman of Philwater Holdings Company Inc., Atlas Fertilizer & Chemicals Inc., AYC Holdings Inc., Chairman and President of 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 International Holdings, Ltd., Bestfull Holdings Limited, 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 up to the Asian crisis in 1997.

DELFIN C. GONZALEZ JR., Filipino, 65, joined the IMI board in July 2010 and became a Member of IMI's Finance Committee. He is



the Chief Finance Officer of Ayala Corporation and has also been a Member of its Management Committee and Finance Committee since April 2010. He joined Ayala Corporation in late 2000, 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.

JOHN ERIC T. FRANCIA, Filipino, 43, 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 also the President and CEO of AC Energy Holdings Inc. and AC Infrastructure Holdings Corporation. He is a member of the Board of Directors of two (2) Philippine publicly listed companies, namely, the Manila Water Company Inc. and Integrated Micro-Electronics Inc. He is a Member of the Board of Directors of the following companies within the Ayala group: AC Energy Holdings Inc., AC Infrastructure Holdings Corporation, LiveIt Investments Ltd., Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, South Luzon Thermal Energy Corporation, Quadriver Energy Corporation, Automated Fare Collection Services Inc., Light Rail Manila Corporation, and HCM City Infrastructure Investment Joint Stock Company. Before joining Ayala, he was involved in management consulting, the academe and media. He earned his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, graduating magna cum laude. He completed his Masters Degree in Management Studies at the University of Cambridge in the United Kingdom, graduating with first-class honors.

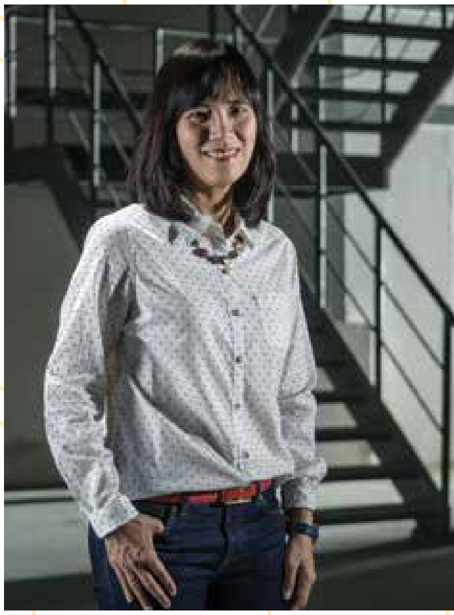
RAFAEL MA. C. ROMUALDEZ, Filipino, 51, has been a Director of IMI since May 1997. He is currently a Director of Resins Inc., RI Chemical Corporation, and Claveria Tree Nursery Inc. He is the Chairman of the Philippine Iron Construction and Marine Works Inc., Pigmentex Incorporated, Pacific Resins Inc., and MC Shipping Corp. He earned a B.A. in Mathematics from Boston College in 1986 and earned an MBA at the George Washington University in 1991.

JOSE IGNACIO A. CARLOS, Filipino, 45, 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. He earned a B.S. in Management degree from the Ateneo de Manila University in 1991 and finished an MBA at the Johnson Graduate School of Management Cornell University in 1999.

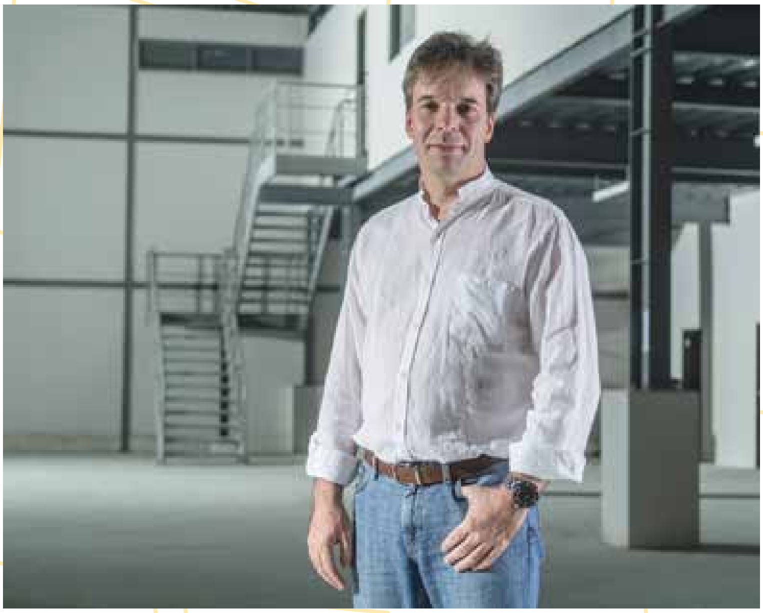
HIROSHI NISHIMURA, Japanese, 62, has been an independent director of IMI since April 2010. He is the Chairman and President of Linkwest International Consultancy Services Inc. He also serves as the Executive Vice President of All Purpose Appliances & Multi-Products Inc. He served as President of Panasonic Communications Philippines Corporation (PCP), formerly known as Kyushu Matsushita Electronics Philippines (PKME), from 2000 to 2007.

EDGAR O. CHUA, Filipino, 58, has been an independent director of IMI since April 2014. He is the Chairman of the Shell Companies in the Philippines where he is responsible for the exploration, manufacturing, and marketing sector of the petroleum business of various Shell companies. He also oversees the Chemicals businesses and Shared Services of Shell. He is currently on the advisory board of Mitsubishi Motors, Globe Telecommunications Inc., a publicly listed company, and Coca-Cola FEMSA Philippines. He also holds the following positions: Chairman of the Philippine Business for the Environment and Energy Council of the Philippines; President of Pilipinas Shell Foundation Inc. and trustee of various civic and business organizations, including the National Competitiveness Council and the Trilateral Commission. He has held senior positions abroad as Transport analyst in Group Planning in the UK and as General Manager of the Shell Company of Cambodia, and various regional positions in Shell Oil Products East. Mr. Chua earned his Bachelor of Science Degree in Chemical Engineering from De La Salle University in 1978 and attended various international seminars and courses, including the senior management course in INSEAD, France.

ALELIE T. FUNCELL, Filipino, 59, 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 is not a director in any publicly listed company. Prior to Xilinx, she 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, an active Bay area Filipino organization, from 1994 to 1996. She received an award from the FWN, as one of the 100 Most Influential Filipino Women in the United States in 2009. She has a degree in Chemical Engineering from the University of Santo Tomas in 1977.



MANAGEMENT COMMITTEE



Arthur R. Tan

Jerome S. Tan

Mary Ann S. Natividad

Gilles Bernard

Linardo Z. Lopez

Olaf Gresens

Timothy Patterson

Monina C. Macavinta

Melita R. Tomelden

MANAGEMENT TEAM

TECHNOLOGY & INNOVATION GROUP

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

OPERATIONS GROUP

PHILIPPINES

Jawaharlal K. Milanes
Mario Bernardo N. Santos
Andrew C. Carreon

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
Reynaldo N. Torda
Maria Rosa L. Santos
Anton P. Javier

SUPPORT GROUP

FINANCE

Jaime G. Sanchez
Anthony Raymond P. Rodriguez

SALES

Jeremy Cowx
Thibaut de Vaureix
David Chavez
Josef Pfister
Leong Wai Bun (Arthur)

SUPPLY CHAIN

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

FACILITIES

Geronimo B. Magsombol

ICT

Rosalyn Tesoro

INDUSTRIAL EXCELLENCE

Pascal Aubois

Let's innovate for profitable growth

2014 Financial Report

IMI

REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD OF DIRECTORS

For the Year Ended 31 December 2014

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 and two (2) special 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 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, 2014 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 2015 based on the review of their performance and qualifications.

13 February 2015

EDGAR O. CHUA 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, 2014 and 2013, including 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 for the period December 31, 2014 and 2013, 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 and Chief Executive Officer

JEROME S. TAN
Chief Finance Officer

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Integrated Micro-Electronics, Inc.

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, 2014 and 2013, 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, 2014, 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, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Arnel F. De Jesus
Partner
CPA Certificate No. 43285
SEC Accreditation No. 0075-AR-3 (Group A),
February 14, 2013, valid until February 13, 2016
Tax Identification No. 152-884-385
BIR Accreditation No. 08-001998-15-2012,
June 19, 2012, valid until June 18, 2015
PTR No. 4751272, January 5, 2015, Makati City

February 17, 2015

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$117,625,491**	$49,042,599
Receivables - net (Note 6)	**195,122,068**	178,464,742
Inventories (Note 7)	**91,389,469**	94,135,608
Other current assets (Note 8)	**11,871,721**	16,619,969
Total Current Assets	**416,008,749**	338,262,918
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**81,687,930**	85,654,052
Goodwill (Note 10)	**46,876,213**	54,355,193
Intangible assets (Note 11)	**4,002,745**	4,861,730
Available-for-sale financial assets (Note 12)	**522,361**	1,867,094
Deferred tax assets (Note 23)	**1,731,656**	644,543
Other noncurrent assets (Note 13)	**1,877,753**	2,583,286
Total Noncurrent Assets	**136,698,658**	149,965,898
	$552,707,407	$488,228,816
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	**$182,087,233**	$171,054,574
Trust receipts and loans payable (Note 15)	**52,094,452**	45,653,865
Current portion of long-term debt (Note 16)	**2,800,640**	2,903,408
Income tax payable	**3,651,669**	1,649,533
Derivative liabilities (Note 31)	**–**	40,606
Total Current Liabilities	**240,633,994**	221,301,986
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Note 16)	**57,298,750**	61,699,753
Obligation under finance lease (Note 28)	**2,257,583**	2,977,968
Deferred revenue (Note 17)	**1,442,853**	1,742,329
Net retirement liabilities (Note 25)	**4,711,551**	6,742,808
Deferred tax liabilities (Note 23)	**1,434,399**	3,091,890
Accrued rent	**480,695**	443,027
Other noncurrent liabilities	**181,917**	183,555
Total Noncurrent Liabilities	**67,807,748**	76,881,330
Total Liabilities	**308,441,742**	298,183,316

(Forward)

CONSOLIDATED BALANCE SHEETS

	December 31	
	2014	2013
EQUITY (Note 18)		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock-common	**$34,876,616**	$30,016,551
Capital stock-preferred	**26,601,155**	26,601,155
Subscribed capital stock	**1,797,638**	1,229,926
Additional paid-in capital	**80,480,981**	51,263,933
Subscriptions receivable	**(12,906,784)**	(9,590,746)
Retained earnings:		
Appropriated for expansion	**20,660,981**	20,660,981
Unappropriated	**109,481,277**	83,503,457
Treasury stock	**(1,012,586)**	(1,012,585)
Reserve for fluctuation on available-for-sale financial assets	**184,119**	189,601
Cumulative translation adjustment	**(10,709,346)**	(1,425,142)
Other comprehensive loss	**(5,573,564)**	(8,958,073)
Other reserves	**170,714**	170,714
	244,051,201	192,649,772
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**214,464**	(2,604,272)
Total Equity	**244,265,665**	190,045,500
	$552,707,407	$488,228,816

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
REVENUES			
Sale of goods	**$746,158,727**	$670,772,413	$590,363,704
Sale of services	**98,315,342**	74,259,450	71,486,018
	844,474,069	745,031,863	661,849,722
COST OF SALES (Note 19)			
Cost of goods sold	**664,495,465**	607,557,635	541,811,352
Cost of services	**86,045,599**	69,545,328	63,102,067
	750,541,064	677,102,963	604,913,419
GROSS PROFIT	**93,933,005**	67,928,900	56,936,303
OPERATING EXPENSES (Note 20)	**(64,232,479)**	(55,794,676)	(49,523,632)
OTHERS - Net			
Gain on sale and retirement of property, plant and equipment - net (Note 9)	**14,506,946**	125,172	132,752
Impairment loss on goodwill (Note 10)	**(7,478,980)**	–	–
Interest expense and bank charges (Note 22)	**(2,814,803)**	(2,879,941)	(3,021,473)
Rental income (Note 28)	**1,262,717**	1,077,971	565,434
Gains on insurance claims (Note 7)	**334,695**	–	–
Interest income (Note 5)	**196,271**	218,577	267,092
Foreign exchange gains (losses) - net	**36,401**	1,430,757	(106,197)
Miscellaneous income (loss) - net	**(552,482)**	1,616,559	(358,543)
	5,490,765	1,589,095	(2,520,935)
INCOME BEFORE INCOME TAX	**35,191,291**	13,723,319	4,891,736
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**8,927,759**	5,408,640	4,687,578
Deferred	**(2,727,851)**	(881,359)	(728,268)
	6,199,908	4,527,281	3,959,310
NET INCOME	**$28,991,383**	$9,196,038	$932,426
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$29,117,024**	$10,472,995	$5,584,613
Non-controlling interests	**(125,641)**	(1,276,957)	(4,652,187)
	$28,991,383	$9,196,038	$932,426
Earnings Per Share (Note 24)			
Basic and diluted	**$0.017**	$0.006	$0.002

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
NET INCOME FOR THE YEAR	**$28,991,383**	$9,196,038	$932,426
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	**(9,284,204)**	878,397	3,739,280
Fair value changes on available-for-sale financial assets	**(5,482)**	(8,293)	53,827
	(9,289,686)	870,104	3,793,107
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 25)	**3,384,509**	(4,339,837)	1,593,523
	(5,905,177)	(3,469,733)	5,386,630
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**$23,086,206**	$5,726,305	$6,319,056
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$23,211,847**	$7,003,262	$10,971,243
Non-controlling interests	**(125,641)**	(1,276,957)	(4,652,187)
	$23,086,206	$5,726,305	$6,319,056

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2014	$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
Issued shares during the year (Note 18)	4,860,065	–	(70,580)	31,131,655	–	–	–	–	–	–	–	–	–	35,921,140
Subscriptions during the year (Notes 18 and 26)	–	–	708,590	3,479,175	(4,187,765)	–	–	–	–	–	–	–	–	–
Transaction costs on shares issuance (Note 18)	–	–	–	(1,502,981)	–	–	–	–	–	–	–	–	–	(1,502,981)
Cost of share-based payments (Note 26)	–	–	–	165,006	–	–	–	–	–	–	–	–	–	165,006
Accretion of subscriptions receivable (Note 18)	–	–	–	79,418	(79,418)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	328,621	–	–	–	–	–	–	–	–	328,621
Forfeitures during the year (Note 18)	–	–	(70,298)	(552,226)	622,524	–	–	–	–	–	–	–	–	–
Acquisition of non-controlling interests (Note 2)	–	–	–	(3,582,999)	–	–	–	–	–	–	–	–	2,944,377	(638,622)
Cash dividends (Note 18)	–	–	–	–	–	–	(3,139,204)	–	–	–	–	–	–	(3,139,204)
Acquisition of treasury stock	–	–	–	–	–	–	–	(1)	–	–	–	–	–	(1)
	34,876,616	26,601,155	1,797,638	80,480,981	(12,906,784)	20,660,981	80,364,253	(1,012,586)	189,601	(1,425,142)	(8,958,073)	170,714	340,105	221,179,459
Net income (loss)	–	–	–	–	–	–	29,117,024	–	–	–	–	–	(125,641)	28,991,383
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	(5,482)	(9,284,204)	3,384,509	–	–	(5,905,177)
Total comprehensive income (loss)	–	–	–	–	–	–	29,117,024	–	(5,482)	(9,284,204)	3,384,509	–	(125,641)	23,086,206
Balances at December 31, 2014	**$34,876,616**	**$26,601,155**	**$1,797,638**	**$80,480,981**	**($12,906,784)**	**$20,660,981**	**$109,481,277**	**($1,012,586)**	**$184,119**	**($10,709,346)**	**($5,573,564)**	**$170,714**	**$214,464**	**$244,265,665**

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

	Attributable to Equity Holders of the Parent Company													
	Capital Stock - Common (Note 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2013	$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 18)	5,295	–	(5,295)	–	–	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	14,852	–	–	–	–	–	–	–	–	–	14,852
Accretion of subscriptions receivable (Note 18)	–	–	–	795,542	(795,542)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	207,888	–	–	–	–	–	–	–	–	207,888
Forfeitures during the year (Note 18)	–	–	(65,630)	(582,120)	647,750	–	–	–	–	–	–	–	–	–
Cash dividends (Note 18)	–	–	–	–	–	–	(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 18)	Capital Stock - Preferred (Note 18)	Subscribed Capital Stock (Note 18)	Additional Paid-in Capital	Subscriptions Receivable (Note 18)	Retained Earnings Appropriated for Expansion (Note 18)	Retained Earnings Unappropriated (Note 18)	Treasury Stock	Reserve for Fluctuation on Available-for-Sale Financial Assets	Cumulative Translation Adjustment	Other Comprehensive Loss (Note 25)	Other Reserves	Attributable to Non-controlling Interests	Total
Balances at January 1, 2012	$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 18)	5,079,181	–	(5,079,181)	–	–	–	–	–	–	–	–	–	–	–
Cost of share-based payment (Note 26)	–	–	–	70,490	–	–	–	–	–	–	–	–	–	70,490
Accretion of subscriptions receivable (Note 18)	–	–	–	676,304	(676,304)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	19,911	–	–	–	–	–	–	–	–	19,911
Forfeitures during the year (Note 18)	–	–	(126,938)	(1,273,813)	1,400,751	–	–	–	–	–	–	–	–	–
Reversal of appropriation (Note 18)	–	–	–	–	–	(10,000,000)	10,000,000	–	–	–	–	–	–	–
Cash dividends (Note 18)	–	–	–	–	–	–	(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)	–	–	–	–	–	–	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	$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

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$35,191,291**	$13,723,319	$4,891,736
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**20,859,849**	21,070,099	23,319,434
Gain on sale and retirement of property, plant and equipment (Note 9)	**(14,506,946)**	(125,172)	(132,752)
Impairment loss on goodwill (Note 10)	**7,478,980**	–	–
Provision for (reversal of):			
Allowance for inventory obsolescence (Notes 7 and 21)	**3,737,353**	2,123,145	282,948
Impairment on available-for-sale financial assets (Note 12)	**1,753,589**	–	–
Doubtful accounts (Notes 6 and 21)	**(899,304)**	(103,124)	441,498
Allowance for decline in value of inventories (Notes 7 and 21)	**84,267**	(107,131)	–
Impairment on property, plant and equipment (Note 9)	**–**	4,991	225,521
Restructuring	**–**	–	1,896,238
Interest expense (Note 22)	**2,739,455**	2,743,244	2,939,852
Amortization of:			
Intangible assets (Note 11)	**2,120,434**	1,789,772	2,057,626
Deferred revenue	**(299,476)**	(288,689)	(260,829)
Net retirement expense (Note 25)	**2,061,727**	1,682,245	2,199,943
Write-off of:			
Available-for-sale financial assets (Note 12)	**1,350,368**	–	–
Receivables (Note 29)	**83,562**	–	–
Unrealized foreign exchange losses (gains) - net	**385,512**	(878,010)	1,315,751
Interest income (Note 5)	**(196,271)**	(218,577)	(267,092)
Cost of share-based payments (Note 26)	**165,006**	14,852	70,490
Loss (gain) on derivative transactions (Note 31)	**35,096**	479,062	(1,661,641)
Operating income before working capital changes	**62,144,492**	41,910,026	37,318,723
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**(21,189,248)**	(26,275,532)	(16,858,982)
Inventories	**(3,036,540)**	(12,648,183)	(2,591,634)
Other current assets	**4,748,248**	(9,194,057)	1,428,690
Noncurrent receivables	**–**	–	213,577
Increase (decrease) in:			
Accounts payable and accrued expenses	**7,529,186**	30,429,189	(3,044,616)
Other noncurrent liabilities	**(1,638)**	96,946	(144,095)
Accrued rent	**37,668**	(142,381)	(328,280)
Net cash generated from operations	**50,232,168**	24,176,008	15,993,383
Income tax paid	**(6,925,623)**	(5,670,217)	(4,463,203)
Interest paid	**(2,761,850)**	(3,376,928)	(2,510,331)
Interest received	**288,192**	522,183	238,560
Net cash provided by operating activities	**40,832,887**	15,651,046	9,258,409

(Forward)

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	**($24,213,138)**	($17,819,927)	($16,026,776)
Intangible assets (Note 11)	**(1,287,611)**	(776,158)	(525,070)
Available-for-sale financial assets (Note 12)	**–**	(350,369)	(1,000,000)
Proceeds from sale and retirement of property, plant and equipment (Note 9)	**19,193,171**	2,868,782	3,710,103
Decrease (increase) in other noncurrent assets	**705,533**	(841,810)	(288,683)
Net cash used in investing activities	**(5,602,045)**	(16,919,482)	(14,130,426)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issuance (Notes 5 and 18)	**35,921,140**	–	–
Availments of loans	**24,299,485**	6,134,943	43,697,044
Payments of:			
Loans payable	**(16,301,258)**	(4,468,943)	(32,780,287)
Long-term debt	**(2,903,578)**	(2,656,400)	–
Decrease in obligations under finance lease	**(1,452,792)**	(523,260)	(800,671)
Dividends paid to equity holders of the Parent Company (Notes 14 and 18)	**(3,099,043)**	(2,661,415)	(2,468,881)
Transaction costs on shares issuance (Note 18)	**(1,502,981)**	–	–
Separation/benefits paid (Note 25)	**(662,992)**	(1,286,407)	(1,870,152)
Cash paid on acquisition of non-controlling interests (Note 2)	**(638,622)**	(124,875)	–
Collections of subscriptions receivable (Note 18)	**328,621**	207,888	19,911
Settlement of derivatives (Note 31)	**(75,702)**	(438,456)	1,568,981
Acquisition of treasury shares	**(1)**	–	–
Dividends paid to non-controlling interests	**–**	–	(15,464)
Net cash provided by (used in) financing activities	**33,912,277**	(5,816,925)	7,350,481
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(560,227)**	(68,422)	(351,262)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**68,582,892**	(7,153,783)	2,127,202
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**49,042,599**	56,196,382	54,069,180
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$117,625,491**	$49,042,599	$56,196,382

See accompanying 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 wholly-owned 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"). The Parent Company is 50.92% owned by 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 49.03% owned by Mermac, Inc., 10.18% 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. It has completed its follow-on offering and listing of 215,000,000 common shares on December 5, 2014.

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, and 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.

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 Philippines. 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 (OEM) 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 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. 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 (see Note 29).

On July 29, 2011, the Parent Company and EPIQ NV executed a Share Purchase Agreement (SPA) wherein EPIQ NV agreed to sell to Cooperatief IMI Europe U.A. (Cooperatief), an indirect subsidiary of the Parent Company, all of its shares in its subsidiaries, 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") in exchange for €43.45 million ($59.77 million) consisting of the Parent Company's 200 million common shares with a value of €24.37 million ($28.81 million), and €19.08 million ($27.32 million) to be paid by the Parent Company in cash, out of which €4.83 million ($6.92 million) will be paid upfront and the balance to be paid on a deferred basis.

The aggregate purchase consideration of €43.45 million is broken down into: (1) payment of approximately €11.73 million ($16.80 million) to EPIQ NV in consideration of assumption of the receivables of EPIQ NV from the IMI EU/MX Subsidiaries that was transferred to Cooperatief; and (2) payment of approximately €31.72 million ($39.32 million) to EPIQ NV for the purchase of equity share in the IMI EU/MX Subsidiaries.

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.

IMI USA acts as direct support to the Group's customers by providing program management, customer service, engineering development and prototype manufacturing services to both North American and European customers, especially for processes using direct die attach to various electronics substrates. It specializes in prototyping low to medium PCBA and sub-assembly and is at the forefront of technology with regard to precision assembly capabilities including, but not limited to, Surface Mount Technology (SMT), Chip on Flex, Chip on Board and Flip Chip on Flex. IMI USA is also engaged in engineering, design for manufacturing technology, advanced manufacturing process development, new product introduction (NPI), direct chip attach and small precision assemblies.

IMI Japan was registered and is domiciled in Japan to serve as IMI's front-end design and product development and sales support center. IMI Japan was established to attract more Japanese OEMs to outsource their product development to IMI.

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.

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 Technologies Laguna, Inc. and PSi, with the former as the absorbed entity and PSi as the surviving entity. On the same date, 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. As of February 17, 2015, Pacsem Realty and PSiTech Realty are in the process of completing the Philippine SEC requirements for dissolution.

The consolidated financial statements as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014 were authorized for issue by the Parent Company's BOD on February 17, 2015.

2. Group Information

Information about Subsidiaries

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

Subsidiary	Percentage of Ownership 2014	2013	2012	Country of 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) [a]	**100.00%**	100.00%	100.00%	China	Renminbi (RMB)
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) [b]	**100.00%**	100.00%	100.00%	China	USD
Speedy-Tech Electronics (Jiaxing) Co., Ltd. (STJX)	**100.00%**	100.00%	100.00%	China	USD
STPH [c]	**100.00%**	100.00%	100.00%	Philippines	USD
Speedy-Tech Electronics, Inc.	**100.00%**	100.00%	100.00%	USA	USD
Monarch Elite Ltd. (Monarch)	**100.00%**	100.00%	100.00%	Hong Kong	USD
Cooperatief [d]	**100.00%**	100.00%	100.00%	Netherlands	Euro (EUR)
IMI BG	**100.00%**	100.00%	100.00%	Bulgaria	Bulgarian Lev (BGN)
Microenergia EOOD (Microenergia) [e]	**100.00%**	70.00%	70.00%	Bulgaria	BGN
IMI CZ	**100.00%**	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX [f]	**100.00%**	100.00%	100.00%	Mexico	USD
Integrated Micro-Electronics Manufactura S.A.P.I. de C.V.	**100.00%**	100.00%	100.00%	Mexico	Mexican Peso (MXP)
IMI France SAS (IMI France)	**100.00%**	100.00%	100.00%	France	EUR

(Forward)

Subsidiary	Percentage of Ownership 2014	2013	2012	Country of Incorporation	Functional Currency
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD
PSi	**100.00%**	83.25%	55.78%	Philippines	USD
PSiTech Realty [g]	**40.00%**	33.30%	22.31%	Philippines	USD
Pacsem Realty [g]	**64.00%**	53.28%	35.70%	Philippines	USD

[a] On August 1, 2014, IMI CD changed its functional currency from USD to RMB.
[b] On June 30, 2014, STEL's BOD passed a resolution to wind up STCQ.
[c] STPH's business operations were integrated as part of the Parent Company in 2013 (see Note 1). STPH is a dormant company.
[d] Cooperatief is 99% owned by Monarch and 1% owned by IMI Singapore.
[e] In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia.
[f] On March 1, 2014, IMI MX changed its functional currency from MXN to USD.
[g] The percentage pertains to the indirect ownership of the Parent Company. On June 21, 2012, the respective BOD of PSi, PSiTech Realty and Pacsem Realty authorized the dissolution of PSiTech Realty and Pacsem Realty, subject to the Philippine SEC approval.

Acquisition of Non-controlling Interests

Acquisition of additional interest in PSi

The Investors' Agreement (IA) entered into by the Parent Company and Narra Venture Capital II, LP (Narra VC) (collectively referred to as the "New Investors") with PSi Technologies Holdings, Inc. and Merrill Lynch Global Emerging Markets Partners, LLC (collectively referred to as the "Old Investors") on June 25, 2010, was amended on September 26, 2012 to allow the parties to respectively exercise their option rights without the need for third party valuation. 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 Deeds 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%.

Effective December 29, 2014, the Parent Company acquired the remaining 16.75% interest in PSi from the minority shareholders, Narra VC and Narra Associates II Limited, for a total consideration of $500,000. The purchase of the remaining minority shares resulted to full control of IMI in PSi.

Details of the transactions are as follows:

	2014	2013
Change in ownership interest	**83.25% to 100%**	55.78% to 83.25%
Non-controlling interests acquired	**($3,144,660)**	($4,540,547)
Consideration paid to non-controlling shareholders	$500,000	$124,875 [a]
Value of the option exercised	–	2,857,010
Total consideration	**500,000**	2,981,885
Total amount recognized against "Additional paid-in capital" account within equity	**($3,644,660)**	($7,522,432)

[a] Share of the Parent Company in the exercise price.

Acquisition of additional interest in Microenergia

In October 2014, IMI BG acquired the remaining 30% ownership interest in Microenergia for a total consideration of $138,622.

The details of the transaction are as follow:

Non-controlling interest acquired	$200,283
Consideration paid to the non-controlling shareholder	(138,622)
Total amount recognized in "Additional paid-in capital" account within equity	$61,661

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

Proportion of equity interest held by non-controlling interests:

	2014*	2013	2012
Proportion of equity interest held by non-controlling interests	–	16.75%	44.22%
Accumulated balances of material non-controlling interests	**$–**	($2,921,102)	($5,550,643)
Loss allocated to material non-controlling interests	**($223,558)**	($1,297,486)	($4,666,461)

** On December 29, 2014, IMI acquired the remaining 16.75% interest in PSi from the minority shareholders.*

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

Summarized balance sheets as of December 31, 2014 and 2013:

	2014	2013
Current assets	**$13,472,592**	$13,549,353
Noncurrent assets	**5,906,025**	6,324,708
Current liabilities	**(35,486,721)**	(34,333,848)
Noncurrent liabilities	**(3,245,929)**	(3,496,747)
Total capital deficiency	**($19,354,033)**	($17,956,534)
Attributable to:		
Equity holders of the Parent Company	**($19,354,033)**	($15,035,432)
Non-controlling interests	**–**	(2,921,102)
	($19,354,033)	($17,956,534)

Summarized statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Revenues	**$44,932,489**	$43,084,648	$45,598,208
Cost of sales	**(43,029,890)**	(44,467,193)	(49,044,230)
Operating expenses	**(2,609,242)**	(3,625,734)	(5,860,537)
Other income (expenses)	**(506,887)**	174,751	(740,764)
Loss before income tax	**(1,213,530)**	(4,833,528)	(10,047,323)
Provision for income tax	**(121,146)**	(51,629)	(42,271)
Net loss for the year	**(1,334,676)**	(4,885,157)	(10,089,594)
Other comprehensive income (loss)	**(62,824)**	73,229	244,052
Total comprehensive loss	**($1,397,500)**	($4,811,928)	($9,845,542)
Attributable to:			
Equity holders of the Parent Company	**($1,173,942)**	($3,514,442)	($5,179,081)
Non-controlling interests	**(223,558)**	(1,297,486)	(4,666,461)
	($1,397,500)	($4,811,928)	($9,845,542)

Summarized statements of cash flows for the years ended December 31, 2014, 2013 and 2012:

	2014	2013	2012
Net cash provided by (used in) operating activities	**$2,044,784**	($3,795,318)	($6,886,515)
Net cash used in investing activities	**(1,747,891)**	(1,530,827)	(1,368,538)
Net cash provided by financing activities	**1,472,026**	4,255,025	6,163,471
Net increase (decrease) in cash and cash equivalents	**$1,768,919**	($1,071,120)	($2,091,582)

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 USD, except when otherwise indicated.

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 Parent Company and its subsidiaries as of December 31, 2014 and 2013 and for each of the three years in the period ended December 31, 2014.

Control is achieved when the Parent Company 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 Parent Company controls an investee if, and only if, the Parent Company 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 Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company 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 Parent Company's voting rights and potential voting rights.

The Parent Company 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 Parent Company obtains control over the subsidiary and ceases when the Parent Company 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 Parent Company gains control until the date the Parent Company 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 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 Parent Company 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 Parent Company had directly disposed of the related assets and liabilities.

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Parent Company and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to the Parent Company.

Changes in Accounting Policies and Disclosures

New and amended standards and interpretation

The Group applied for the first time certain standards and interpretation, which are effective for annual periods beginning on or after January 1, 2014. Except when otherwise indicated, these standards and interpretation have no impact on the Group's financial position, financial performance and/or disclosures:

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

  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

- PAS 36 (Amendments), *Impairment of Assets – Recoverable Amount Disclosures for Nonfinancial Assets*

  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for 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*

  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements* (Amendments) – *Investment Entities*

  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). The amendments must be applied retrospectively, subject to certain transition relief.

- Philippine Interpretation of International Financial Reporting Interpretations Committee (IFRIC) 21, *Levies*

  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. Retrospective application is required for this interpretation.

Standards Issued but not yet Effective

The Group will adopt the following new and amended standards and interpretation when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretation to have significant impact on the consolidated financial statements.

Effective in 2015

- PAS 19 (Amendments), *Employee Benefits – Defined Benefit Plans: Employee Contributions* (effective for annual periods beginning on or after January 1, 2015 and are applied retrospectively)

  PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

- Annual Improvements to PFRSs (2010-2012 Cycle) (effective for annual periods beginning on or after January 1, 2015)

  These annual improvements include:

  - PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization*

    The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

  - PAS 24, *Related Party Disclosures – Key Management Personnel*

    The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition*

    This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

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

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

    The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at FVPL whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*.

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

    The amendments are applied retrospectively and clarify that:

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

- Annual Improvements to PFRSs (2011-2013 Cycle) (effective for annual periods beginning on or after January 1, 2015)

  These annual improvements include:

  - PAS 40, *Investment Property*

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

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*

  The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

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

- PFRS 13, *Fair Value Measurement – Portfolio Exception*

  The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.

Effective in 2016

- PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* (Amendments) – *Clarification of Acceptable Methods of Depreciation and Amortization* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* (Amendments) – *Bearer Plants* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

- PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

  The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective for annual periods beginning on or after January 1, 2016 and are applied retrospectively)

  These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

- PFRS 11 (Amendments), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective for annual periods beginning on or after January 1, 2016 and are applied prospectively)

  The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- Annual Improvements to PFRSs (2012-2014 Cycle) (effective for annual periods beginning on or after January 1, 2016)

  These annual improvements include:

  - PAS 19, *Employee Benefits – Regional Market Issue Regarding Discount Rate*

    This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

  - PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*

    The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*

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

Effective in 2018

- PFRS 9, *Financial Instruments* (effective for annual periods beginning on or after January 1, 2018 and are applied retrospectively)

  In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Group’s financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group’s financial liabilities. The Group is currently assessing the impact of adopting this standard.

Interpretation whose effective date was deferred

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

  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Philippine SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

Standard issued by the IASB but not yet been adopted by the FRSC

- IFRS 15, *Revenue from Contracts with Customers*

  IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted.

The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

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.

Current versus Noncurrent Classification
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;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the balance sheet date; or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve 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;
- It is held primarily for trading;
- It is due to be settled within twelve months after the balance sheet date; or
- There is no unconditional right to defer the settlement of the liability for at least twelve 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 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 financial instruments 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, 2014 and 2013 consist of loans and receivables, 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 is 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 is 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 non-hedge 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 a 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 non-derivative 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, 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 “Reserve for fluctuation 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 investment 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 allowance for impairment losses.

This accounting policy pertains to the Group’s investments in club shares, common 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.

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

The 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 the fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which the 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.

Offsetting of Financial Instruments
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.

Derecognition of Financial Instruments
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 right to receive cash flows from the asset have expired; or
- The Group has transferred its right 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 right 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.

Impairment of Financial Assets
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.

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
Machineries 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 used and no further depreciation is charged to profit or loss.

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

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 Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any 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.

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 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 and amortization, 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 and amortization 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.

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 Parent Company 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. 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.

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 Parent Company's BOD.

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.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, 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 income

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.

Expenses

Expenses of the Group include cost of sales, operating expenses and interest expense.

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 in relation 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 rental expense, which is computed on a straight line-basis over the lease term.

Interest expense

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

Foreign Currency Transactions
The functional currencies of the Group's foreign operations are determined as the currency in the country where the subsidiary operates. For consolidation purposes, the foreign subsidiaries' balances are translated to USD, which is the Parent Company's functional and presentation currency.

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 the Group's foreign subsidiaries are USD, RMB, EUR, BGN, CZK and MXP. As at the balance sheet date, the assets and liabilities of these subsidiaries are translated into the presentation currency of the Parent Company 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.

Income Taxes
Current tax
Current tax assets and current tax 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, when 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 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 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 deferred tax 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.

Earnings per Share (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 EPS does not assume conversion, exercise or other issue of potential common shares that would have an antidilutive effect on EPS.

Retirement 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 retirement 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.

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 net retirement liabilities is the change during the period in net retirement liabilities that arises from the passage of time which is determined by applying the discount rate based on government bonds to net retirement liabilities. Net interest on retirement 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 net retirement liabilities) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net retirement 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 retirement 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. The 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 the respective national retirement schemes defined by the laws of the countries in which it has operations. These retirement schemes 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 retirement schemes are recognized as retirement expense as accrued.

Singapore
The subsidiaries incorporated in Singapore make contributions to the Central Provident Fund scheme in Singapore. Contributions to defined contribution retirement 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 retirement benefits to their employees under existing PRC regulations. Retirement contributions are provided at rates stipulated by PRC regulations and are contributed to a retirement 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$1,500 per month and thereafter, contributions are voluntary.

IMI CZ
IMI CZ, under its Collective Agreement, is committed to pay contributions to life and retirement 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 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 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 months wages plus twenty 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
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 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.

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 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 employee benefit expense over the holding period. The Group treats its ESOWN plan as option exercisable within a given period. These are accounted for similar to the methods outlined in PFRS 2. Dividends paid on the awards that have vested are deducted from equity while those paid on awards that are unvested are charged to profit or loss.

Operating Segments
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, USA and Japan. These geographical businesses are the basis upon which the Group reports its operating segment information presented in Note 27.

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 whether the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Operating lease commitments - Group as lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis of rental income. Rental income is recognized in the consolidated statements of income 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 and bank charges” 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.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss should be recognized immediately. If the sale price is below fair value, any profit or loss should be recognized immediately, unless the loss is compensated by future lease payments over the period for which the asset is expected to be used. If the sales price is above fair value, the excess over fair value should be deferred and amortized over the period for which the asset is expected to be used.

Contingencies
Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the 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 consolidated financial statements when an inflow of economic benefits is probable.

Events after the Balance Sheet Date
Post period 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 period events that are non-adjusting events are disclosed in the 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 each entity'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, each entity within the Group considers the currency in which the sales prices for its goods and services are denominated and settled.

Effective March 1, 2014, IMI MX changed its functional currency from MXN to USD while IMICD changed its functional currency from USD to RMB on August 1, 2014. Management believes that the change in the functional currency was necessary to define the currency of the primary economic environment in which these entities operate.

Operating lease commitments - Group as lessor
In agreement with the original lessor, STEL subleased portions of the leasehold building it occupies. STEL has determined that it has not retained the significant risks and rewards related to the ownership of the said leasehold building, and so accounts for the contract as operating lease.

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 related to the ownership of the leased properties and so accounts for the contracts as operating leases.

In addition, 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.

Sale and leaseback
In 2014, STEL entered into a sale and leaseback agreement in relation to its leasehold building. Management assessed that the transaction is an operating lease based on the following judgments:

- The selling price of the building approximates its fair value;
- The lease term do not constitute a major part of the economic life of the asset;
- The ownership of the asset will not be transferred to STEL at the end of the lease term;
- STEL does not have an option to repurchase at the end of the lease term; and
- The leased asset is not of a specialized nature.

As a result of this transaction, the gain on sale of the building was recognized immediately in profit or loss.

Further details are disclosed in Note 28.

Contingencies
The Group is currently involved in various legal proceedings and tax assessments. The estimates 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 are based upon analyses 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.

<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 receivables
The Group reduces the carrying amount of its receivables through the use of an allowance account if there is objective evidence that an impairment loss on 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 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 and amortization of property, plant and equipment and intangible assets with finite useful life on a straight-line basis over the assets' EUL. The EUL and depreciation and amortization 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. Changes in the EUL or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates. The depreciation and amortization expense on property, plant and equipment and intangible assets with finite useful lives are recognized in profit or loss, in the expense category, consistent with the function of the property, plant and equipment and intangible assets.

Further details on property, plant and equipment and intangible assets are disclosed in Notes 9 and 11, respectively.

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. The impairment testing may be performed at any time in the annual reporting period, but it must be performed at the same time every year and when circumstances indicate that the carrying amount is impaired. The impairment testing also 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. The most recent detailed calculation made in a preceding period of the recoverable amount of the CGU may be used for the impairment testing for the current period provided that:

1. The assets and liabilities making up the CGU have not changed significantly from the most recent calculation;
2. The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the CGU by a significant margin; and
3. The likelihood that a current recoverable amount calculation would be less than the carrying amount of the CGU is remote, based on an analysis of events that have occurred, and circumstances that have changed since the most recent recoverable amount calculation.

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.

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 months for quoted equity investments. In addition, the Group evaluates other factors, such as normal volatility in share price for quoted equities. Unquoted equity investments are impaired when the investee company is experiencing significant financial difficulty.

Further details on AFS financial assets are disclosed in Note 12.

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 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 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.

Retirement 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 retirement increases. Due to the complexity of the actuarial 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 retirement 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 retirement and other employee benefits are disclosed in Note 25.

Share-based payments
The expected life of the options is based on the expected exercise behavior of the stock option holders and is not necessarily indicative of the exercise patterns that may occur. The expected volatility is based on the average historical price volatility which may be different from the expected volatility of the shares of stock of the Parent Company.

Further details on ESOWN are disclosed in Note 26.

5. **Cash and Cash Equivalents**

This account consists of:

	2014	2013
Cash on hand	**$82,142**	$97,912
Cash in banks	**63,504,005**	44,887,461
Short-term investments	**54,039,344**	4,057,226
	$117,625,491	$49,042,599

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months and earn interest at the respective short-term investment rates. Short-term investments in 2014 include proceeds from the public offering amounting to $35.92 million (see Note 18).

Interest income earned from cash in banks and short-term investments amounted to $0.20 million in 2014, $0.22 million in 2013 and $0.27 million in 2012.

6. Receivables - net

This account consists of:

	2014	2013
Trade	**$192,038,296**	$174,135,627
Nontrade	**1,598,225**	2,838,394
Receivable from insurance	**1,066,423**	1,178,785
Receivable from employees	**588,787**	542,944
Due from related parties (Note 29)	**180,788**	192,161
Others	**1,825,989**	3,067,488
	197,298,508	181,955,399
Less allowance for doubtful accounts	**2,176,440**	3,490,657
	$195,122,068	$178,464,742

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, IMI BG's pledged receivables with UniCredit Bulbank amounted to €5.08 million ($7.01 million) (see Note 15).

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
Receivable from insurance represents claims for damages to equipment and inventories caused by a fire incident in the Parent Company's plant in Cebu, Philippines in May 2009. This receivable is fully provided with allowance for doubtful accounts.

Allowance for Doubtful Accounts
Trade receivables, nontrade receivables, receivable from insurance and receivable from employees with aggregate nominal value of $2.18 million and $3.49 million as of December 31, 2014 and 2013, respectively, were individually assessed to be impaired and fully provided with allowance for doubtful accounts.

On March 20, 2014, the long-outstanding trade and nontrade receivables of the Parent Company from a customer with aggregate nominal amount of $1.75 million were converted to Class A common stock of the customer in full satisfaction of the latter's obligation (see Note 12). The corresponding allowance of these receivables was reversed in full.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2014				
	Trade	**Nontrade**	**Receivable from Insurance**	**Receivable from Employees**	**Total**
Balances at January 1, 2014	**$2,171,356**	**$122,490**	**$1,178,785**	**$18,026**	**$3,490,657**
Provisions (reversals)	**(852,611)**	**(47,907)**	**–**	**1,214**	**(899,304)**
Accounts written-off	**(298,698)**	**(2,508)**	**(112,362)**	**(1,345)**	**(414,913)**
Balances at December 31, 2014	**$1,020,047**	**$72,075**	**$1,066,423**	**$17,895**	**$2,176,440**

	December 31, 2013				
	Trade	Nontrade	Receivable from Insurance	Receivable from Employees	Total
Balances 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)
Balances at December 31, 2013	$2,171,356	$122,490	$1,178,785	$18,026	$3,490,657

Provisions (reversals) during the year form part of "Operating expenses" account and are included under "Facilities costs and others" (see Note 21).

7. Inventories

This account consists of:

	2014	2013
Raw materials and supplies	**$67,570,479**	$70,481,190
Work-in-process	**13,252,772**	13,785,193
Finished goods	**18,462,078**	15,248,673
	99,285,329	99,515,056
Less allowance for:		
Inventory obsolescence	**7,811,593**	5,151,060
Decline in value of inventories	**84,267**	228,388
	7,895,860	5,379,448
	$91,389,469	$94,135,608

The cost of the inventories carried at NRV amounted to $28.37 million and $19.20 million as of December 31, 2014 and 2013, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to $547.25 million in 2014, $498.22 million in 2013 and $449.06 million in 2012 (see Note 19).

In 2014, the Parent Company claimed and collected an insurance amounting to $0.43 million for the damaged inventories caused by a typhoon in August 2013. The total cost of affected stocks amounted to $0.25 million while the related allowance for inventory obsolescence amounted to $0.15 million. Accordingly, gain on insurance claims amounting to $0.33 million was recognized under "Gains on insurance claims" account in the consolidated statements of income in 2014.

Movements in the allowance for inventory obsolescence are as follows:

	2014	2013
Balances at January 1	**$5,151,060**	$4,349,787
Provisions (Note 21)	**3,737,353**	2,123,145
Write-offs	**(1,076,820)**	(1,321,872)
Balances at December 31	**$7,811,593**	$5,151,060

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

	2014	2013
Balances at January 1	**$228,388**	$362,936
Provisions (reversals) (Note 21)	**84,267**	(107,131)
Write-offs	**(228,388)**	(27,417)
Balances at December 31	**$84,267**	$228,388

The Group recognized gains (losses) from sale of materials amounting to $0.58 million in 2014, $0.92 million in 2013 and ($1.82) million in 2012. Gains (losses) from sale of materials are included under "Miscellaneous income (loss) - net" account in the consolidated statements of income.

As of December 31, 2013, IMI BG's pledged inventories with UniCredit Bulbank €8.00 million ($11.04 million), respectively (see Note 15).

8. Other Current Assets

This account consists of:

	2014	2013
Tax credits	**$7,122,658**	$12,402,958
Prepayments	**2,861,079**	1,076,126
Input taxes	**1,136,322**	1,411,528
Advances to suppliers	**750,335**	1,668,113
Current portion of deferred licensing fee	**–**	10,000
Others	**1,327**	51,244
	$11,871,721	$16,619,969

Tax credits are mainly attributable to IMI MX.

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.

Advances to suppliers represent advanced payments made to suppliers for direct materials.

Deferred licensing fee pertains to the payment made by PSi to Amkor Technology, Inc. in 2004 amounting to $0.10 million, in accordance with the terms of their Micro-lead frame Patent License Agreement. This was fully amortized as of December 31, 2014.

9. Property, Plant and Equipment - net

Movements in this account are as follows:

	December 31, 2014						
	Buildings and Improvements	**Machineries and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
Balances at January 1, 2014	**$70,115,207**	**$114,865,377**	**$15,957,145**	**$1,023,238**	**$3,914,555**	**$1,171,582**	**$207,047,104**
Additions	**3,028,486**	**14,190,060**	**1,565,482**	**743,435**	**398,113**	**5,019,969**	**24,945,545**
Disposals	**(4,671,294)**	**(17,213,523)**	**(309,599)**	**(327,797)**	**(247,400)**	**(146,715)**	**(22,916,328)**
Retirement	**(37,152)**	**(355,289)**	**(5,742)**	**–**	**(33,909)**	**–**	**(432,092)**
Transfers	**647,944**	**1,762,332**	**153,972**	**–**	**1,737**	**(2,565,985)**	**–**
Foreign currency exchange difference	**(1,227,623)**	**(5,435,905)**	**(289,232)**	**(90,387)**	**–**	**(312,339)**	**(7,355,486)**
Balances at December 31, 2014	**67,855,568**	**107,813,052**	**17,072,026**	**1,348,489**	**4,033,096**	**3,166,512**	**201,288,743**
Accumulated depreciation							
Balances at January 1, 2014	**35,008,397**	**69,124,761**	**12,181,670**	**324,911**	**3,021,101**	**–**	**119,660,840**
Depreciation	**3,555,050**	**15,255,117**	**1,195,539**	**356,080**	**498,063**	**–**	**20,859,849**
Disposals	**(2,055,597)**	**(15,523,636)**	**(287,064)**	**(319,727)**	**(175,754)**	**–**	**(18,361,778)**
Retirement	**(24,533)**	**(252,038)**	**(5,742)**	**–**	**(18,104)**	**–**	**(300,417)**
Foreign currency exchange difference	**(223,759)**	**(3,482,116)**	**(219,158)**	**(64,860)**	**–**	**–**	**(3,989,893)**
Balances at December 31, 2014	**36,259,558**	**65,122,088**	**12,865,245**	**296,404**	**3,325,306**	**–**	**117,868,601**
Accumulated impairment losses							
Balances at January 1 and December 31, 2014	**736,565**	**983,421**	**12,226**	**–**	**–**	**–**	**1,732,212**
Net book value	**$30,859,445**	**$41,707,543**	**$4,194,555**	**$1,052,085**	**$707,790**	**$3,166,512**	**$81,687,930**

	December 31, 2013						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
Balances 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
Balances 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							
Balances 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
Balances at December 31, 2013	35,008,397	69,124,761	12,181,670	324,911	3,021,101	–	119,660,840
Accumulated impairment losses							
Balances at January 1, 2013	736,565	978,430	12,226	–	–	–	1,727,221
Impairment loss	–	4,991	–	–	–	–	4,991
Balances 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

STEL owns a light industrial building located at 20 Kian Teck Lane Singapore 627854 sited on a land area of 3,993 square meters and is held under a lease issued by JTC Corporation (JTC) (see Note 28).

On August 27, 2014, STEL entered into an agreement relating to the sale and leaseback of the building with DBS Trustee Limited (DBSTL), in its capacity as trustee of Soilbuild Business Space REIT (SBSR), for a purchase consideration of SGD22.40 million ($17.19 million), subject to the fulfillment of certain conditions precedent. The cost of the property amounted to $4.67 million, with accumulated depreciation of $2.05 million. On December 23, 2014, the transaction was completed and the Group recognized gain on sale of the property amounting to $14.33 million. Expenses related to the sale amounted to $0.24 million (see Note 28).

Also, the Group recognized gains from disposal and retirement of certain machineries and facilities equipment, furniture and fixtures, and tools and instruments amounting to $0.18 million in 2014 and $0.13 million in 2013 and 2012.

As of December 31, 2014 and 2013, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $154.98 million and $92.89 million, respectively.

The carrying values of equipment under finance lease amounted to $4.03 million and $5.25 million as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, IMI BG's pledged equipment with BNP Paribas amounted to $1.55 million (see Note 16).

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

	2014	2013	2012
Cost of goods sold and services (Note 19)	**$18,332,968**	$18,698,523	$20,448,129
Operating expenses (Note 20)	**2,526,881**	2,371,576	2,871,305
	$20,859,849	$21,070,099	$23,319,434

10. **Goodwill**

As of December 31, 2014 and 2013, goodwill acquired through business combinations had been allocated to five individual CGUs as follows:

	2014	2013
STEL Group	**$45,128,024**	$45,128,024
IMI USA	**656,610**	656,610
IMI CZ	**650,413**	650,413
Parent Company	**441,166**	441,166
PSi	**–**	7,478,980
	$46,876,213	$54,355,193

As mentioned in Note 3, goodwill is tested for impairment annually as of September 30 every year and when circumstances indicate that the carrying amount is impaired. Goodwill impairment for PSi was re-assessed as of December 31, 2014 due to circumstances that indicated that the recoverable amount of the CGU was less than the carrying amount.

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:

	2014	2013
STEL Group	**10.18%**	13.07%
PSi	**11.07%**	14.11%
IMI USA	**8.47%**	13.69%
IMI CZ	**10.50%**	12.73%

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 (CAGR) 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 industry CAGR, customer projections and other 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 2014, 2013 and 2012.

For PSi, the assessment resulted to an impairment loss for the remaining balance of the goodwill amounting to $7.48 million in 2014 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, 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 2014, 2013 and 2012.

11. Intangible Assets

Movements in this account are as follows:

	December 31, 2014			
	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Total**
Cost				
Balances at January 1, 2014	**$19,666,617**	**$100,000**	**$3,730,119**	**$23,496,736**
Additions	**–**	**–**	**1,287,611**	**1,287,611**
Foreign currency exchange difference	**–**	**–**	**(163,015)**	**(163,015)**
Balances at December 31, 2014	**19,666,617**	**100,000**	**4,854,715**	**24,621,332**
Accumulated amortization				
Balances at January 1, 2014	**16,170,531**	**100,000**	**2,364,475**	**18,635,006**
Amortization	**1,353,323**	**–**	**767,111**	**2,120,434**
Foreign currency exchange difference	**–**	**–**	**(136,853)**	**(136,853)**
Balances at December 31, 2014	**17,523,854**	**100,000**	**2,994,733**	**20,618,587**
Net book value	**$2,142,763**	**$–**	**$1,859,982**	**$4,002,745**

	December 31, 2013			
	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
Balances 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
Balances at December 31, 2013	19,666,617	100,000	3,730,119	23,496,736
Accumulated amortization				
Balances 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
Balances 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

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, 2014 and 2013.

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 acquisitions of computer software, applications and modules.

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

	2014	2013	2012
Cost of goods sold and services (Note 19)	**$6,182**	$11,290	$17,148
Operating expenses (Note 20)	**2,114,252**	1,778,482	2,040,478
	$2,120,434	$1,789,772	$2,057,626

12. **Available-for-Sale Financial Assets**

This account consists of:

	2014	2013
Investment securities	**$1,753,589**	$1,350,368
Club shares	**522,361**	516,726
	2,275,950	1,867,094
Less allowance for impairment loss on AFS financial assets	**1,753,589**	–
	$522,361	$1,867,094

As of December 31, 2014, the balance of investment securities pertains to the trade and nontrade receivables from a customer which was converted to Class A common stock (see Note 6). This investment was provided with full allowance in 2014 due to the investee company’s financial difficulties.

As of December 31, 2013, investment securities was composed of 8% non-cumulative, convertible preferred shares and convertible notes amounting to $1.35 million. In 2014, the full amount of these investments was written off and is included under “Miscellaneous income (loss) - net” account in the consolidated statements of income.

13. **Other Noncurrent Assets**

This account consists of:

	2014	2013
Miscellaneous deposits	**$1,705,650**	$2,357,537
Others	**172,103**	225,749
	$1,877,753	$2,583,286

Miscellaneous deposits include electric and water meter deposits.

14. **Accounts Payable and Accrued Expenses**

This account consists of:

	2014	2013
Trade payables	**$119,390,018**	$120,669,723
Accrued expenses	**25,222,419**	24,897,256
Accrued compensation and benefits	**24,691,621**	15,233,977
Nontrade payables	**6,347,988**	4,116,382
Taxes payable	**1,502,367**	720,216
Dividends payable	**898,700**	858,539
Current portion of obligation under finance lease (Note 28)	**853,164**	907,761
Employee-related contributions	**645,131**	627,590
Advances from customers	**518,495**	1,070,119
Accrued interest payable	**449,305**	471,700
Customers' deposits	**304,625**	650,953
Current portion of obligation under deferred revenue (Note 17)	**299,476**	287,568
Due to related parties (Note 29)	**33,715**	41,604
Others	**930,209**	501,186
	$182,087,233	$171,054,574

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 15 to 60-day terms.

Accrued Expenses
Accrued expenses consist mainly of accruals for taxes, sub-contractual labor costs, professional fees, utilities and supplies.

Accrued Compensation and Benefits
Accrued compensation and benefits include accrued salaries, leave credits and other employee benefits.

Nontrade Payables
This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other non-trade related payables. These payables are normally settled on 30 to 60-day terms.

Employee-related Contributions
This account consists mainly of remittances related to government agencies such as Social Security Services, Pag-ibig and Philhealth.

15. **Trust Receipts and Loans Payable**

This account consists of borrowings of the following entities:

	2014	2013
Parent Company	**$29,000,000**	$24,000,000
STEL	**13,500,000**	3,501,332
PSi	**9,594,452**	9,422,426
IMI MX	**–**	2,183,092
IMI BG	**–**	6,547,015
	$52,094,452	$45,653,865

Parent Company
As of December 31, 2014 and 2013, the Parent Company has short-term loans aggregating to $29.0 million and $24.0 million, respectively. The short-term loans have maturities ranging from 30 to 180 days, and fixed interest rates ranging from 1.75% to 2.20% in 2014, 1.90% to 2.40% in 2013, and 1.64% to 2.00% in 2012.

The Parent Company incurred interest expense on its short-term loans amounting to $0.64 million in 2014, $0.50 million in 2013 and $0.27 million in 2012 (see Note 22).

STEL
The loans of STEL are clean loans from various Singapore banks from existing revolving credit facilities and bear interest rates ranging from 1.93% to 2.38% in 2014, 2.30% to 2.39% in 2013, and 3.36% to 3.55% in 2012, and have maturities of 30 to 60 days from the date of issue, with renewal options.

STEL incurred interest expense on its short-term loans amounting to $0.17 million in 2014, $0.04 million in 2013 and $0.40 million in 2012 (see Note 22).

PSi
PSi has short-term loans from Metropolitan Bank & Trust Co. amounting to $9.20 million as of December 31, 2014 and 2013, and trust receipts payable amounting to $0.39 million and $0.22 million as of December 31, 2014 and 2013, 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-day 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 2.23% to 2.53% in 2014, 2.16% to 2.57% in 2013, and 2.21% to 2.71% in 2012. This credit facility is renewable annually, and the current term is until May 30, 2015.

The undrawn credit facility amounted to $0.41 million and $0.58 million as of December 31, 2014 and 2013, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to $0.23 million in 2014, $0.22 million in 2013 and $0.26 million in 2012 (see Note 22).

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

IMI MX incurred interest expense on its short-term loan amounting to $0.08 million in 2013 (see Note 22).

IMI BG
IMI BG has short-term loans from the following banks as of December 31, 2013:

Unicredit Bulbank	$5,167,138
BNP Paribas	1,379,877
	$6,547,015

The loans from UniCredit Bulbank and BNP Paribas are from revolving credit facilities with terms not exceeding one year and bear interest based on 1-month Euro Interbank Offered Rate (EURIBOR) plus 3.00% and 3-month EURIBOR plus 2.50%, respectively.

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 (see Note 7);
- First ranking pledge on receivables from a certain customer (see Note 6); and
- Notary signed Soft Letter of Comfort from the Parent Company.

IMI BG's loan with UniCredit Bulbank as of December 31, 2013 amounting to $5.17 million was fully settled in the first quarter of 2014. The short-term loan with BNP Paribas was refinanced as long-term in 2014 (see Note 16).

As of December 31, 2013, IMI BG's pledged inventories and receivables with UniCredit Bulbank amounted to €13.08 million ($18.05 million) (see Notes 6 and 7).

The loan from 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.

IMI BG incurred interest expense on its short-term loan amounting to $0.21 million in 2013 and $0.39 million in 2012 (see Note 22).

16. **Long-Term Debt**

This account consists of borrowings of the following entities:

	2014	2013
Parent Company	**$46,091,500**	$46,898,500
Cooperatief	**12,442,999**	16,892,242
IMI BG	**974,864**	–
IMI CZ	**590,027**	812,419
	60,099,390	64,603,161
Less current portion:		
Cooperatief	**2,428,200**	2,758,200
IMI BG	**243,716**	–
IMI CZ	**128,724**	145,208
	2,800,640	2,903,408
Noncurrent portion	**$57,298,750**	$61,699,753

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 ($6.09 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 2014 and 2013 and $0.90 million in 2012 (see Note 22).

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

- The ratio of debt to earnings before interest, taxes, depreciation and amortization (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, 2014 and 2013, the Parent Company has complied with all of the above-mentioned loan covenants.

Cooperatief
Under the SPA, the purchase consideration for the acquisition of IMI EU/MX Subsidiaries in 2011 includes the deferred payment aggregating to €14.25 million ($20.40 million) relating to the acquisition of EPIQ NV's shares and purchased receivables of EPIQ NV from IMI EU/MX Subsidiaries. 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%.

Cooperatief had already paid €2.00 million ($2.58 million) in 2014 and €2.00 million ($2.76 million) in 2013.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2015	€2,000,000	$2,428,200
2016	2,000,000	2,428,200
2017	2,000,000	2,428,200
2018	4,248,743	5,158,399
	€10,248,743	$12,442,999

Cooperatief incurred interest expense on its long-term debt amounting to $0.47 million in 2014, $0.55 million in 2013, and $0.57 million in 2012 (see Note 22).

IMI BG
IMI BG has a long-term debt from BNP Paribas that relates to the term loan facility for financing the construction of a new warehouse with a term of five years and bears interest based on 3-month EURIBOR plus 2.90%. The warehouse was completed in 2013 and no borrowing costs were capitalized in 2014.

The credit facility with BNP Paribas is subject to the following collateral: Security of Transfer of Ownership Title relating to office and factory equipment with the carrying value of $1.55 million (see Note 9).

IMI BG incurred interest expense amounting to $0.18 million in 2014 (see Note 22).

IMI CZ
IMI CZ has a long-term debt from Citibank that relates to a term loan facility for the purchase of its new SMT machine. The debt bears interest of 1-month EURIBOR plus 2.70% and matures on July 31, 2019.

IMI CZ incurred interest expense on its long-term debt amounting to $0.02 million in 2014 and 2013 (see Note 22).

17. 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 agreed that upon termination of the SSA, 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 for any reason, the cash advances, less any amount applied to pay the fees as detailed in the SSA.

As of December 31, 2014 and 2013, the current and noncurrent portion of the advances from the local customer follows:

	2014	2013
Total outstanding advances from the local customer	**$1,742,329**	$2,029,897
Less current portion (Note 14)	**299,476**	287,568
Noncurrent portion	**$1,442,853**	$1,742,329

18. Equity

Capital Stock
This account consists of:

	2014		2013		2012	
	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						
Balances at January 1	**1,572,129,429**	**$30,016,551**	1,571,874,431	$30,011,256	1,354,230,740	$24,932,075
Issuances during the year:						
Public offering	**215,000,000**	**4,789,485**	–	–	–	–
ESOWN	**3,286,750**	**70,580**	254,998	5,295	17,643,691	333,097
EPIQ NV	**–**	**–**	–	–	200,000,000	4,746,084
Balances at December 31*	**1,790,416,179**	**$34,876,616**	1,572,129,429	$30,016,551	1,571,874,431	$30,011,256
Issued - Preferred						
Balances at January 1 and 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, 15,892,124 shares as of December 31, 2014 and 15,892,109 shares as of December 31, 2013 and 2012 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 December 5, 2014, the Parent Company has completed its public offering and listing of 215,000,000 common shares at an offer price of ₱7.50 per share, with a par value of ₱1.00 per share, raising ₱1.61 billion ($35.92 million) cash to fund capital expenditure, support business expansion, refinance debt, and fund working capital requirements (see Note 5).

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, 2014, 2013 and 2012, there were 456, 526 and 562 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2014		2013		2012	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Balances at January 1	**57,141,000**	**$1,229,926**	60,421,000	$1,300,851	283,909,186	$6,506,970
Subscriptions during the year -						
ESOWN	**31,797,958**	**708,590**	–	–	–	–
Issuances during the year:						
ESOWN	**(3,286,750)**	**(70,580)**	(254,998)	(5,295)	(17,643,691)	(333,097)
EPIQ NV	**–**	**–**	–	–	(200,000,000)	(4,746,084)
Forfeitures during the year -						
ESOWN	**(3,276,342)**	**(70,298)**	(3,025,002)	(65,630)	(5,844,495)	(126,938)
Balances at December 31	**82,375,866**	**$1,797,638**	57,141,000	$1,229,926	60,421,000	$1,300,851

Subscriptions Receivable
Details of this account are as follows:

	2014	2013	2012
Balances at January 1	**$9,590,746**	$9,650,842	$10,395,200
Subscriptions during the year	**4,187,765**	–	–
Forfeitures during the year	**(622,524)**	(647,750)	(1,400,751)
Collections during the year	**(328,621)**	(207,888)	(19,911)
Accretion during the year (Note 26)	**79,418**	795,542	676,304
Balances at December 31 (Note 26)	**$12,906,784**	$9,590,746	$9,650,842

Additional Paid-in Capital
Costs directly attributable to the issuance of new common shares in relation to the public offering were accounted for by the Parent Company as deduction from “Additional paid-in capital” account. These transaction costs include, among others, underwriting fees, legal and audit professional fees, documentary stamp tax, registration fees, prospectus design, and printing and publication costs.

Dividends
2014
On December 2, 2014, the BOD of the Parent Company approved and authorized the declaration and payment of cash dividends for 2015 to all preferred shareholders of the Parent Company at a dividend rate of 2.90% per annum. Details of the dividend payment are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Record date	February 6, 2015	May 8, 2015	August 7, 2015	November 11, 2015
Payment date	February 20, 2015	May 22, 2015	August 24, 2015	November 25, 2015
Amount	$209,958	$209,958	$216,956	$214,623

On February 17, 2014, the BOD of the Parent Company approved the declaration of cash dividend of $0.00140 or ₱0.06319 per share to all outstanding common shares as of record date March 3, 2014, payable on March 19, 2014.

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

Retained Earnings
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.

Accumulated net earnings of the subsidiaries amounting to $63.48 million and $53.13 million as of December 31, 2014 and 2013, 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, 2014 amounted to ($4.27) million, before the reversal of the appropriated retained earnings, as discussed in Note 34.

19. Cost of Goods Sold and Services

This account consists of:

	2014	2013	2012
Direct, indirect and other material-related costs (Note 7)	**$547,251,922**	$498,220,475	$449,059,291
Direct labor, salaries, wages and employee benefits (Note 25)	**144,418,120**	120,088,886	97,455,209
Depreciation and amortization (Notes 9 and 11)	**18,339,150**	18,709,813	20,465,277
Facilities costs and others (Note 21)	**40,531,872**	40,083,789	37,933,642
	$750,541,064	$677,102,963	$604,913,419

20. Operating Expenses

This account consists of:

	2014	2013	2012
Salaries, wages and employee benefits (Note 25)	**$35,769,440**	$31,856,630	$26,902,826
Depreciation and amortization (Notes 9 and 11)	**4,641,133**	4,150,058	4,911,783
Facilities costs and others (Note 21)	**23,821,906**	19,787,988	17,709,023
	$64,232,479	$55,794,676	$49,523,632

21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2014	2013	2012	**2014**	2013	2012
Utilities	**$10,863,335**	$11,507,507	$13,408,630	**$845,160**	$1,099,034	$935,136
Variable overhead	**10,085,587**	8,336,469	3,751,925	**–**	–	–
Repairs and maintenance	**8,112,925**	7,319,614	6,249,440	**531,423**	599,233	856,785
Outsourced activities	**7,491,405**	6,533,853	5,139,000	**6,006,755**	5,907,212	5,915,728
Government-related	**1,235,608**	1,312,753	1,132,098	**3,439,593**	3,562,265	1,725,075
Insurance	**692,566**	801,624	758,459	**1,177,782**	1,072,684	948,695
Technology-related	**637,437**	211,685	90,820	**1,361,518**	1,800,141	1,949,604
Staff house	**577,605**	977	841	**346,955**	294,622	325,824
Travel	**545,473**	622,964	1,158,276	**1,906,188**	1,803,638	2,112,897
Postal and communication	**404,019**	322,637	121,147	**867,256**	943,065	986,286
Promotional materials, representation and entertainment	**148,576**	185,416	67,229	**900,744**	821,979	518,765
Membership fees	**2,187**	634	92	**90,386**	89,998	51,453
Provision (reversal of provision) for inventory obsolescence (Note 7)	**–**	220,256	593,469	**3,737,353**	1,902,889	(310,521)
Provision (reversal of provision) for allowance for decline in value of inventories (Note 7)	**–**	(107,131)	–	**84,267**	–	–
Loss (reversal of loss) on purchase commitments	**–**	(51,552)	131,885	**–**	–	–
Sales commission	**–**	–	–	**1,084,492**	731,918	753,667
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**(899,304)**	(103,124)	441,498
Others	**(264,851)**	2,866,083	5,330,331	**2,341,339**	(737,566)	498,131
	$40,531,872	$40,083,789	$37,933,642	**$23,821,907**	$19,787,988	$17,709,023

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 machineries and equipment.

22. Interest Expense and Bank Charges

This account consists of:

	2014	2013	2012
Interest expense on loans (Notes 15 and 16)	**$2,517,542**	$2,429,992	$2,795,360
Bank charges	**75,348**	136,697	81,621
Others	**221,913**	313,252	144,492
	$2,814,803	$2,879,941	$3,021,473

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

23. Income Tax

Current Tax

Parent Company

The Parent Company is registered with PEZA and is entitled to certain incentives, which include ITH. As of December 31, 2014, there are four remaining 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, Income Tax Holiday (ITH) and tax and duty free importation of inventories and capital equipment. Upon the expiration of the ITH, the Parent Company will be subject to a 5% 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. 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 years and a 50% reduction in EIT for the next three years, commencing from the first profitable year after offsetting all tax losses carried forward from the previous five years.

IMICD is subject to taxation at the statutory rate of 25% in 2014, 2013 and 2012 on its 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 2014, 2013 and 2012 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 years, commencing from the first profitable year in 2008, 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.”

STJX is entitled to full exemption from EIT for the first two years and a 50% reduction in EIT for the next three 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 eighth profitable year, and hence, is subject to taxation at the rate of 25% in 2014, 2013 and 2012 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 2014, 2013 and 2012 on the assessable profit for the year.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 25%, 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 2014, 2013 and 2012 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 2014, 2013 and 2012 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 2014, 2013 and 2012 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 year. The tax rate applicable in 2014, 2013 and 2012 is 33% based on net income.

PSi
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 Food Terminal, Inc. (FTI) - Special Economic Zone 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 at December 31, 2014, there were no PEZA registered activities with ITH entitlement.

Deferred Tax

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

	2014	2013
Deferred tax assets:		
Revaluation of property, plant and equipment of subsidiaries	**$791,804**	$444,245
Allowance for inventory obsolescence	**511,499**	75,134
Allowance for doubtful accounts	**361,870**	15,366
Others	**66,483**	109,798
	$1,731,656	$644,543
Deferred tax liabilities:		
Revaluation of property, plant and equipment and intangibles of subsidiaries	**$1,434,399**	$1,646,260
Unrealized foreign exchange gain on monetary assets - net	**–**	62,412
Accelerated depreciation	**–**	202,052
Others	**–**	1,181,166
	$1,434,399	$3,091,890

PSi has unrecognized deferred tax assets as of December 31, 2014 and 2013, and IMI CZ has unrecognized deferred tax assets as of December 31, 2013.

PSi

As of December 31, 2014 and 2013, the temporary differences for which no deferred tax assets have been recognized are as follows:

	2014	2013
Accumulated impairment losses on property, plant and equipment	**$9,695,203**	$9,740,318
Advances from customer	**1,742,329**	2,029,897
Excess of:		
Cost over NRV of inventories	**1,164,694**	1,733,928
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**480,695**	443,027
Accrued retirement benefits obligation	**1,275,339**	1,247,677
Allowance for doubtful accounts	**376,222**	441,165
	$14,734,482	$15,636,012

IMI CZ

As of December 31, 2013, the temporary differences and tax losses for which no deferred tax assets have been recognized are as follows:

Tax losses	$3,175,932
Noncurrent assets	1,294,737
Provisions	421,053
Excess of cost over NRV of inventories	184,211
Allowance for doubtful accounts	31,579
	$5,107,512

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 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, 2014 and 2013, 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:

	2014	2013	2012
Income before income tax	**$35,191,291**	$13,723,319	$4,891,736
Tax on:			
Income from foreign subsidiaries	**7,502,756**	4,348,720	3,820,307
Income subject to 5% gross income tax	**1,173,753**	979,448	831,774
Income subject to RCIT	**217,976**	51,629	35,497
Others	**33,274**	28,843	–
Current income tax expense	**8,927,759**	5,408,640	4,687,578
Deferred income tax benefit	**(2,727,851)**	(881,359)	(728,268)
Effective income tax	**$6,199,908**	$4,527,281	$3,959,310

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:

	2014	2013	2012
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**59.96%**	39.98%	109.42%
Income subject to gross income tax	**(14.49%)**	(25.82%)	(13.76%)
Difference in tax jurisdiction	**(54.04%)**	(10.80%)	(42.19%)
Income subject to ITH	**(3.79%)**	(0.28%)	(1.65%)
Interest income subjected to final tax	**(0.02%)**	(0.09%)	(0.88%)
Provision for income tax	**17.62%**	32.99%	80.94%

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:

	2014	2013	2012
Net income	**$29,117,024**	$10,472,995	$5,584,613
Less dividends on preferred stock (Note 18)	**851,495**	871,089	2,665,497
	$28,265,529	$9,601,906	$2,919,116
Weighted average number of common shares outstanding	**1,632,132,778**	1,616,151,239	1,621,760,776
Basic and diluted EPS	**$0.017**	$0.006	$0.002

As of December 31, 2014, 2013 and 2012, the Group has no dilutive potential common shares.

25. **Personnel Costs**

Salaries, wages, and employee benefits follow:

	2014	2013	2012
Salaries and benefits	**$130,621,781**	$114,869,711	$108,920,744
Retirement expense under defined contribution plans	**5,649,301**	4,607,873	2,575,242
Social security costs	**2,357,681**	2,727,124	1,375,183
Net retirement expense under defined benefit plans	**2,061,727**	1,682,245	2,199,943
Others	**39,497,070**	28,058,563	9,286,923
	$180,187,560	$151,945,516	$124,358,035

Others include expenses for subcontracting costs, 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:

	2014	2013	2012
Cost of goods sold and services (Note 19)	**$144,418,120**	$120,088,886	$97,455,209
Operating expenses (Note 20)	**35,769,440**	31,856,630	26,902,826
	$180,187,560	$151,945,516	$124,358,035

Defined Benefit Plans

The Parent Company, PSi and IMI BG have defined benefit plans covering substantially all of their employees. The latest actuarial valuations were made on December 31, 2014.

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 net retirement liabilities attributable to the following:

	2014	2013
Parent Company	**$3,042,606**	$5,111,162
PSi	**1,275,339**	1,247,677
IMI BG	**393,606**	383,969
	$4,711,551	$6,742,808

Parent Company, PSi and IMI BG

Changes in net retirement liabilities of the Parent Company, PSi and IMI BG's defined benefit plans as of December 31, 2014 and 2013 are as follows:

	December 31, 2014											
		Net Retirement Expense					Remeasurements					
	January 1, 2014	**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 Arising from Changes in Financial Assumptions**	**Subtotal**	**Foreign Currency Exchange Difference**	**December 31, 2014**
Present value of defined benefit obligation	**$19,524,484**	**$1,721,912**	**$1,020,869**	**$2,557**	**$2,745,338**	**($662,992)**	**$–**	**($489,178)**	**($3,156,851)**	**($3,646,029)**	**($141,443)**	**$17,819,358**
Fair value of plan assets	**(12,781,676)**	**–**	**(683,611)**	**–**	**(683,611)**	**–**	**261,520**	**–**	**–**	**261,520**	**95,960**	**(13,107,807)**
Net retirement liabilities	**$6,742,808**	**$1,721,912**	**$337,258**	**$2,557**	**$2,061,727**	**($662,992)**	**$261,520**	**($489,178)**	**($3,156,851)**	**($3,384,509)**	**($45,483)**	**$4,711,551**

	December 31, 2013											
		Net Retirement Expense					Remeasurements					
	January 1, 2013	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 Arising from Changes in Financial Assumptions	Subtotal	Foreign Currency Exchange Difference	December 31, 2013
Present value of defined benefit obligation	$15,332,280	$1,385,637	$842,341	$202,918	$2,430,896	($1,286,407)	$–	$221,801	$4,173,837	$4,395,638	($1,347,923)	$19,524,484
Fair value of plan assets	(12,989,255)	–	(748,651)	–	(748,651)	–	(55,801)	–	–	(55,801)	1,012,031	(12,781,676)
Net retirement liabilities	$2,343,025	$1,385,637	$93,690	$202,918	$1,682,245	($1,286,407)	($55,801)	$221,801	$4,173,837	$4,339,837	($335,892)	$6,742,808

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

The distribution of the plan assets as of December 31, 2014 and 2013 follows:

	2014	2013
Government securities	**$7,449,068**	$6,559,361
Trust funds	**1,564,730**	2,375,637
Cash and cash equivalents	**1,472,042**	39,285
Mutual funds	**1,281,587**	–
Investment properties	**473,614**	477,081
Corporate bonds	**466,451**	1,910,082
Equities	**264,870**	262,169
Liabilities	**(13,210)**	(12,896)
Loans	**–**	1,157,758
Others	**148,655**	13,199
	$13,107,807	$12,781,676

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

	December 31, 2014			
	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
AC shares/bonds	**$294,002**	**$–**	**$–**	**$294,002**
BPI shares/bonds	**–**	**–**	**1,312,490**	**1,312,490**
ALI shares/bonds	**–**	**33,809**	**–**	**33,809**
	$294,002	**$33,809**	**$1,312,490**	**$1,640,301**
Carrying Value				
AC shares/bonds	**$290,698**	**$–**	**$–**	**$290,698**
BPI shares/bonds	**–**	**–**	**1,258,816**	**1,258,816**
ALI shares/bonds	**–**	**33,542**	**–**	**33,542**
	$290,698	**$33,542**	**$1,258,816**	**$1,583,056**
Unrealized Gain				
AC shares/bonds	**$3,304**	**$–**	**$–**	**$3,304**
BPI shares/bonds	**–**	**–**	**53,674**	**53,674**
ALI shares/bonds	**–**	**267**	**–**	**267**
	$3,304	**$267**	**$53,674**	**$57,245**

	December 31, 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)

The plan assets pertain to 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 retirement benefits as they fall due while also mitigating the various risk of the plans.

The Group expects to contribute $1.06 million to the defined benefit plans for 2015.

The average duration of net retirement liabilities at the end of the balance sheet date is 20.20 to 22.70 years as of December 31, 2014 and 20.30 to 23.40 years as of December 31, 2013.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2014 and 2013:

	2014	2013
Less than one year	**$569,329**	$353,524
More than one year to five years	**4,657,600**	4,038,337
More than five years to ten years	**7,072,904**	8,022,660
More than ten years to fifteen years	**13,219,880**	15,475,297
More than fifteen years	**97,474,821**	138,444,720
	$122,994,534	$166,334,538

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

	2014	2013
Discount rate	**4.63% - 4.66%**	3.5% - 5.35%
Turnover rate	**3.07% - 12.75%**	0.62% - 27.94%
Salary increase rate	**4.00% - 5.00%**	5.00% - 6.00%

The sensitivity analysis per entity below has been determined based on reasonably possible changes of each significant assumption on the net retirement 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 Retirement Liability 2014	2013
Discount rate	+1%	**($2,125,845)**	($2,588,120)
	-1%	**2,580,695**	3,176,164
Turnover rate	+2%	**(845,172)**	(1,413,062)
	-2%	**975,358**	1,689,994
Salary increase rate	+1%	**2,515,713**	3,060,944
	-1%	**(2,104,644)**	(2,539,743)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability 2014	2013
Discount rate	+1%	**($181,336)**	($192,699)
	-1%	**221,637**	233,053
Turnover rate	+2%	**(45,616)**	(46,143)
	-2%	**51,406**	52,062
Salary increase rate	+1%	**209,182**	213,220
	-1%	**(176,886)**	(179,998)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Retirement Liability 2014	2013
Discount rate	+1%	**($22,607)**	($23,280)
	-1%	**24,663**	25,400
Turnover rate	+2%	**(45,900)**	(47,270)
	-2%	**43,845**	45,150
Salary increase rate	+1%	**17,127**	17,640
	-1%	**(17,127)**	(17,640)

The mortality rate in 2014 and 2013 is based on the 1994 Group Annuity Mortality for the Parent Company and PSi. Meanwhile, IMI BG used the table for mortality and average life continuance population in the period 2008-2010 from National Statistical Institute (of Bulgaria) for 2014 and 2013.

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

	2014	2013	2012
Cost of goods sold and services	**$1,654,285**	$1,126,038	$1,110,290
Operating expenses	**407,442**	556,207	1,089,653
	$2,061,727	$1,682,245	$2,199,943

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

	2014	2013	2012
Cost of goods sold and services	**$4,652,375**	$3,568,458	$1,954,417
Operating expenses	**996,926**	1,039,415	620,825
	$5,649,301	$4,607,873	$2,575,242

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, EBITDA and net income of ten 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 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 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 days after the due date and 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 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 year from subscription date; (b) 30% after two years from subscription date; and (c) 30% after three 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 to ten 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.

On October 13, 2014, the Executive Committee of the BOD of the Parent Company approved the grant of stock options to qualified executives covering up to 35,900,000 shares at a subscription price of ₱5.91 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending September 24, 2014, net of 15% discount. Out of the total shares granted, 31,797,958 shares were subscribed by 38 executives of the Group, of which 7,821,848 shares are from unissued shares and 23,976,110 shares were issued from ESOWN Trust Account where all the previously cancelled ESOWN subscriptions were held. The payment scheme and holding period for this grant are similar to the grant in 2007. The fair value of stock options granted in 2014 is estimated at the date of grant using the Black-Scholes Melton Formula, taking into account the terms and conditions upon which the stock options were granted. The expected volatility was determined based on an independent valuation.

Movements in the number of shares outstanding under ESOWN in 2014, 2013 and 2012 follow:

	2014		2013		2012	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Balances at January 1	**107,380,812**	**₱6.95**	110,405,814	₱6.95	116,250,309	₱6.95
Forfeitures	**(3,276,342)**	**6.95**	(3,025,002)	6.95	(5,844,495)	6.95
Subscriptions	**31,797,958**	**5.91**	–	–	–	–
Balances at December 31	**135,902,428**	**₱6.71**	107,380,812	₱6.95	110,405,814	₱6.95

The balance of the subscriptions receivable amounted to $12.91 million, $9.59 million and $9.65 million as of December 31, 2014, 2013 and 2012, respectively (see Note 18).

The share option expense amounted to $0.17 million, $0.01 million and $0.07 million in 2014, 2013 and 2012, respectively. The accretion is recognized as an increase in “Subscriptions receivable” account and “Additional paid-in capital” account presented in the consolidated statements of changes of equity amounted to $0.08 million, $0.80 million and $0.68 million for the years ended December 31, 2014, 2013 and 2012, respectively (see Note 18).

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, 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, 2014, 2013 and 2012:

December 31, 2014	**Philippines**		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
Revenue:								
Third party	**$204,940,387**	**$44,932,489**	**$325,647,491**	**$268,589,961**	**$354,090**	**$9,651**	**$–**	**$844,474,069**
Intersegment	**200,256**	**–**	**4,362,775**	**213,415**	**2,944,034**	**911,822**	**(8,632,302)**	**–**
Total revenue	**$205,140,643**	**$44,932,489**	**$330,010,266**	**$268,803,376**	**$3,298,124**	**$921,473**	**($8,632,302)**	**$844,474,069**
Segment interest income	**$801,508**	**$1,657**	**$348,410**	**$1,501**	**$–**	**$29**	**($956,834)**	**$196,271**
Segment interest expense	**$1,512,464**	**$604,941**	**$191,172**	**$1,459,203**	**$2,808**	**$1,049**	**($956,834)**	**$2,814,803**
Segment profit (loss) before income tax	**($5,175,103)**	**($1,213,530)**	**$22,615,459**	**$21,888,073**	**($3,545,872)**	**($961,743)**	**$1,584,007**	**$35,191,291**
Segment provision for income tax	**(1,122,750)**	**(121,146)**	**(4,376,209)**	**(579,223)**	**–**	**(580)**	**–**	**(6,199,908)**
Segment profit (loss) after income tax	**($6,297,853)**	**($1,334,676)**	**$18,239,250**	**$21,308,850**	**($3,545,872)**	**($962,323)**	**$1,584,007**	**$28,991,383**
Net income (loss) attributable to the equity holders of the Parent Company	**($6,297,853)**	**($1,173,942)**	**$18,220,367**	**$21,292,640**	**($3,545,872)**	**($962,323)**	**$1,584,007**	**$29,117,024**

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 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
Net income (loss) attributable to the equity holders of the Parent Company	($165,273)	($3,514,442)	$1,855,675	$12,684,785	($378,217)	($9,533)	$–	$10,472,995

December 31, 2012	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$156,419,891	$45,598,208	$276,656,630	$182,233,202	$457,897	$483,894	$–	$661,849,722
Intersegment	2,661,999	–	3,859,491	–	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 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	$2,213,487	($10,047,323)	$8,927,378	$8,146,233	($3,573,159)	($774,880)	$–	$4,891,736
Segment provision for (benefit from) income tax	(697,757)	(42,271)	(2,677,956)	(540,396)	–	(930)	–	(3,959,310)
Segment profit (loss) after income tax	$1,515,730	($10,089,594)	$6,249,422	$7,605,837	($3,573,159)	($775,810)	$–	$932,426
Net income (loss) attributable to the equity holders of the Parent Company	$1,515,730	($5,179,081)	$6,006,086	$7,590,847	($3,573,159)	($775,810)	$–	$5,584,613

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

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.63 million in 2014, $8.83 million in 2013 and $10.13 million in 2012, intersegment cost of sales of $0.20 million in 2014, $0.26 million in 2013 and $2.66 million in 2012, and intersegment operating expenses aggregating to $8.22 million in 2014, $8.57 million in 2013 and $7.47 million in 2012.

The following table presents segment assets of the Group's geographical segments as of December 31, 2014 and 2013:

	Philippines		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
2014	**$297,116,764**	**$19,378,617**	**$252,990,711**	**$163,223,097**	**$1,436,835**	**$859,846**	**($182,298,463)**	**$552,707,407**
2013	$267,859,850	$19,874,062	$231,552,717	$154,806,540	$1,610,978	$907,105	($188,382,436)	$488,228,816

Segments assets do not include investments in subsidiaries and intersegment receivables amounting to $124.15 million and $58.01 million as of December 31, 2014, respectively, and $132.55 million and $63.17 million as of December 31, 2013, respectively. These are eliminated in consolidation.

Goodwill arising from the acquisition of STEL Group, IMI USA and IMI CZ amounting to $45.13 million, $0.66 million, and $0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2014 and 2013. Goodwill arising from the acquisition of PSi amounting to nil and $7.48 million for the years ended December 31, 2014 and 2013, respectively, is also recognized at consolidated level.

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 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
Net income (loss) attributable to the equity holders of the Parent Company	($165,273)	($3,514,442)	$1,855,675	$12,684,785	($378,217)	($9,533)	$–	$10,472,995

December 31, 2012	Philippines		Singapore/ China	Europe/ Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi						
Revenue:								
Third party	$156,419,891	$45,598,208	$276,656,630	$182,233,202	$457,897	$483,894	$–	$661,849,722
Intersegment	2,661,999	–	3,859,491	–	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 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	$2,213,487	($10,047,323)	$8,927,378	$8,146,233	($3,573,159)	($774,880)	$–	$4,891,736
Segment provision for (benefit from) income tax	(697,757)	(42,271)	(2,677,956)	(540,396)	–	(930)	–	(3,959,310)
Segment profit (loss) after income tax	$1,515,730	($10,089,594)	$6,249,422	$7,605,837	($3,573,159)	($775,810)	$–	$932,426
Net income (loss) attributable to the equity holders of the Parent Company	$1,515,730	($5,179,081)	$6,006,086	$7,590,847	($3,573,159)	($775,810)	$–	$5,584,613

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

The operating income and profit before and after income tax for each operating segment includes net profit from intersegment revenues aggregating to $8.63 million in 2014, $8.83 million in 2013 and $10.13 million in 2012, intersegment cost of sales of $0.20 million in 2014, $0.26 million in 2013 and $2.66 million in 2012, and intersegment operating expenses aggregating to $8.22 million in 2014, $8.57 million in 2013 and $7.47 million in 2012.

The following table presents segment assets of the Group's geographical segments as of December 31, 2014 and 2013:

	Philippines		**Singapore/ China**	**Europe/ Mexico**	**USA**	**Japan**	**Consolidation and Eliminations**	**Total**
	Parent Company	**PSi**						
2014	**$297,116,764**	**$19,378,617**	**$252,990,711**	**$163,223,097**	**$1,436,835**	**$859,846**	**($182,298,463)**	**$552,707,407**
2013	$267,859,850	$19,874,062	$231,552,717	$154,806,540	$1,610,978	$907,105	($188,382,436)	$488,228,816

Segments assets do not include investments in subsidiaries and intersegment receivables amounting to $124.15 million and $58.01 million as of December 31, 2014, respectively, and $132.55 million and $63.17 million as of December 31, 2013, respectively. These are eliminated in consolidation.

Goodwill arising from the acquisition of STEL Group, IMI USA and IMI CZ amounting to $45.13 million, $0.66 million, and $0.65 million, respectively, are recognized at consolidated level for both years ended December 31, 2014 and 2013. Goodwill arising from the acquisition of PSi amounting to nil and $7.48 million for the years ended December 31, 2014 and 2013, respectively, is also recognized at consolidated level.

The following table presents revenues from external customers based customer's nationality:

	2014	2013	2012
Europe	**$418,391,628**	$379,465,943	$331,594,548
America	**208,581,244**	222,740,713	203,910,809
Japan	**71,620,075**	68,075,201	59,738,507
Rest of Asia/Others	**145,881,122**	74,750,006	66,605,858
	$844,474,069	$745,031,863	$661,849,722

Revenues are attributed to countries on the basis of the customer's location. Certain customers that are independent of each other but within the same group account for 12.63%, 13.51% and 11.55% of the Group's total revenue in 2014, 2013 and 2012, respectively.

The following table presents revenues per product type:

	2014	2013	2012
Automotive	**$320,532,486**	$278,269,042	$207,949,017
Telecommunication	**176,669,820**	134,748,260	127,027,324
Industrial	**106,273,619**	108,412,410	111,465,781
Consumer	**101,939,801**	104,083,799	107,307,549
Multiple market	**66,556,982**	56,873,912	55,526,158
Computer peripherals	**49,137,199**	37,841,556	22,085,306
Medical	**23,364,162**	24,802,884	30,488,587
	$844,474,069	$745,031,863	$661,849,722

The following table presents noncurrent assets based on their physical location:

	2014	2013
Europe	**$25,996,998**	$27,500,455
America	**16,431,213**	12,091,701
Japan	**22,596**	14,213
Rest of Asia/Others	**90,116,081**	105,264,606
	$132,566,888	$144,870,975

Noncurrent assets include property, plant and equipment, goodwill and intangible assets.

The following table presents the depreciation and amortization expense based on their physical location:

	2014	2013	2012
Europe	**$5,800,582**	$5,156,046	$4,138,600
America	**1,611,235**	1,318,224	999,509
Japan	**2,474**	2,550	3,196
Rest of Asia/Others	**15,565,991**	16,383,051	20,235,755
	$22,980,282	$22,859,871	$25,377,060

28. Lease Commitments

Operating Lease Commitments - Group as Lessor

STEL entered into lease contracts on its leasehold building. These non-cancellable lease contracts have remaining lease terms ranging from one to five years. However, on August 27, 2014, STEL entered into an agreement relating to the sale and purchase of the said building with DBSTL.

STEL 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 year, commencing on June 1, 2013 up to May 31, 2014. Monthly rental rate amounts to $1,040.

The rental income recognized by STEL amounted to $1.26 million, $1.08 million and $0.57 million in 2014, 2013 and 2012, respectively.

The future minimum rental receivable of the Group as of December 31, 2013 is as follows:

Within one year	$1,234,000
More than one year but less than five years	1,617,000
	$2,851,000

Operating Lease Commitments - Group as Lessee

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 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 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.

IMI Singapore and STEL Group

IMI Singapore and STEL Group have various operating lease agreements in respect of office premises and land. These non-cancellable lease contracts have remaining non-cancellable lease terms of between one to thirty-eight 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.

On August 27, 2014, STEL entered into an agreement related to the sale and leaseback of the building with DBSTL, in its capacity as trustee of SBSR (see Note 9). The existing light industrial building is sited on a land area of 3,993 square meters and is held under lease issued by JTC for a term of 30 years from May 1, 2000 with a covenant by JTC to grant further term of 20 years subject to the terms and conditions of the lease.

The transaction was completed on December 23, 2014 with the approval of JTC for DBSTL to takeover the lease of STEL with JTC. Pursuant to a Lease Agreement, DBSTL will lease the Property to STEL for a term of ten years.

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 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 months from the issuance of building permit or maximum of three months, if Fremont caused the delay. The base monthly rental rate is $3,687 on the first six months with an escalation every eleven months, as stated in the lease contract. Average monthly rental rate amounts to $9,523.

PSi

PSi has a cancellable 15-year operating lease agreement 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 operating lease agreement 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.

PSi leases its plant facilities, office spaces and other facilities in Calamba, Laguna from Centereach Resources, Inc. (CRI), an unrelated entity. The operating lease agreement will expire in March 2018.

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

The operating lease agreements with CRI provides for the increase in rental at varying rates over the term of the lease and the penalty interest rate of 3% per month using simple interest.

The aggregate rental expense of the Group, recognized on these operating lease commitments, are 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, amounted to $5.29 million in 2014, $3.47 million in 2013, and $1.14 million in 2012 (see Note 21).

Future minimum rentals payable under operating leases of the Group as of December 31, 2014 and 2013 follow:

	2014	2013
Within one year	**$4,808,220**	$4,076,629
After one year but not more than five years	**11,557,249**	7,769,489
More than five years	**8,205,592**	2,580,123
	$24,571,061	$14,426,241

Finance Lease Commitments - Group as Lessee

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 to five years and final repayment dates between 2014 and 2018. These leases are subject to interest rates of 3-month EURIBOR plus 2% to 4% 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 to ten 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	
	2014	2013	**2014**	2013
Within one year (Note 14)	**$952,626**	$1,018,901	**$853,164**	$907,761
More than one year but less than five years	**2,367,757**	3,157,187	**2,257,583**	2,977,968
	$3,320,383	$4,176,088	**$3,110,747**	$3,885,729

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, 2014, 2013 and 2012, the Group has not recorded any impairment on receivables, except for the receivable from Narra VC, 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, 2014 and 2013, the Group maintains current and savings accounts with BPI amounting to $0.97 million and $0.77 million, respectively.

   Total interest income earned from investments with BPI amounted to $5,338, $2,639 and $22,652 for the years ended December 31, 2014, 2013 and 2012, respectively.

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

	Receivables		Payables	
	2014	2013	**2014**	2013
BPI	**$178,059**	$91,792	**$2,957**	$18,267
AC	**1,352**	–	**–**	–
Makati Development Corporation (MDC)	**776**	–	**–**	–
ALI	**601**	–	**–**	–
Narra VC	**–**	83,562	**–**	–
TLI	**–**	16,807	**–**	–
Innove Communication Inc. (ICI)	**–**	–	**25,520**	17,742
Globe Telecom, Inc. (GTI)	**–**	–	**5,238**	1,090
Ayala Group Legal (AG Legal)	**–**	–	**–**	4,505
	$180,788	$192,161	**$33,715**	$41,604

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. Receivables from AC, MDC and ALI pertain to the affiliates' share on the Parent Company's expenses incurred during a group-wide conference.

iii. 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. Effective December 29, 2014, IMI purchased shares held by the non-controlling interests in PSi. Accordingly, the receivables from Narra VC were written off.

iv. 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.

v. 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.

vi. 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.

vii. Payables to GTI pertain to billings for software and WiFi connections. These are due and demandable.

viii. 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 thirty days.

c. Outstanding balances of related party transactions from the Parent Company's point of view follow:

	Receivables		Payables	
	2014	2013	**2014**	2013
STEL	**$18,426,739**	$24,204,080	**$7,369,725**	$8,390,188
IMI EU/MX Subsidiaries	**14,695,248**	14,705,805	**–**	–
PSi	**12,820,656**	11,319,929	**296**	415,317
IMI Singapore	**1,010,247**	1,010,247	**–**	–
IMI Japan	**981,383**	979,526	**594,201**	712,569
IMI ROHQ	**319,924**	253,323	**1,149,654**	1,212,240
IMI USA	**253,738**	250,405	**196,433**	289,146
	$48,507,935	$52,723,315	**$9,310,309**	$11,019,460

i. Receivables from STEL Group, 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.

Advances to STEL Group, 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 2.33% to 2.73% in 2014, 2.24% to 3.24% in 2013, and 2.31% to 2.81% in 2012.

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

ii. Payables to STEL Group pertain to non-trade related transactions which include freight and handling charges, business travel expenses and consideration for the net assets transferred by STPH to the Parent Company (see Note 1). These advances are noninterest-bearing and are payable on demand.

iii. Payables to PSi in 2013 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 IA, 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. This was settled in 2014.

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

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.

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

	Revenue/Income			Expenses		
	2014	2013	2012	**2014**	2013	2012
MWAP	**$9,868**	$9,971	$8,885	**$–**	$–	$–
TLI	**7,371**	7,713	–	**1,115,426**	26,328	26,531
BPI	**6,021**	2,639	58,198	**–**	–	–
AG Legal	**–**	–	–	**118,774**	82,818	72,351
ICI	**–**	–	–	**55,971**	88,266	144,905
GTI	**–**	–	–	**73,337**	70,438	68,355
	$23,260	$20,323	$67,083	**$1,363,508**	$267,850	$312,142

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

i. Rental 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 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. Rental expense from the lease contract with TLI (see Note 28).

ii. Consultations on legal matters and assistance on regulatory and legal requirements from AG Legal.

iii. Building rental, leased lines, internet connections and ATM connections with ICI.

iv. Billings for cellphone charges and WiFi connections with GTI.

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

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

Expenses incurred from related party transactions include 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:

	2014	2013
Short-term employee benefits	**$7,628,230**	$7,294,687
Post-employment benefits	**243,459**	378,920
Share-based payments	**158,608**	5,262
	$8,030,297	$7,678,869

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, 2014 and 2013:

	Carrying Amounts		Fair Values	
	2014	2013	**2014**	2013
Financial assets:				
AFS financial assets	**$522,361**	$516,726	**$522,361**	$516,726
Financial liabilities:				
Derivative liabilities	**$–**	$40,606	**$–**	$40,606
Noncurrent portion of:				
Long-term debt	**57,298,750**	61,699,753	**64,723,021**	64,228,205
Obligation under finance lease	**2,257,583**	2,977,968	**2,274,365**	2,973,854
	$59,556,333	$64,718,327	**$66,997,386**	$67,242,665

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. Fair value is based on quoted prices.

Derivative instruments - The fair value of freestanding currency forwards is based on counterparty valuation.

Noncurrent portion of 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 method using the current incremental borrowing rates for similar borrowings, with maturities consistent with those remaining for the liability being valued. The discount rates used for 2014 and 2013 ranged from 1.86% to 2.98% and 0.95% to 2.87%, 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 ranged from 3.18% to 12.26% and 2.29% to 12.30% for 2014 and 2013, respectively.

Fair Values of Financial Assets and Financial Liabilities where the Carrying Amounts Approximate Fair Values
Financial assets and financial liabilities that are liquid or are short-term in nature, with maturity of less than one year, are assumed to have carrying amounts approximating their fair values.

Fair Value Hierarchy
The following tables provide the fair value hierarchy of the Group's assets and liabilities:

	December 31, 2014			
	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	**$522,361**	**$–**	**$–**	**$522,361**
Liabilities for which fair values are disclosed -				
Noncurrent portion of:				
Long-term debt	**$–**	**$–**	**$64,723,021**	**$64,723,021**
Obligation under finance lease	**–**	**–**	**2,274,365**	**2,274,365**
	$–	**$–**	**$66,997,386**	**$66,997,386**

	December 31, 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	$516,726	$–	$–	$516,726
Liabilities measured at fair value -				
Derivative liabilities	$–	$40,606	$–	$40,606
Liabilities for which fair values are disclosed -				
Noncurrent portion of:				
Long-term debt	$–	$–	$64,228,205	$64,228,205
Obligation under finance lease	–	–	2,973,854	2,973,854
	$–	$–	$67,202,059	$67,202,059

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.

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, 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) for the years ended December 31, 2014 and 2013. 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	**2014**	2013
+100	**($476,564)**	($564,410)
-100	**476,564**	564,410

The following table shows the information about the Group's debt as of December 31, 2014 and 2013 that are exposed to interest rate risk presented by maturity profile:

	2014	2013
Within one year	**$372,440**	$8,875,315
One to five years	**47,283,951**	47,565,711
	$47,656,391	$56,441,026

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-term 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:

	2014				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents*	$63,504,005	$54,039,344	$–	$–	$117,543,349
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	–	119,390,018	–	–	119,390,018
Accrued expenses**	–	21,723,950	–	–	21,723,950
Accrued compensation and benefits	–	24,691,621	–	–	24,691,621
Nontrade payables	–	6,347,988	–	–	6,347,988
Current portion of obligation under finance lease	–	–	952,626	–	952,626
Dividends payable	–	–	898,700	–	898,700
Employee-related payables**	–	155,827	–	–	155,827
Accrued interest payable	–	–	449,305	–	449,305
Due to related parties	–	33,715	–	–	33,715
Others	–	930,209	–	–	930,209
Trust receipts and loans payable	–	–	52,524,685	–	$52,524,685
Current portion of long-term debt	–	–	2,907,015	–	2,907,015
Noncurrent portion of long-term debt	–	245,073	735,218	62,164,758	63,145,049
Noncurrent portion of obligation under finance lease	–	–	–	2,367,757	2,367,757
	–	173,518,401	58,467,549	64,532,515	296,518,465
	$63,504,005	($119,479,057)	($58,467,549)	($64,532,515)	($178,975,116)

** Excluding cash on hand.*
*** Excluding statutory payables.*

	2013				
	On Demand	Less than 3 Months	3 to 12 Months	1 to 5 Years	Total
Financial assets					
Cash and cash equivalents*	$44,887,461	$4,057,226	$–	$–	$48,944,687
Financial liabilities					
Derivative liabilities	–	40,606	–	–	40,606
Accounts payable and accrued expenses:					
Trade payables	–	120,669,723	–	–	120,669,723
Accrued expenses**	–	24,067,786	–	–	24,067,786
Accrued compensation and benefits	–	15,233,977	–	–	15,233,977
Nontrade payables	–	4,116,382	–	–	4,116,382
Current portion of obligation under finance lease	–	–	1,018,901	–	1,018,901
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

(Forward)

	2014				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Trust receipts and loans payable	$–	$–	$45,982,452	$–	$45,982,452
Current portion of long-term debt	–	–	4,014,417	–	4,014,417
Noncurrent portion of long-term debt	–	346,994	1,040,983	63,228,205	64,616,182
Noncurrent portion of obligation under finance lease	–	–	–	3,157,187	3,157,187
	–	165,193,469	53,386,992	66,385,392	281,808,666
	$44,887,461	($161,136,243)	($53,386,992)	($66,385,392)	($232,863,979)

** Excluding cash on hand.*
*** Excluding statutory payables.*

Credit lines
The Group has credit lines with different financing institutions as of December 31, 2014 and 2013, as follows:

	2014		2013	
Financial Institution	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
USD	**40,000,000**	**13,405,548**	30,000,000	1,000,000
PHP	**860,000,000**	**860,000,000**	860,000,000	860,000,000
Foreign:				
USD	**38,965,000**	**13,465,000**	22,295,000	15,790,000
Singapore Dollar (SGD)	**25,000,000**	**25,000,000**	20,000,000	16,500,000
EUR	**10,880,000**	**7,115,468**	12,839,988	11,409,501

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, 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, 2014 and 2013 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 37% and 35% of trade receivables relating to three major customers as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, the aging analysis of receivables and miscellaneous deposits follows:

	December 31, 2014							
		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	**$192,038,296**	**$157,599,844**	**$21,279,943**	**$2,092,319**	**$2,208,585**	**$2,005,189**	**$5,832,369**	**$1,020,047**
Nontrade	**1,598,225**	**738,484**	**304,613**	**90,814**	**92,424**	**31,004**	**268,811**	**72,075**
Receivable from insurance	**1,066,423**	**–**	**–**	**–**	**–**	**–**	**–**	**1,066,423**
Receivable from employees	**588,787**	**532,280**	**27,319**	**1,121**	**172**	**2,224**	**7,776**	**17,895**
Due from related parties	**180,788**	**180,788**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**1,825,989**	**1,821,869**	**–**	**–**	**–**	**–**	**4,120**	**–**
	$197,298,508	**$160,873,265**	**$21,611,875**	**$2,184,254**	**$2,301,181**	**$2,038,417**	**$6,113,076**	**$2,176,440**
Miscellaneous deposits	**$1,705,650**	**$1,705,650**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

	December 31, 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	192,161	192,161	–	–	–	–	–	–
Others	3,067,488	3,060,626	–	–	–	–	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	$2,357,537	$2,357,537	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2014 and 2013:

	December 31, 2014					
	Neither Past Due nor Impaired				**Past Due or**	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash and cash equivalents	**$117,543,349**	**$–**	**$–**	**$–**	**$–**	**$117,543,349**
Receivables:						
Trade	**11,687,759**	**145,912,085**			**34,438,452**	**192,038,296**
Nontrade	**738,484**	**–**	**–**	**–**	**859,741**	**1,598,225**
Receivable from insurance	**–**	**–**	**–**	**–**	**1,066,423**	**1,066,423**
Receivable from employees	**532,280**	**–**	**–**	**–**	**56,507**	**588,787**
Due from related parties	**180,788**	**–**	**–**	**–**	**–**	**180,788**
Others	**1,821,869**	**–**	**–**	**–**	**4,120**	**1,825,989**
AFS financial assets	**522,361**	**–**	**–**	**–**	**–**	**522,361**
Miscellaneous deposits	**1,705,650**	**–**	**–**	**–**	**–**	**1,705,650**
	$134,732,540	**$145,912,085**	**$–**	**$–**	**$36,425,243**	**$317,069,868**

	December 31, 2013					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	Average Risk	Fairly High Risk	High Risk	Individually Impaired	Total
Cash and cash equivalents	$48,944,687	$–	$–	$–	$–	$48,944,687
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	192,161	–	–	–	–	192,161
Others	3,060,626	–	–	–	6,862	3,067,488
AFS financial assets	1,867,094	–	–	–	–	1,867,094
Miscellaneous deposits	2,357,537	–	–	–	–	2,357,537
	$68,747,621	$131,357,425	$–	$–	$35,019,671	$235,124,717

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 2014 and 2013, 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 50% and 45% of the Group's sales for the years ended December 31, 2014 and 2013, respectively, and 49% and 37% of costs for the years ended December 31, 2014 and 2013, 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 hedging any material exposure where appropriate.

Information on the Group's foreign currency-denominated monetary assets and liabilities and their USD equivalent follows:

Philippine Peso (₱)

	2014		2013	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$18,287,996**	**₱817,839,183**	$1,301,522	₱57,768,395
Receivables	**910,486**	**40,716,938**	1,261,035	55,971,373
Miscellaneous deposits	**1,330,605**	**59,504,646**	1,308,741	58,088,831
Accounts payable and accrued expenses	**(28,795,936)**	**(1,287,754,274)**	(35,908,621)	(1,593,813,544)
Net retirement liabilities	**(4,317,945)**	**(193,098,500)**	(6,358,839)	(282,300,647)
Other current liabilities	**–**	**–**	(2,177,477)	(96,647,896)
Other noncurrent liabilities	**(434,575)**	**(19,434,194)**	(34,750)	(1,542,386)
Net foreign currency-denominated liabilities	**($13,019,369)**	**(₱582,226,201)**	($40,608,389)	(₱1,802,475,874)

Singapore Dollar (SGD)

	2014		2013	
	In USD	**In SGD**	In USD	In SGD
Cash and cash equivalents	**$17,422,989**	**SGD23,045,388**	$1,202,086	SGD1,521,608
Receivables	**153,158**	**202,582**	42,278	53,516
Accounts payable and accrued expenses	**(3,274,870)**	**(4,331,671)**	–	–
Other current liabilities	**–**	**–**	(2,062,805)	(2,611,112)
Net foreign currency-denominated assets (liabilities)	**$14,301,277**	**SGD18,916,299**	($818,441)	(SGD1,035,988)

Euro (€)

	2014		2013	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$10,539,710**	**€8,651,205**	$3,372,710	€2,444,524
Receivables	**45,735,098**	**37,540,283**	33,656,796	24,394,284
Accounts payable and accrued expenses	**(16,730,780)**	**(13,732,959)**	(15,267,300)	(11,065,666)
Loans payable	**–**	**–**	(900,196)	(652,458)
Short-term debt	**(2,800,640)**	**(2,298,821)**	(13,445,515)	(9,745,245)
Long-term debt	**(17,298,750)**	**(14,199,160)**	–	–
Net foreign currency-denominated assets	**$19,444,638**	**€15,960,548**	$7,416,495	€5,375,439

Japanese Yen (JPY or ¥)

	2014		2013	
	In USD	**In JPY**	In USD	In JPY
Cash and cash equivalents	**$214,167**	**¥25,781,435**	$110,783	¥20,777,535
Receivables	**1,459,607**	**175,707,523**	2,142,135	142,970,938
Miscellaneous deposits	**20,693**	**2,491,043**	23,388	162,575,616
Accounts payable and accrued expenses	**(3,099,202)**	**(373,081,879)**	(6,780,059)	(360,282,581)
Net foreign currency-denominated liabilities	**($1,404,735)**	**(¥169,101,878)**	($4,503,753)	(¥33,958,492)

Renminbi (RMB)

	2014		2013	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$23,174,367**	**RMB141,838,714**	$8,791,172	RMB91,750,882
Receivables	**75,142,422**	**459,909,194**	65,967,402	345,539,841
Accounts payable and accrued expenses	**(43,976,172)**	**(269,156,161)**	(45,116,122)	(239,821,418)
Net foreign currency-denominated assets	**$54,340,617**	**RMB332,591,747**	$29,642,452	RMB197,469,305

Hong Kong Dollar (HKD or HK$)

	2014		2013	
	In USD	**In HKD**	In USD	In HKD
Cash and cash equivalents	**$43,424**	**HK$336,926**	$209,933	HK$1,627,894
Receivables	**1,177,086**	**9,133,013**	1,157,866	8,978,496
Accounts payable and accrued expenses	**(362,957)**	**(2,816,186)**	(358,999)	(2,783,806)
Net foreign currency-denominated assets	**$857,553**	**HK$6,653,753**	$1,008,800	HK$7,822,584

British Pound (GBP or £)

	2014		2013	
	In USD	**In GBP**	In USD	In GBP
Cash	**$63,161**	**£40,582**	$–	£–
Receivables	**–**	**–**	1,024	621
Accounts payable and accrued expenses	**(2,417)**	**(1,553)**	(5,272)	(3,197)
Net foreign currency-denominated assets (liabilities)	**$60,744**	**£39,029**	($4,248)	(£2,576)

Australian Dollar (AUD)

	2014		2013	
	In USD	**In AUD**	In USD	In AUD
Cash and cash equivalents	**$2**	**AUD3**	$3	AUD3
Accounts payable and accrued expenses	**(81,562)**	**(100,223)**	(54,619)	(61,239)
Net foreign currency-denominated liabilities	**($81,560)**	**(AUD100,220)**	($54,616)	(AUD61,236)

Thai Baht (THB)

	2014		2013	
	In USD	**In THB**	In USD	In THB
Receivables	**$–**	**THB–**	$1,047	THB34,398

Swiss Franc (CHF)

	2014		2013	
	In USD	**In CHF**	In USD	In CHF
Cash and cash equivalents	**$356**	**CHF351**	$1,411	CHF1,253
Receivables	**–**	**–**	23	20
Accounts payable and accrued expenses	**(12,091)**	**(11,934)**	(58,208)	(51,690)
Net foreign currency-denominated liabilities	**($11,735)**	**(CHF11,583)**	($56,774)	(CHF50,417)

Danish Krone (DKK)

	2014		2013	
	In USD	**In DKK**	In USD	In DKK
Accounts payable and accrued expenses	**($957)**	**(DKK5,842)**	($2,789)	(DKK15,079)

<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, 2014 and 2013. 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 **2014**	2013
PHP	+1%	**$123,270**	$257,733
	-1%	**(123,270)**	(257,733)
SGD	+1%	**(91,271)**	5,839
	-1%	**91,271**	(5,839)
EUR	+1%	**(199,056)**	(100,879)
	-1%	**199,056**	100,879
JPY	+1%	**15,791**	27,143
	-1%	**(15,791)**	(27,143)
RMB	+1%	**(532,197)**	(243,729)
	-1%	**532,197**	243,729
HKD	+1%	**(8,532)**	(10,052)
	-1%	**8,532**	10,052
GBP	+1%	**($320)**	$52
	-1%	**320**	(52)
AUD	+1%	**590**	637
	-1%	**(590)**	(637)
THB	+1%	**–**	(6)
	-1%	**–**	6
CHF	+1%	**102**	705
	-1%	**(102)**	(705)
DKK	+1%	**5**	38
	-1%	**(5)**	(38)

Derivatives
As of December 31, 2014 and 2013, the Parent Company entered into various short-term currency forwards with an aggregate notional amount of $17.00 million and $37.00 million, respectively. As of December 31, 2014 and 2013, the outstanding forward contracts have a net negative fair value of nil and $0.04 million, respectively. The changes in fair value of currency forwards recognized in 2014 and 2013 amounted to $0.25 million and ($0.62) million, respectively. The changes in fair value of currency forwards are recognized in the consolidated statements of income under "Foreign exchange gains (losses) - net" account.

Fair value changes on derivatives
The net movements in the fair value of the Group's derivative instruments as of December 31, 2014 and 2013 follow:

	2014	2013
Derivative assets:		
Balances at January 1	**$–**	$2,857,010
Exercise of call option	**–**	(2,857,010)
Fair value of currency forwards	**107,914**	104,427
Fair value of settled currency forwards	**(107,914)**	(104,427)
Balances at December 31	**$–**	$–
Derivative liabilities:		
Balances at January 1	**$40,606**	$–
Fair value of currency forwards	**143,010**	583,489
Fair value of settled currency forwards	**(183,616)**	(542,883)
Balances at December 31	**$–**	$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 for the years ended December 31, 2014 and 2013.

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 bank debt. Net debt is equivalent to the total bank borrowings, less cash and cash equivalents.

	2014	2013
Trust receipts and loans payable	**$52,094,452**	$45,653,865
Long-term bank debt	**47,656,391**	47,710,919
Total bank debt	**99,750,843**	93,364,784
Less cash and cash equivalents	**117,625,491**	49,042,599
Net bank debt (cash)	**($17,874,648)**	$44,322,185
Equity attributable to equity holders of the Parent Company	**$244,051,201**	$192,649,772
Debt-to-equity ratio	**0.41:1**	0.48:1
Net debt (cash)-to-equity ratio	**(0.07:1)**	0.23:1

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 includes capitalization by the Group of machineries and facilities equipment under finance lease amounting to $0.73 million, $3.03 million and $0.78 million in 2014, 2013 and 2012, respectively, and conversion of long-outstanding trade and nontrade receivables of the Parent Company to Class A common stock amounting to $1.75 million in 2014.

34. Events after Balance Sheet Date

On February 17, 2015, the BOD of the Parent Company approved the reclassification of the remaining balance of the appropriated retained earnings to unappropriated retained earnings amounting to $20.66 million. On the same day, the BOD of the Parent Company approved the declaration of cash dividend of $0.0042 (₱0.1868) per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

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Let's pioneer the future

2014 Annual Report

Ayala

LET'S PIONEER THE FUTURE

Ayala draws strength from its diversity, from synergy as well as shared vision and values. Through three centuries, it has always been a bold but discerning Filipino company, knowing when to stand firm and when to change things for the better.

One hundred eighty years ago, the spirit of innovation and our deeply held principles brought our company to existence. Today, they live on in each and every Ayala company. Join us as we continue to pioneer the future.

Let's build sustainable communities

2014 Annual Report

AyalaLand

Let's make the best happen

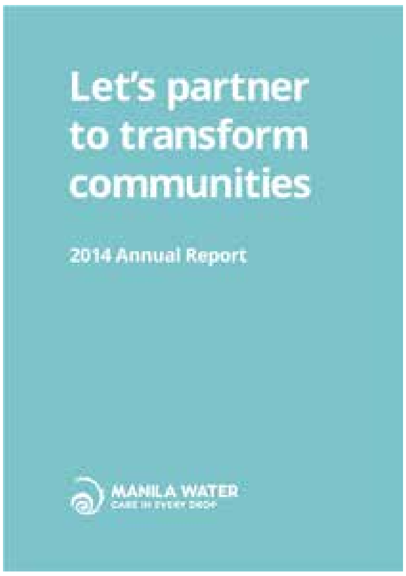
2014 Annual Report

BPI

Let's create a wonderful world

2014 Annual and Sustainability Report

Globe



Let's partner to transform communities

2014 Annual Report

MANILA WATER

Let's innovate solutions

2014 Annual Report

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Let's collaborate better

2014 Annual Report

Ayala Foundation

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Cover Concept: Medium 3
Design Layout: Publicis JimenezBasic
Photography: Paco Guerrero and Erik Liongoren (Portraits)
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