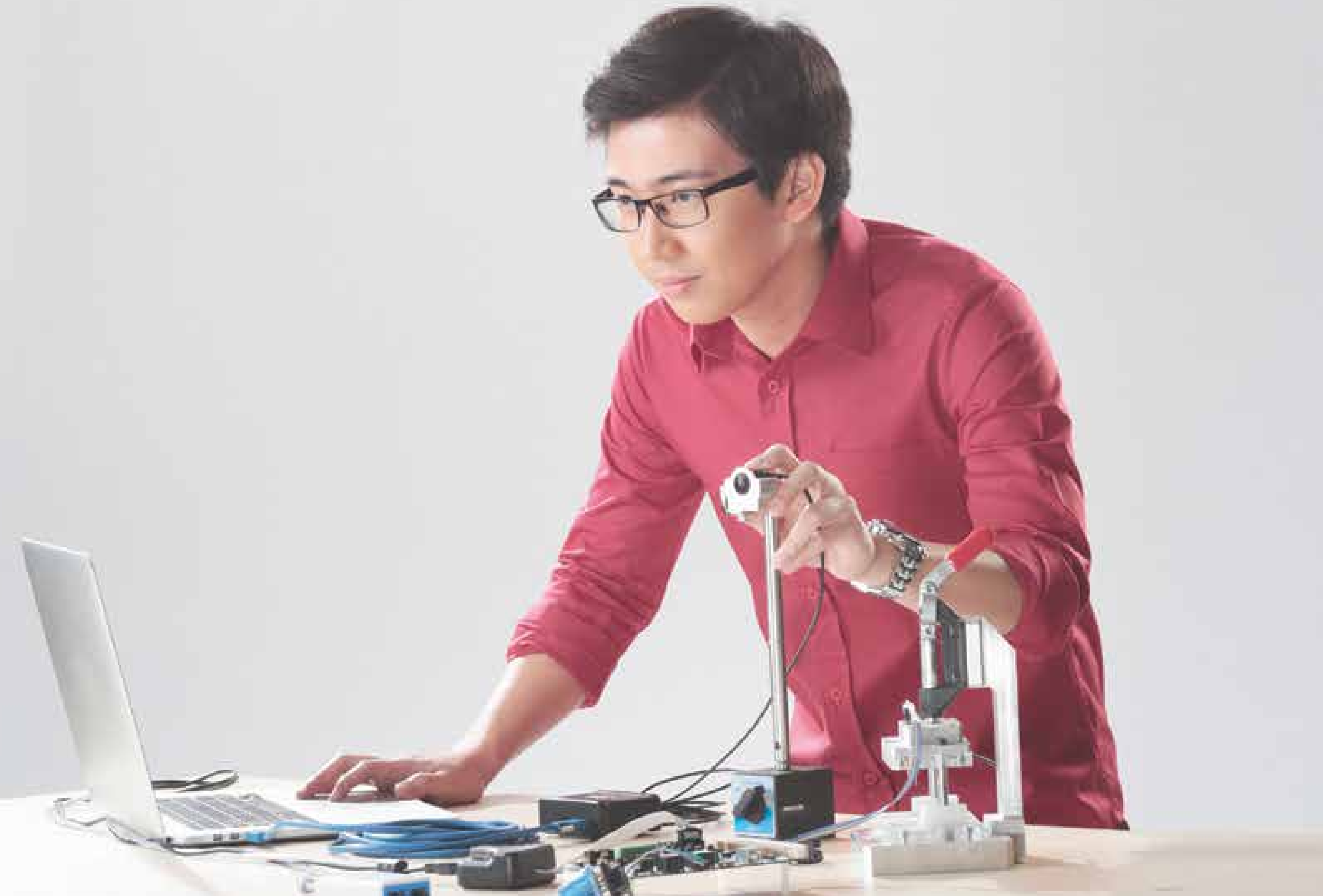
FORWARD

WHERE THE FUTURE TAKES US



FORWARD

Where the future takes us

We push where the future takes us—forward. When challenges weaken any market, we take charge. We increase our engineering capabilities as we strengthen our global impact.

For 35 years, we have remained relentless in innovating solutions that improve the quality of life. We are the only Filipino company among the top 20 EMS companies worldwide, and we strive to be better. Because that's where a promising Philippines is headed—forward.

MISSION

Passionately create a unique product
realization experience that our partners love.

VISION

The Leading INNOVATIVE Partner
for CUSTOMIZED Solutions.
Our PEOPLE deliver
the HIGHEST quality experience.

OUR STORY

We don't wait for change to happen. We create it. As electronics manufacturing services (EMS) provider to some of the world's leading original equipment manufacturers, we deliver customized solutions that shape tomorrow's technologies today. Our customers from every part of the global economy rely on our engineering capabilities and cost-competitiveness to respond to trends and capitalize on opportunities. For 35 years, we have been proudly serving them and helping them succeed wherever they do business.

OUR EXPERTISE

Equipped for rapid and complex change, we have combined the different elements that comprise the necessary technologies and capabilities of an "EMS plus" provider. We provide our global customers in diverse industries, seamless support from our facilities across Europe, North America, and Asia—from design and product development to manufacturing, and support and fulfillment.

IMI's EMS+ SOLUTIONS

IMI GROUP

EMS - Electronics Manufacturing Services
OEMs - Original Equipment Manufacturers
R&D - Research and Development
NPI - New Product Introduction
EMC - Electromagnetic Compatibility
PCB - Printed Circuit Board
FPCB - Flexible Printed Circuit Board

OEMs:
TECHNOLOGY AND R&D

DESIGN AND 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 AND FULFILLMENT

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

OEMs:
BRAND MARKETING

FINANCIAL HIGHLIGHTS

	2015	2014	2013
	(In US$ Millions, except EPS and ratios)		
Revenues	**814.4**	844.5	745.0
Operating income	**37.9**	29.7	12.1
Net income*	**28.8**	29.1	10.5
EBITDA	**58.8**	52.7	36.4
Total assets	**516.5**	552.7	488.2
Capital expenditures	**35.1**	24.9	20.8
Current ratio	**1.54**	1.73	1.53
Debt-to-equity ratio	**0.48**	0.41	0.48
Earnings per share (EPS)*	**0.015**	0.017	0.006
Return on average equity*	**12.1%**	13.3%	5.4%

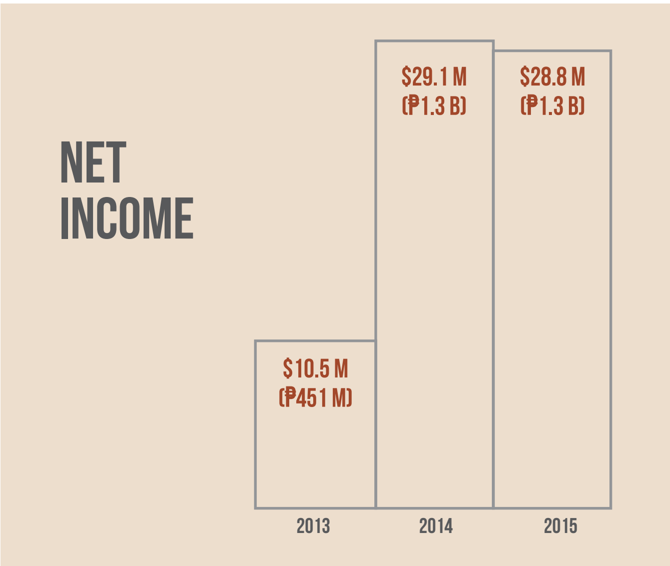
** attributable to equity holders of the parent*

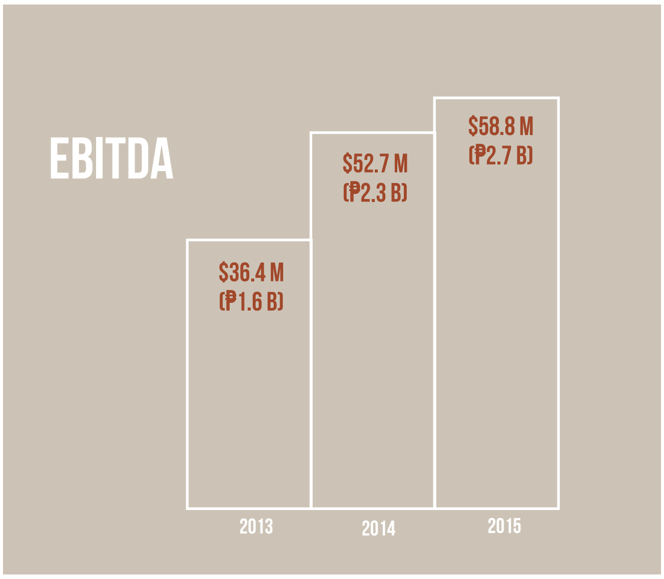
$814.4 M
REVENUES

$37.9 M
↑
$29.7 M
OPERATING INCOME

7%
EBITDA MARGIN

$35.1 M
CAPEX





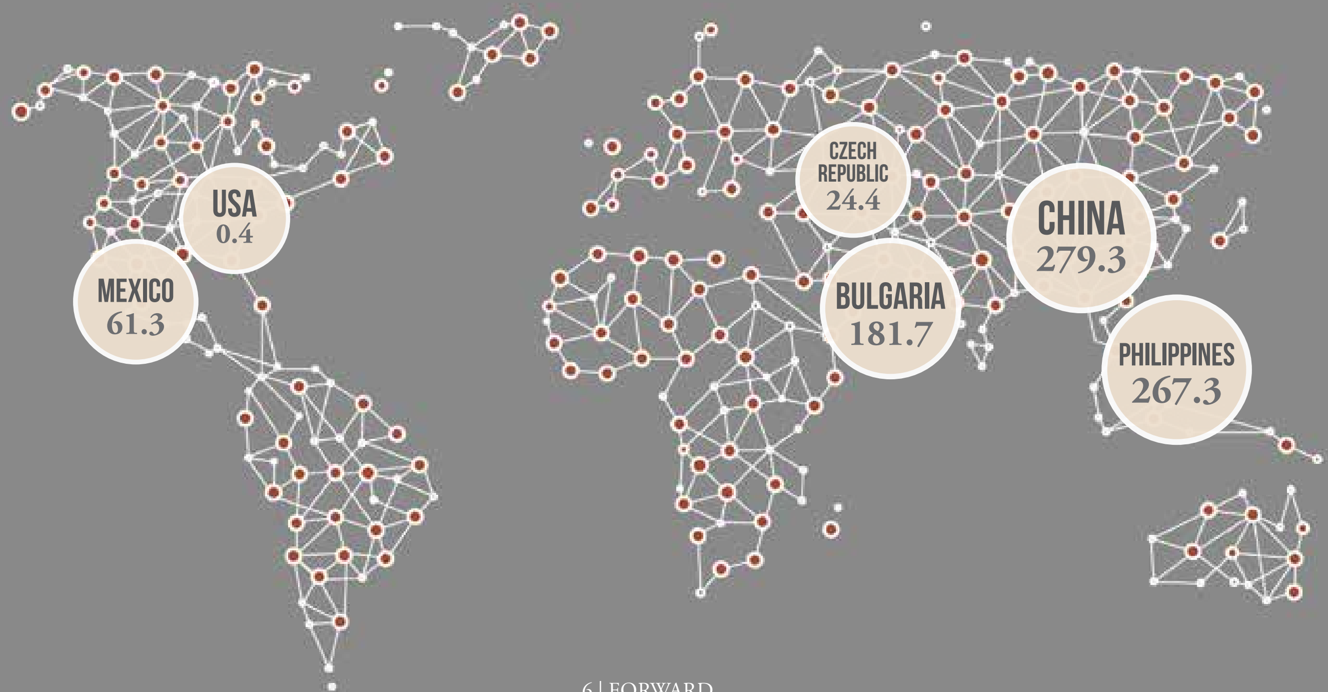
AT A GLANCE

MANUFACTURING PLANTS AND DESIGN AND ENGINEERING CENTERS

	PHILIPPINES Laguna, Cavite, Taguig	CHINA Liantang, Kuichong, Jiaxing, Chengdu	BULGARIA Botevgrad
CAPABILITIES	Automotive Industrial Telecommunications Medical Computing Consumer Multiple Markets	Automotive Industrial Telecommunications Medical Computing Consumer	Automotive Industrial Consumer
HEADCOUNT	6,201	4,864	1,939
PRODUCTION SPACE (in sqm)	108,390	62,580	26,928

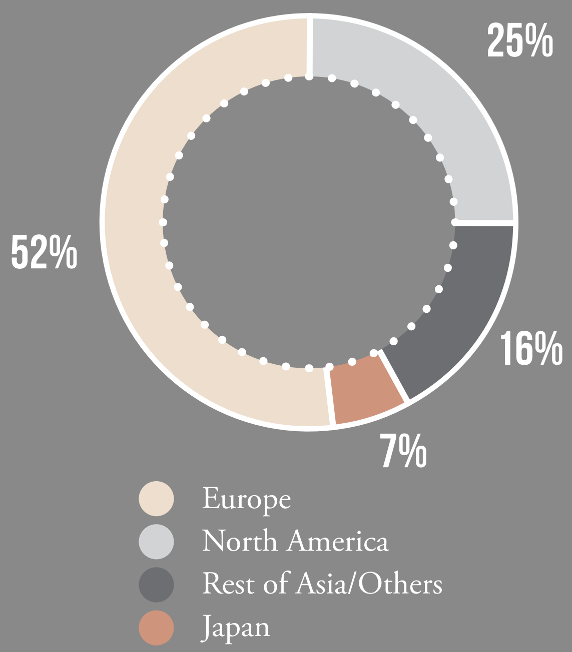
OUR MARKETS

Revenues per site in US$ millions

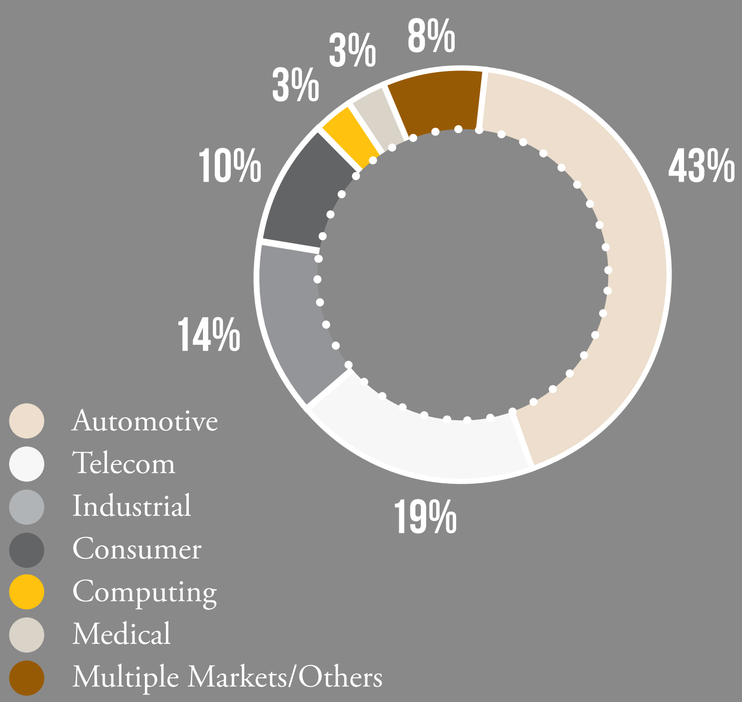


	CZECH REPUBLIC Třemošná	MEXICO Guadalajara	USA Tustin, California
CAPABILITIES	Automotive Industrial Consumer	Automotive	Automotive Industrial Medical
HEADCOUNT	204	1,155	12
PRODUCTION SPACE (in sqm)	7,740	25,000	1,184

REVENUES BY CUSTOMER CORPORATE HQ



REVENUES BY MARKET SEGMENT



"IMI is the only manufacturing company in our portfolio of businesses, providing thousands of jobs for Filipinos. It is also our largest global investment, competing successfully in international markets."

UP FOR THE CHALLENGE

Chairman's Message

As we reflect on the past year, it gives us great encouragement to see how IMI continuously reinvents itself and remains resilient amidst the volatility of the global electronics industry. Despite an uncertain year for currency markets, made more challenging by the ongoing economic slowdown in China, IMI remained committed to delivering differentiated solutions to enable its customers to shape and service the industries they operate in.

The excellent track record that IMI has established over the last 35 years has made it a formidable player in the global electronics manufacturing space. More recently, IMI has aggressively grown its high-value segments within the automotive, industrial, and medical industries, as it broadened its product offerings in those spaces. It has also significantly diversified its geographic footprint, with China, Eastern Europe, and Mexico as its largest markets outside the Philippines.

Today, IMI is one of the top 20 electronics manufacturing services in the world —the only Philippine company that made it to the distinguished list of Manufacturing Market Insider—and in the top 7 among automotive EMS suppliers. With its focus on delivering differentiated solutions for its customers, IMI has earned various citations, including a sixth consecutive preferred supplier of the year award from a leading Tier 1 automotive player. In addition, IMI achieved a milestone, celebrating the one millionth shipment of front-view automotive camera modules for advanced driver assistance system (ADAS) applications.

These consistent achievements have made IMI agile, relevant and competitive in a dynamic world. Moving forward, IMI is well-positioned to participate in the evolving trends and opportunities in technology and automation. New innovations, such as next generation mobile networks, advanced sensors, the Internet of Things, the Connected Home ecosystems, assisted driving and driverless cars, among others, will inevitably feature IMI expertise as products develop.

In the Ayala group, IMI is the only manufacturing company in our portfolio of businesses, providing thousands of jobs for Filipinos. It is also our largest global investment, competing successfully in international markets.

For all these positive developments, I thank the IMI employees in the Philippines and across the world for the energy and spirit that they have infused into the organization, our board of directors for their engagement and guidance, the management team for their professional commitment, our many customers and business partners for their loyalty, and our shareholders for their continued trust and confidence in the company.

JAIME AUGUSTO ZOBEL DE AYALA
Chairman

“You will find IMI in the heart of things that power these developments. IMI will always be relevant, if not on the leading edge of the next big thing.”

WE'RE THE COMPANY TO KEEP

President's Report

What were the chief challenges IMI dealt with in 2015, and how did it navigate the terrain?

China slowed down significantly and the euro fell to its lowest level against the dollar in 12 years. The general business climate also slowed down from China's contagion effect. On top of that, the automotive market also had its own set of issues, and although we were not directly involved in any of these, their effects created a market that wasn't conducive to sales. However, the lower gas prices still helped the automotive segment because on a global basis the total number of cars sold was still significantly higher year-over-year.

We finished 2015 with revenues of $814.4 million (or ₱37 billion), 4 percent lower than that in 2014 due mainly to a weak euro and the downturn in the computing and telecommunication infrastructure segments.

Revenues from our China operations declined 14 percent from the previous year to end at $279.3 million. A significant portion of our telecom business is tied to China, and the maturity of the 4G rollout in China affected us. The weaker China economy also had an adverse impact to consumer electronics and computing segments.

Our Europe and Mexico operations recorded combined revenues of $267.4 million, flat from last year. The persistent weakness in the euro resulted in a 3 percent revenue decline for our facilities in Bulgaria and Czech Republic. In IMI Mexico, revenues increased by 9 percent due to higher demand for plastic injection and assembly. Overall revenues for IMI's Europe and Mexico plants would have increased by 15 percent if not for the weak euro.

In the Philippines, our electronics manufacturing services posted a 10 percent growth to $225.3 million due to strong demand for automotive cameras and security and access control devices.

Despite these macroeconomic challenges, we managed to maintain the profitability level that we posted last year, with net income at $28.8 million (or ₱1.3 billion) as we focused on high-margin segments and continued productivity improvements.

How do these developments bear on IMI's innovation directions?

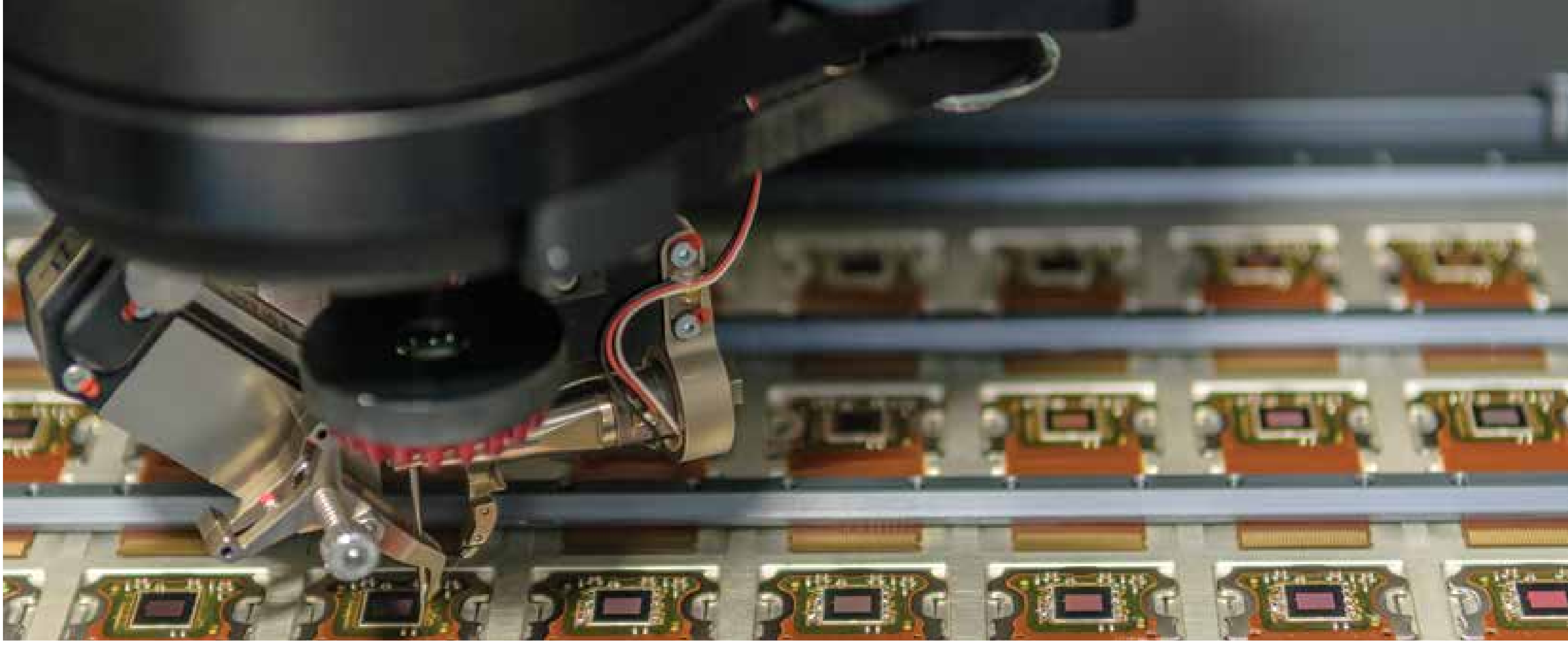
Innovation is no longer contained within the product development side, but is actually driven by the process design and development as well as manufacturing, which can significantly impact subsequent costs. One of the unique capabilities that IMI has is that we bring together multiple disciplines, giving us the capability to do simultaneous engineering with our customers. We develop our own automation, robotics and testers, either automated or semi-automated.

In 2015, we started a new division in IMI—the Insulated Gate Bipolar Transistor (IGBT) power module line in IMI Philippines. This is significant because it is the only local integrated power module line in the Philippines with the capability to not only do packaging, but also develop the test systems and the testers themselves. When we put together the devices we design and build the testers—we also package and test the devices before shipment. We're the only Filipino company that does that here in the country. The rest can only package and wait for the customer to give them the tester. That's the level of competence at IMI.

I am also happy to report that for the sixth consecutive year, IMI earned the preferred supplier award from Bosch, a global engineering and electronics giant headquartered in Germany. We also celebrated the one millionth shipment of forward-facing automotive camera modules to Bosch for ADAS applications.

During the year, we established advanced capability for safety-critical automotive projects, including safety and security electronic control for steering system, and plastic injection operations in China. Today, we are among the top 20 EMS companies in the world—the only Filipino company that made it to the distinguished list of Manufacturing Market Insider.

Understand that the capabilities we bring into IMI Philippines are global, so the engineering support to realize these comes from all over the world.



Our Design & Development (D&D) division continues to provide product development services to our customers in identified market areas. The latest generation samples of automotive cameras by D&D Philippines have passed EMC pre-qualification and reliability testing. A significant number of samples have been distributed and are currently undergoing evaluation by Tier 1 suppliers and OEMs. In Bulgaria, the D&D group continues to enhance its competencies in providing motor driver solutions for the control of auxiliary motors of motor vehicles. They are also involved in developing light-emitting diode (LED) lighting systems for automotive applications that call for precise LED placement and high reliability.

The Advanced Manufacturing Engineering (AME) in the Philippines has been busy with several industrial micro-electromechanical systems (MEMS)-based inertial measurement unit (IMU) modules, commercial laser display modules and automotive camera modules, including the IMI camera platform. Meanwhile, AME Asia has embarked on two major process development activities. The first is the setup and development of a fully automated assembly line to manufacture a complex electro-mechanical assembly for safety and security electronic control for automotive steering system at IMI Jiaxing. The second is the development of capabilities for high power modules for automotive and industrial applications, from design and development, and NPI to mass production, at IMI Laguna.

Our Automation group has established a team in IMI China to focus on developing fully automated production lines as well as smaller cost-effective automation systems to help drive internal cost-reduction efforts. Our most automated $2.5 million final assembly line will be installed in IMI Jiaxing by March 2016. Its competency center in IMI Czech Republic continues to develop robot-based systems and has completed the installation of a fully automated plastic injection molding cell and an $830,000 high-speed automated assembly and testing line at IMI Bulgaria.

Our Test and Systems Development (TSD) has collaborated with a power module customer to build its first high kilovolt-ampere (kVA) IGBT power module test platform to measure both static and dynamic characteristics. TSD also designed two fully automated back-end equipment for the function test, laser mark, barcode scan and unit sorting (using a six-axis robotic-arm manipulator) of automotive PCBAs and assemblies. These integrated solutions achieve high throughput and high quality due to less manual handling in the assembly and test processes.

What will keep IMI busy in 2016 and possibly well into the first quarter-century?

We are not resting easy. We won significant projects in automotive and industrial sectors; however, these have a longer gestation period before they go into full production. These kept us busy and required a lot of resources and investment as you can

see from the capital expenditure that grew from 2014 to 2015, in preparation for those projects that are in the pipeline.

We see 2016 as a transition year for the entire IMI. In a transition year, companies could either be conservative and wait for what will happen to the market, or they could be in an aggressive position and use this time to gain new capabilities, new Intellectual Property (IP), build new factories, or sign up new partners. This year, we at IMI are going to take the aggressive side. This means it's the year when we upgrade the different manufacturing sites to be able to produce these next-generation products. Clearly we had to revisit our manufacturing structure in China because of the downturn. We're converting into a hybrid manufacturing operation, which will be dependent, less on significant labor than on automation. When we do that, we also have to change the type of products we build, the type of human capital resources we employ, and reconfigure our manufacturing line to implement hybrid manufacturing.

We're going to see the full benefits toward the end of 2016; we're going to see the fruits of this transition ahead of the curve. So while others are now trying to address these issues, we had started doing so last year, such that by the second half of 2016 we should start seeing the recovery of our specific markets and products.

As IMI pushes 40, what are the key takeaways for its employees and shareholders?

IMI continues to move forward on the momentum generated by previous achievements. We were able to achieve the distinction of being the only Filipino company in the top 20 EMS companies in the world, and among the top 10 EMS providers in the automotive market.

IMI cannot but be part of things to come. The growing population of Asia and its expanding middle class augur well for premium goods like high-technology products. According to recent studies, the middle-class population in Asia will reach three billion by 2030, and account for about 80 percent of the global middle class. On the other hand, the growing aging population in developed countries presents new opportunities for telemedicine and medical electronics.

The trend toward urbanization is also accelerating: More than half of the world's population today live in towns and cities. Experts have placed the urban population at 3.7 billion—a number that's expected to double by 2050. This will potentially usher in a new age of development, resource efficiency, and economic growth—opportunities for smart cities to enhance the quality life of their people.

According to Gartner, a technology research firm, such smart cities will use 1.6 billion connected things in 2016, an increase of 39 percent from 2015. Smart commercial buildings will be the highest user of Internet of Things until 2017, after which, smart homes will take the lead with just over one billion connected things in 2018.

You will find IMI in the heart of things that power these developments. IMI will always be relevant, if not on the leading edge of the next big thing.

What kind of company will IMI be for the next generation?

The succeeding leadership and shareholder base of IMI will, I hope, come to be a stable company equipped with all the different capabilities that will make it flexible enough to participate in the next technological iteration or change. We're already in the space marked by significant disruptions, which is all very exciting. When a disruption happens, everybody's on a level playing field, and it's up to you and your capabilities, your drive, your passion—for you to emerge better than the competition. The next-generation industrial revolution is already here, and it's driven by the realities of climate change, changing consumer profiles, patterns, and trends, and the evolving business and technological responses to changes.

My role has always been to make sure that IMI is prepared for that disruption, and that it is not hobbled by its history and achievements. I am confident that IMI will be nimble and always be ahead of the curve. I am very happy that some of the things we decided on earlier—like in 2005, when we chose to concentrate on automotives and everybody was asking "Why? Why the car?"—have proved sound, even wise. Now everybody wants to be in the car market.

"IMI continues to move forward on the momentum generated by previous achievements. We were able to attain the distinction of being the only Filipino company in the top 20 EMS companies in the world, and among the top 10 EMS providers in the automotive market. "

By next year you will see IMI transition and take charge of the disruption in the vehicle; but at the same time, also an integral part of the next generation of mobility that will drive the world.

ARTHUR R. TAN
President and Chief Executive Officer

BUSINESS OVERVIEW

Business Segments

We know that the demand for electronics manufacturing services is growing, and that the industry is part of a sustainable and developing landscape.

Over the last 15 years, we've added competencies not only in manufacturing but also in new product introduction, test and systems development, and support and fulfillment. Equipped with full-range capabilities, we had our sights set on projects requiring high complexity and quality requirements. From there, we began accelerating innovation by creating investment programs across our segments, focusing on higher-margin and long product-life segments like automotive and industrial, and capping growth in computing and consumer electronics to drive efficiency and effectiveness in the long term.

We spent $35.1 million for capital expenditures in 2015, 41 percent more than the $24.9 million spent in 2014. This investment spend is based on our market demand outlook, customer commitments when projects are awarded, and the necessary facilities and technology expansion designed to prepare us well in advance of growth or mass production.

So far, we've made substantial progress. In 2015, we won 207 new projects from either new customers or new divisions/models from existing customers, up from 155 in 2014. More than 85 percent of the newly awarded projects are for automotive and industrial customers, and over 70 percent of those new wins will start mass production beginning 2016 and beyond.

BUSINESS OVERVIEW

Automotive

In 2015, EMS companies began talking about expanding into assisted driving and making it a core focus. But while the rest of the industry is still developing capabilities, we're already recognized as the seventh largest automotive EMS provider in the world by New Venture Research. We're engaged with nine out of the top 15 global automotive parts suppliers based on the list of Automotive News, a testament to our deep expertise in many areas of the vehicle. Our customized solutions for driver and passenger safety and security, and vehicle operation, including passive and active safety electronics, body controls, plastic injection, and mechatronics have been more firmly entrenched within the automotive supply chain. As such, on an annual compound basis, our automotive revenues grew 19 percent from 2012 to 2015. This growth is significant and is a fair reflection of the progress we've made in our camera platform, which is now on its fourth generation.

We are confident that our collaborative approach will open the door to even more opportunities, as the car increasingly becomes an electronic equipment. IHS, a leading provider of diverse global market and economic information, estimates that the share of electronics in the value of a vehicle is currently at 40 percent for traditional, internal combustion-engine cars. This percentage value is expected to accelerate in the next few years as new technologies disrupt the automotive ecosystem.

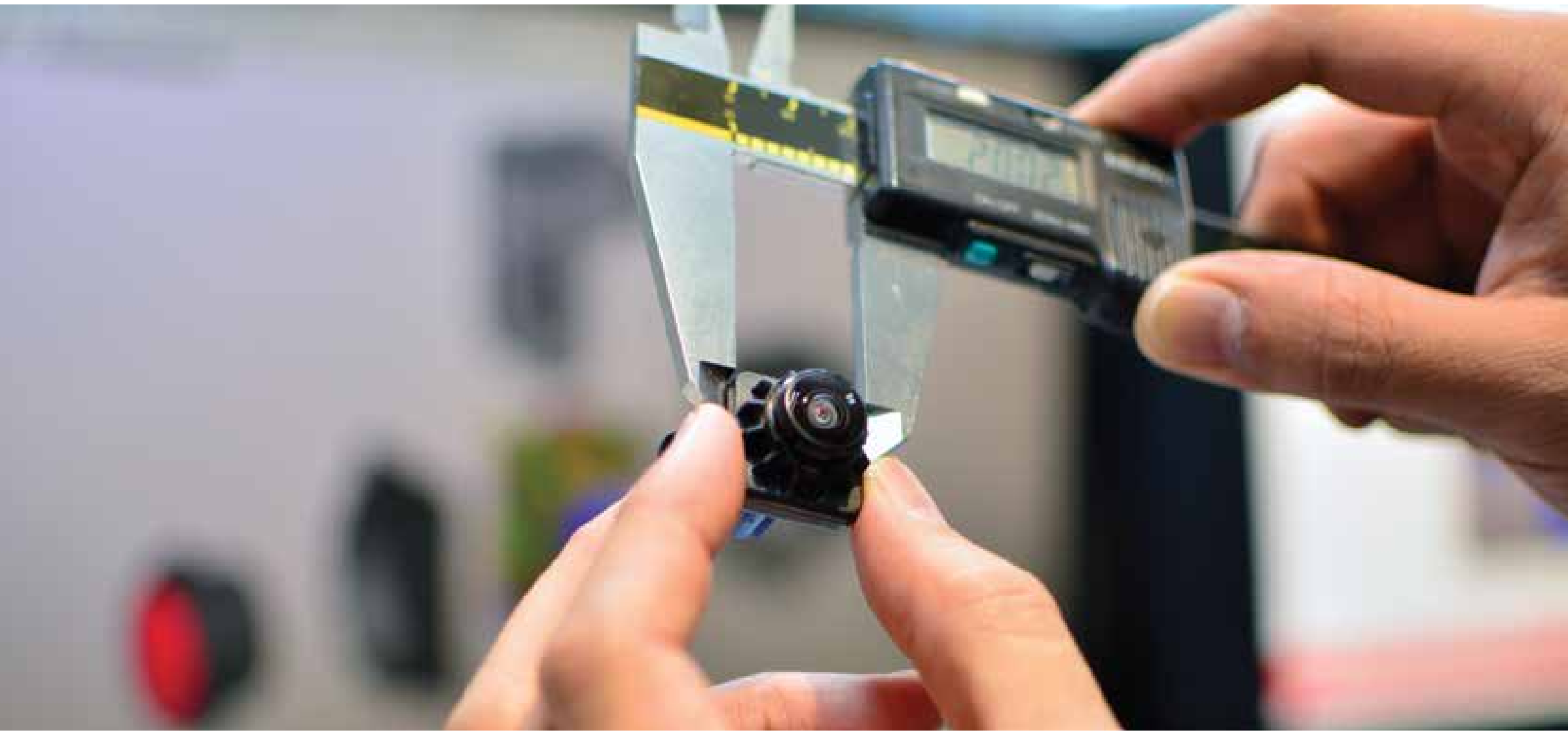
Market research firm IndustryARC forecasts the ADAS market, which generated about $27 billion revenues in 2014, to grow at a compound annual growth rate (CAGR) of 14.9 percent from 2015 to 2020, to reach $78 billion. Business research and consulting company MarketsandMarkets also projects the automotive camera market, which is a component in ADAS technology, to rise at a CAGR of 11 percent during the same period and to be worth $17 billion by 2020. All of these trends suggest more robust growth in store for us than what we have seen in previous years. With this in mind, we continue to invest in our Philippines, Mexico, and Bulgaria facilities. We have set up our third factory in Bulgaria, and we're looking into expanding in other parts of Eastern Europe. In Mexico, we added about 3,000 square meters to our manufacturing area.

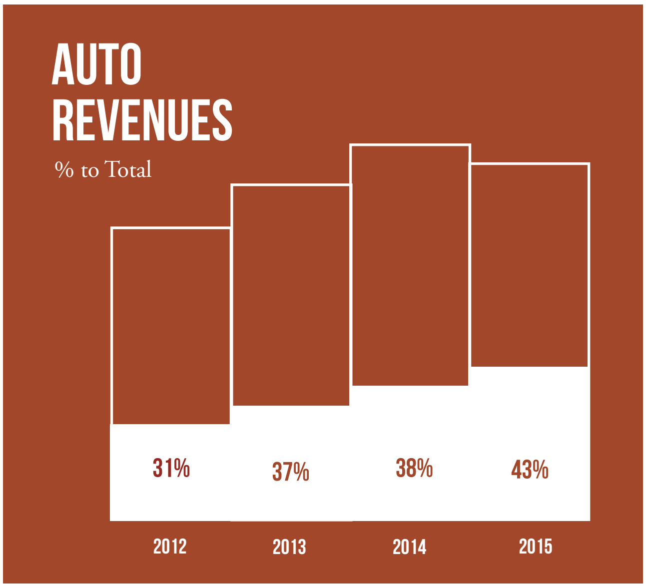
While it could be argued that new firms entering the market will create competition, we remain highly differentiated. For example, our camera modules have the smallest footprint; they have demonstrated advanced heat dissipation features and are superbly focused and optically aligned using in-house developed equipment. The rising enthusiasm for ADAS applications such as lane departure warning, collision avoidance, and autonomous emergency braking, among others, may well speed up the adoption of our camera module, which is an integral technology to driverless cars. In recognition, and perhaps even a validation, of our camera's strategic value, its revenues climbed 66 percent in 2015, driven by volume production ramp-up which surged 203 percent.

19% COMPOUND ANNUAL GROWTH RATE FROM 2012 TO 2015

ENGAGED WITH **9 OF 15** TOP GLOBAL AUTOMOTIVE PARTS SUPPLIERS

6TH CONSECUTIVE PREFERRED SUPPLIER STATUS WITH BOSCH, THE WORLD'S NO. 1 AUTO SUPPLIER





AUTO CAMERA REVENUE GROWTH

↑38% 2013 TO 2014

↑66% 2014 TO 2015

Specific to our customer portfolio, we have achieved our sixth consecutive preferred supplier status with Bosch, the world's number one auto supplier—no mean feat. Our partnership has been particularly successful that IMI is given the opportunity to be integrated earlier in Bosch's strategy and product development process. This enhances our ability to plan ahead, as we have access to every project Bosch is working on and can bid on the project. Just recently, we celebrated our one millionth forward-facing camera shipment for their suite of driver assistance functions.

With a strong reputation and platform from which to deliver, we have secured new partnerships with Renesas and Texas Instruments. They have identified the IMI camera as the standard for their developer kits for car companies wishing to develop their ADAS.

We had built a stronger portfolio, so even as we have gained a distinct competitive advantage in the automotive camera, we know that there is need for us to innovate. This is why we played to our strengths and charted our route forward to winning bigger and more complex projects for electronic control units of steering systems and LED lighting, heating, ventilation, and air-conditioning applications.

BUSINESS OVERVIEW
Other Relevant Markets

INDUSTRIAL

We believe in diversification—that businesses must be varied enough to withstand a slowdown in some product segments.

Our industrial segment leads the growth in our non-automotive business, recording a year-on-year increase of 12 percent. We are biased toward industrial electronics, as projects in this space tend to enjoy a long product life cycle of eight years and sometimes longer for some programs. We help customers in this segment produce high product mix of security devices, access controls, and building automation.

To strengthen our foundation, we turn to the next wave of major projects. We are making great advances on our power modules, which can be used in multiple applications. We have recently launched a new division—the IGBT Power Module—in the Philippines. IGBT modules are terminal power semiconductor devices used as electric switches that combine high efficiency and fast switching. Original equipment manufacturers are beginning to realize that they will require modular power solutions to integrate them into various subsystems.

Research by IHS shows that the power module market will be worth $8 billion by 2020 with annual growth rates of around eight percent. The thriving demand from consumer electronics sector, the shift to electric vehicles and hybrid electric vehicles, and the deployment of smart grid are just a few of the market drivers that will boost the IGBT market in the next five years, according to Research and Markets.

We are also excited with our recent project win with a new customer in China, which has mandated that a percentage of its vehicles be electric vehicles to curb carbon emissions. IMI is the partner of choice of the company that will supply the charging stations across China. We feel that this technology is very much ahead of all the other charging technologies, and we see it as something we'd eventually like to bring to the Philippines as the world moves steadily toward electric vehicles.

TELECOMMUNICATIONS

After the strong rollout of the fourth-generation, or 4G technology, to major cities in China in 2014, our telecom infrastructure programs had a set back, which contributed to IMI's challenges in 2015. However, the next-generation extended Long Term Evolution (LTE) is now being field tested, even as China is also reconfiguring its deployment of new cellular towers. These open up an opportunity for our key customers to have a bigger portion of that market.

BOARD OF DIRECTORS

JAIME AUGUSTO ZOBEL DE AYALA

Filipino, 56, 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 and Bank of the Philippine Islands; and vice chairman of Ayala Land Inc. and Manila Water Company Inc. He is also the chairman of Ayala Education Inc., Ayala Retirement Fund Holdings Inc., and Asiacom Philippines Inc.; co-chairman of Ayala Foundation Inc. and Ayala Group Club Inc.; director of Alabang Commercial Corporation, Ayala International Pte. Ltd., AC Energy Holdings Inc., LiveIt Investments Limited, AI North America, Inc., and AG Holdings Limited; chairman Emeritus of the Asia Business Council; chairman of Harvard Business School Asia-Pacific Advisory Board and World Wildlife Fund Philippine Advisory Council; and member of the Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, Endeavor Philippines and Singapore Management University. He was the Philippine Representative to the Asia-Pacific Economic Cooperation (APEC) Business Advisory Council until December 2015. In 2007, he received the Harvard Business School Alumni Achievement Award, the school's highest recognition. He was a recipient of the Presidential Medal of Merit in 2009 for enhancing the prestige and honor of the Philippines both at home and abroad. Subsequently, he was bestowed the Philippine Legion of Honor, with rank of Grand Commander, by the President of the Philippines in recognition of his outstanding public service. He graduated with bachelor of arts 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, 55, 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., Ayala International Holdings Limited, Accendo Commercial Corporation, Alabang Commercial Corporation, Automobile Central Enterprises, Inc., Ayala Automotive Holdings Corporation, Liontide Holdings, Inc., AC Energy Holdings Inc., and Hero Foundation, Inc.; co-chairman of Ayala Foundation Inc. and Ayala Group Club Inc.; vice chairman of Ceci Realty, Inc., Vesta Property Holdings, Inc., Aurora Properties, Inc., Columbus Holdings, Inc. Emerging City Holdings, Inc., Fort Bonifacio Development Corporation, and Bonifacio Land Corporation; director of LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., AC Infrastructure Holdings Corporation, Ayala Retirement Fund Holdings Inc., 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 Asia Philanthropy Circle; 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, National Museum, the foundation of the Roman Catholic Church and Asia Society. He graduated with bachelor of arts in Liberal Arts at Harvard College in 1982.

ARTHUR R. TAN

Filipino, 56, is a member of the Board of Directors of IMI since July 2001. He has been the president and chief executive officer of IMI since April 2002. Concurrently, he is a senior managing director of Ayala Corporation, the president and chairman of the Board of PSi Technologies Inc., president and CEO of Speedy-Tech Electronics Ltd. and vice chairman of Ayala Automotive Holdings Corporation. Prior to IMI, he was the Northeast Area Sales Manager and Acting Design Center Manager of American Microsystems Inc. (Massachusetts, USA), from 1994 to 1998, of which he became the managing director for Asia Pacific Region/Japan from 1998 to 2001. He graduated with bachelor of science in Electronics Communications Engineering from Mapua Institute of Technology in 1982 and attended post graduate programs at the University of Idaho, Singapore Institute of Management, International Institute for Management Development and Harvard Business School.


BOARD OF DIRECTORS


DELFIN L. LAZARO

Filipino, 69, has served as member of the Board of IMI since May 2000. He holds the following positions in publicly listed companies: director of Ayala Corporation, Ayala Land Inc., Manila Water Company Inc., and Globe Telecom Inc.; and independent director of Lafarge Republic, Inc. His other significant positions include: chairman of Philwater Holdings Company, Inc. and Atlas Fertilizer & Chemicals Inc.; chairman and president of A.C.S.T. Business Holdings, Inc.; vice chairman and president of Asiacom Philippines, Inc.; director of Ayala International Holdings, Ltd., Bestfull Holdings Limited, Probe Productions, Inc. and Empire Insurance Company; and trustee of Insular Life Assurance Co., Ltd. He earned his bachelor of science degree in Metallurgical Engineering at the University of the Philippines in 1967 and took his master in business administration (with Distinction) at Harvard Graduate School of Business in 1971.

DELFIN C. GONZALEZ JR.

Filipino, 66, joined the IMI board in July 2010 and became a member of the IMI's Finance and Audit and Risk Committees. He is currently the chairman of the Corporation's Finance Committee. He served as chief finance officer of Ayala Corporation, a publicly listed company, and was also a member of its Management Committee and Finance Committee from April 2010 to April 2015. He joined Ayala Corporation in late 2000, assigned as chief finance officer for its subsidiary, Globe Telecom Inc. until early 2010. Currently, he serves as director of AC Infrastructure Holdings Corp. and chairman of its Audit and Risk Committee, a managing director of AG Holdings Limited, and sits in the boards of various Ayala international companies. He is also a member of the Board of Trustees of De La Salle Santiago Zobel School. Mr. Gonzalez earned a degree in bachelor of science in Chemical Engineering from De La Salle College Manila in 1971 and a Master in Business Administrationat the Harvard Business School in 1975.

JOHN ERIC T. FRANCIA

Filipino, 44, is a director of IMI since July 2010. He holds the following positions in publicly listed companies: managing director of Ayala Corporation and director of Manila Water Co., Inc. He is the president and CEO of AC Energy Holdings Inc. and AC Infrastructure Holdings Corporation since 2011. He is also a member of the Board of Directors of the following companies within the Ayala Group: LiveIt Investments Ltd., Ayala Education Inc., Ayala Aviation Corporation, Northwind Power Development Corporation, North Luzon Renewable Energy Corporation, South Luzon Thermal Energy Corporation, GNPower Mariveles Coal Plant Ltd., GNPower Kauswagan Ltd. Company, GNPower Dinginin Ltd. Company, Monte Solar Energy Corporation, Quadriver Energy Corporation, AF Payments, Inc., Light Rail Manila Corporation, MCX Tollway, Inc. and HCM City Infrastructure Investment Joint Stock Company. From January 2009 to September 2014, Mr. Francia was head of Ayala's Corporate Strategy and Development Group, which is responsible for overseeing Ayala's portfolio strategy and new business development. Prior to joining Ayala, Mr. Francia was involved in the fields of management consulting, academe and media. He received his undergraduate degree in Humanities and Political Economy from the University of Asia & the Pacific, and graduated magna cum laude. He then completed his master degree in Management Studies at the University of Cambridge in the UK, graduating with First Class Honors.

RAFAEL MA. C. ROMUALDEZ

Filipino, 53, has been a director of IMI since May 1997. He is presently a director of Resins Inc., RI Chemical Corporation, Chemserve Incorporated and Claveria Tree Nursery, Inc. He is also the chairman of the Philippine Iron Construction and Marine Works, Inc., Pacific Resins, Inc., and MC Shipping Corp. He earned a degree in bachelor of arts in Mathematics from Boston College in 1986 and took master in business administration at the George Washington University in 1991.

BOARD OF DIRECTORS

JOSE IGNACIO A. CARLOS

Filipino, 46, 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 bachelor of science in Management from the Ateneo de Manila University in 1991 and finished a master in business administration at the Johnson Graduate School of Management Cornell University in 1999.

EDGAR O. CHUA

Filipino, 59, 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. Likewise, he oversees the Chemicals Businesses and Shared Services of Shell. He is currently on the advisory board of Mitsubishi Motors, Globe Telecommunication, Inc., a 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 held senior positions outside the Philippines 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 seminar and courses including the senior management course in INSEAD, France.

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 2000-2007. He finished a degree in Electronics Engineering Course at Kurame University in 1976.

ALELIE T. FUNCELL

Filipino, 60, 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 of 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 in 1994 to 1996, a very active Bay area Filipino organization. She received an award from the Filipina Women’s Network, as one of the 100 Most Influential Filipino Women in the United States in 2009. She finished a degree in Chemical Engineering at University of Sto. Tomas in 1977.

MANAGEMENT COMMITTEE

ARTHUR R. TAN

MARY ANN S. NATIVIDAD

JEROME S. TAN

GILLES BERNARD

MONINA C. MACAVINTA

MELITA R. TOMELDEN

OLAF GRESENS

LINARDO Z. LOPEZ

TIMOTHY PATTERSON

MANAGEMENT TEAM

TECHNOLOGY & INNOVATION GROUP

Philippe Marquet
Rafael Nestor V. Mantaring
Michael R. Hansson
Dominador P. Leonida III
Lucrecio B. Mendoza
Joseph M. Garfin

OPERATIONS GROUP

Philippines
Mario Bernardo N. Santos
Jawaharlal K. Milanes
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.
Reynaldo N. Torda
Jaime G. Sanchez
Anton P. Javier

SUPPORT GROUP

Finance
Jaime G. Sanchez
Anthony Raymond P. Rodriguez

Sales
David Chavez
Leong Wai Bun (Arthur)
Thibaut de Vaureix
Jeremy Cowx
Brenda S. Guiling

Supply Chain
Ling Miaw Jiz
Fraser Clydesdale
Zheng Xianlai (Peter)
Philippe Antunez
Joy A. Bondoc

Facilities
Geronimo B. Magsombol

ICT
Rosalyn O. Tesoro

Industrial Excellence
Pascal Aubois

FORWARD

SUSTAINABILITY REPORT

BEYOND SUSTAINABILITY:
HOPE ON THE ROAD AHEAD

"For businesses, the conversation on climate change has definitely shifted from mere sustainability to survival. IMI is among the companies that have galvanized around this challenge, as it moves toward an integrated external engagement."– Arthur R. Tan

In 2014, Integrated Micro-Electronics Inc. (IMI) formed an extended cross-functional Sustainability team to bring the sustainability programs a notch higher.

We have formulated the following sustainability policy: "We strive to provide innovative 'EMS plus' solutions as we pursue sustainable growth, empower our people, and protect the planet."

We are moving beyond the term "sustainability," as we come to understand that the health of our planet—and humanity's future—is fundamental in everything we do, and everything we are. This new era of sustainability has seen us partnering with our customers to create responsive and innovative technology that meets both their needs and those of the planet.

Arthur Tan, IMI president and chief executive officer, described the path ahead. "We provide not only the profitability and the growth on a financial basis," he said. "More important, the people involved, the communities we serve, and the products we build are intertwined in making the world a better place."

In 2015, we fully implemented our sustainability programs. These cover the following: strategic planning and innovation; good governance; business excellence; risk management; people development; corporate social responsibility (CSR); environment, health, and safety (EHS); and green manufacturing and supply chain.

SHARED VALUE INITIATIVES

Increasingly, IMI sees challenges as opportunities for business improvement and significance. Ultimately, we believe that the ability to profit and sustain growth drives innovations that improve the public good, make progress on climate change, and enhance lives and livelihoods.

We manufacture safety electronics and pollution reduction systems in cars, such as automotive camera and airbag control, anti-lock brake sensor, and selective catalytic reduction (SCR). We also produce LED lighting, theft prevention systems (security control systems for houses and buildings), medical diagnostic devices (for wireless monitoring of vital signs), and dosimeters (for measuring exposure to ionizing radiation). We assemble power modules for energy management (for automotive, industrial, consumer, and renewable energy applications), and telecom infrastructure that enable the Internet of Things (IoT).

IMI Philippines, in particular, manufactures automotive cameras that help prevent road accidents. These sensing cameras are used for parking, lane departure warning, road signage recognition, and collision avoidance. We do image flexible printed circuit board assembly and complete product assembly and test.

We have also co-developed cameras with our customers. Further, we have designed and developed product test systems.

For industrial electronics, IMI Philippines does complete product assembly of security and access control devices for houses, offices, and enterprises to prevent theft.

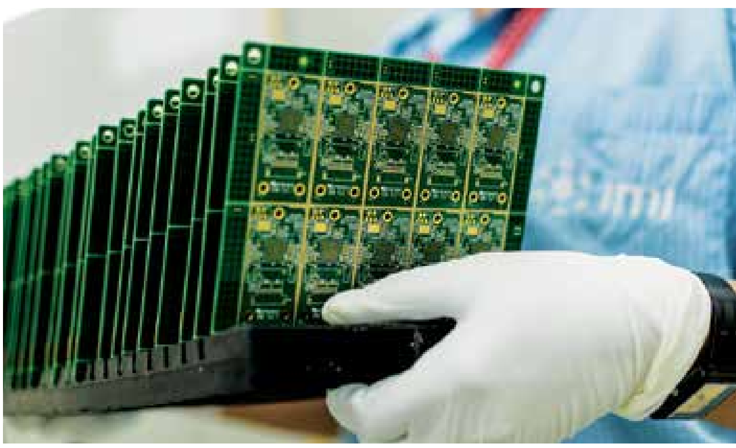
Now more than ever, we are in the best position to raise our game from one of mere global success to one of great significance.

Tan said: “Our vision is to be part of a global structure of products and services that will actually enhance and future-proof people’s lives.”

To explore new terrain, IMI Philippines started an innovation summit in October 2015, aimed at identifying shared value businesses—those that could significantly impact IMI’s top and bottom lines and at the same time address social and environmental issues. These could be new businesses in the realm of EMS or its outfield and new business models.

Technical and engineering experts from the country’s top universities and government and private institutions shared the latest trends and research with our managers and engineers.

Teams were formed according to their focus areas—medical, automotive, public transportation, aquaculture, and agriculture. The teams are now working on the business plans, and are validating their technical solutions and market data through interviews with experts and potential users.



GOOD GOVERNANCE

We remain committed to good governance in the conduct of our global business. Our Board of Directors comprises 11 members, all of whom are elected by the stockholders. Three of the directors are independent. There are five committees ensuring good governance: Executive, Compensation, Audit and Risk, Finance, and Nomination.

Our management committee is primarily accountable to the board for the operations of IMI. They concretize the company's targets and formulate and execute the strategies to achieve these.

The Audit and Risk Committee oversees the performance of external and internal auditors. Sycip Gorres Velayo & Co. (SGV) is the external auditor of IMI, who ensures the integrity of financial statements.

The Internal Audit (IA) team helps monitor the risks, controls, and financial reporting issues through continuous review of the effectiveness of the organization's risk management controls and corporate governance processes. IA is independent of management and reports to the Board through the Audit and Risk Committee.

The compliance officer ensures adherence to the provisions and requirements of IMI's Corporate Governance Manual.

We adhere to a Code of Conduct in line with the electronics industry's Code of Conduct. We operate in full compliance with the laws, rules, and regulations of the countries in which we operate, and recognize international standards to advance social and environmental responsibility.

BUSINESS EXCELLENCE

Driving excellence. The IMI Business Excellence Program (IBEX) is a holistic and comprehensive program that drives sustainable excellent organizational performance.

Launched in 2012 by Corporate Quality and Reliability (CQR) division, IBEX believes "process improvement must result in customer satisfaction." Marites Gonzales, continuous improvement manager, said, "The IMI Business Excellence Model is not only the structure for strategy development and business reporting, but also for yearly assessment of all organizational units at all levels—leadership effectiveness, process management, customer satisfaction, team effectiveness, and, ultimately, improved competitive positioning and business results."

The IBEX Award is the highest level of internal recognition given to a Customer-Focused Team (CFT) for its exemplary organizational performance. Given yearly to the outstanding CFT, the award focuses on results, including customer satisfaction. It is not an award for product or service quality, but for a quality management system driven by continuous improvement in the delivery of products or services, and thus satisfy customers' needs and requirements. The levels of recognition for the IBEX Award are: Bronze Award for Commitment Level, Silver Award for Proficiency Level, and Gold Award for Mastery Level.

The program has been running for three years in IMI Philippines, with the bronze award being the best record thus far. Gonzales said, their unit is looking to educate and orient the CFTs toward the silver and gold awards. "The good thing about the IBEX Award is that the CFTs are competing with a model, rather than with one another," she noted. "The other good thing is that it enjoys the full support of the CFTs—also possibly because the award itself comes in the form of incentives. And when you look at it, IBEX covers practically everything vital in a business—people engagement, business results, and sustainability."

Leadership awards. IMI won the 2015 Agora Award for Outstanding Achievement in Export Marketing for its admirable qualities of versatility, innovativeness, and ingenuity in export marketing. Given by the Philippine Marketing Association, the Agora Award is regarded as the standard-bearer for marketing excellence in the Philippines. We also received three trophies as a finalist in three Asia CEO Award categories—the Global Filipino Executive of the Year for Arthur R. Tan, Executive Leadership Team of the Year for IMI Management Committee, and ASEAN Company of the Year. The Asia CEO Award recognizes extraordinary leaders or companies operating in the country or region.

IMI Bulgaria had been honored with the True Leaders Award for the year 2014 by ICAP Bulgaria, a regional business information provider in south Eastern Europe. ICAP Bulgaria granted the awards on December 8, 2015 in Sofia to companies that are among the 300 most profitable companies for 2014, that had an increase in their personnel (2014 vs. 2013), with high creditworthiness (ICAP Credit Score from B2 to A1), and are leaders in their sector.

RISK MANAGEMENT

We believe that risk management does not only mean responding effectively to negative uncertainties or threats, but also recognizing their opportunities. This means we must always improve on how we deal with risks, and create value for the organization in dealing with risks.

Our Enterprise Risk Management (ERM) structure ensures that each one of us plays a key role regardless of where he/she is at.

- Our Board of Directors is responsible for reviewing and approving IMI's risk management policies and strategies. It sets clear directions on the management of critical risks, and reviews and evaluates the overall effectiveness of IMI's risk management process.
- The Audit and Risk Committee provides oversight of risk management activities in credit, market, liquidity, operational, legal, and other risks.
- The Risk Management Executive Committee, comprising the president and CEO and Management Committee members, has the ultimate responsibility for ERM priorities, including strategies, risk appetite and tolerances, policies, and resource allocation.
- The Chief Risk Officer (CRO) is the ultimate champion of risk management at IMI.
- Internal Audit monitors compliance with IMI's Risk Management policies as approved by the Board, and provides reasonable assurance on compliance with such policies.

In 2015, we adopted a generic approach described in ISO 31000 to ensure that we are guided by risk management principles based on international standards. Regular reporting on the identified significant risks was conducted in the same year.

PEOPLE DEVELOPMENT

Our Human Resources (HR) division has strengthened its approach in engaging the workforce. While attracting and retaining top talents, HR also sees that as a global company, IMI must enhance its initiatives toward culture-building and assimilation, competency development, and talent sharing to achieve meaningful employee engagement.

Culture Journey. We take our Culture Journey seriously to pursue programs that would instill our core values of integrity, customer focus, concern for others, and excellence in all employees across IMI sites.

Culture Journey includes the Values Integration Program, which was conducted in 2014 and 2015 to make employees better understand what the values mean and how these can be lived.

Last year, too, we rolled out "Yan ang Pinoy version 2.0", where employees from IMI Philippines' diverse departments share

their stories of how employees exemplify the company's core values. This sharing takes place every Monday at the flag ceremony.

The IMI Customer Service Plus Program (ICS+) and Talk IMI Campaign were cascaded in the Philippines and Singapore. Both were aimed at standardizing business communication practices as part of branding.

IMI University. Since 2012, the IMI University (IMI U) has been providing employees technical, leadership training, and development programs based on assessed gaps or business needs. These are carried out through the assistance from internal subject matter experts (SMEs) and external partners such as schools and training institutions in the Philippines and overseas.

The number of certified SMEs has risen to 79, representing a wide range of expertise. In 2015, the university ran 161 training programs that engaged 49 percent (or 2,441) of the total Philippine workforce. Some 47 employees completed courses on Supply Management Chain in partnership with the Malayan Colleges of Laguna, while four new behavioral leadership and technical training programs, including technical forums with suppliers, were offered during the year.

In partnership with the University of Batangas, IMI U also granted scholarships to four qualified employees who started attending classes in October 2015 and expect to graduate in October 2016.

In cooperation with Semiconductor & Electronics Industries in the Philippines Inc. (SEIPI), of which IMI is a member, and the government's Technical Education and Skills Development Authority (TESDA), IMI prepared the training regulations and assessment tools for electronics production front-of-line and back-end for use in the National Certification Program (NC II) for electronics.

IMI Perks. IMI realizes that a happy workforce makes for an inspired team working toward common goals. Last year, in a bid to introduce both fun and practicality, IMI Perks was launched. The program entitles all IMI employees to discounts and promotional packages in selected restaurants, hotels, and entertainment facilities. HR is looking to partner with more family-oriented establishments in 2016 to expand the coverage of IMI Perks, which is also being implemented in IMI Bulgaria as an IMI Privilege.

Employee engagement. In 2015, Towers Watson, a leading global advisory, broking, and solutions company, conducted an Employee Engagement Survey for the Ayala group. IMI's overall engagement score was 93 percent—besting not only the Ayala group and the Philippine National Norms but also the Global High Performance Norms.

The Culture Journey contributed to the high favorability score of 91 percent on values, which is significantly above compared to Philippine and global norms. As a result of the talent management and development programs, Learning and Development was also rated positively in the survey, with a favorability score of 85 percent—again, above Philippine and global norms.

Finally, as a tangible measure of the work-life balance IMI tries to create, the company received a favorability score of 91 percent and 82 percent in terms of working relationships and stress, and balance and work load, respectively. Both numbers are higher than comparable Philippine and global norms.

CORPORATE SOCIAL RESPONSIBILITY

We have always sought to strengthen our relationships with internal and external communities by helping them build sustainable strategies for dealing with social concerns.

Livelihood workshops. Employees are having difficulty living on salaries alone, especially when hard times or emergencies

hit. We regularly sponsor livelihood workshops to teach our employees alternative skills that can put food on the table—or, in this case, be the food on the table. In July last year, we held a livelihood program on food processing conducted by Marcela Alonza, a TESDA-accredited trainer. In this session, 28 participants learned how to make *empanada*, *siopao*, *tocino*, and *embotido*. These skills are for keeps, which can even possibly spark the entrepreneurial spirit in some participants.

1,210 smiles at De la Paz. More than 1,000 residents of Barangay De la Paz in Biñan, Laguna, availed of free medical, dental and optical consultations, and diagnostic laboratory tests in July. Free haircuts were also given, as were interactive learning sessions on waste management and segregation and emergency preparedness. *Barangay* children were also treated to a free breakfast and given school supplies by the Ayala Cooperative. The 167 volunteers organized by HR for this annual community outreach activity were from the Ayala Cooperative, Asian Hospital, Pascual Dental, Abezamis Optical, and Justine Barbara Salon.

San Pablo enterprise. In early 2015, IMI partnered with ChildFund Foundation, an international organization, and Yakap sa Kaunlaran ng Bata Inc. (YKBI), a nongovernment organization of parents' associations in Southern Luzon, to gather women of the San Pablo Parents' Association who would form a group of sewers. The collaboration aimed to provide the women with a sustainable livelihood. Besides giving them sewing machines, IMI also secured the participation of Krizia ladies wear, one of the country's popular ladies' fashion brands, to ensure the project's sustainability as mentor and quality coach. Training and learning sessions on quality and basic finance management were held. After the brand's quality standards were met, the community started as subcontractor of Krizia—contract sewing ready-to-wear items. "When a team shares the same vision, that is the start of something good," says Queen Alandy Dy, part-owner of Krizia. "But when we collaborate with the best teams, dreams become a reality. Not only did we teach the community to fish, we assisted them in marketing the fish."

Tsaa Laya for financial freedom. IMI is also helping Tsaa Laya—a social enterprise that produces a uniquely Filipino premium tea collection sourced from local and organic herbs, fruits, and spices. Some IMI departments had sourced their Christmas 2015 giveaways from Tsaa Laya, which operates out of Calauan, Laguna. It is a resettlement site for victims of Ondoy, which, before Tsaa Laya came in, was practically a ghost town with the bleakest

livelihood prospects. In 2014, Jamir Ocampo, founder of Tsaa Laya and the company that produces it, Kapwa Greens, teamed up with the community's caretakers, the Don Bosco Fathers and the Ayala Foundation, after securing funding from the British Council, and transformed three housing units into a tea plant. Tsaa Laya has since not just been producing first-rate teas; it is also brewing hope and innovation as it transforms a housing project into fertile ground where people could thrive. IMI is currently helping Tsaa Laya market its teas in select hotels and restaurants. A boot camp on social entrepreneurship for Laguna communities in partnership with relevant institutions is also on the drawing board for 2016.

ENVIRONMENT, HEALTH, AND SAFETY

To minimize the negative impact of its operations on its people and the environment, we have been enforcing an integrated Environment, Health, and Safety (EHS) program. It focuses on energy management, water conservation, health and safety management, and chemical and waste management.

Energy management. In 2015, IMI Laguna's energy management program obtained energy savings of 466,984.3 kWh by:

- Efficiency improvement of compress dry air (CDA) through high pressure element replacement and air intake temperature reduction
- Optimization of cooling tower usage by setting the frequency of cooling tower pumps motor from 50 Hz to 40 Hz during nighttime
- Reduced operation of chiller 2G from 24 hours to 12 hours serving process cooling water
- Stop operation of 1-10TR PACU at floor C during C-shift operation
- Adjustment of chilled water set point of chiller 2K from 48ºF to 50ºF during C-shift operation
- Interlinking of exhaust blower 4K to 6K and demand versus capacity management for chiller and PACU

We continue to use energy-efficient lighting system. Last year, more than 370 LED tube lights replaced mercurial fluorescent lighting, cutting back power consumption by 50 percent—or energy savings of 6,670 kWh from lighting power consumption.

Water management. Our water management program in IMI Laguna generated savings of 2.44 percent, or 17,383.48 m3, in 2015 through:

- Optimization of the deionized (DI) water system by decreasing the frequency of regeneration and increasing the life cycle of dissipation factor (DF) resin
- Reuse of treated water for gardening and domestic applications
- Rain water capture

Training. We conducted health and safety-awareness training seminars, such as those for basic first aid, life support, chemical handling, material handling, electro-mechanical safety, radiation safety for X-ray operators, forklift safety training, emergency preparedness and response training, and fire and earthquake drills. "These activities are anchored on IMI University's initiatives," said EHS manager, Jerry Jaquilmo.

Safety. In 2015, IMI Laguna Site 1 achieved 3,674,112 safe man-hours; IMI Laguna Sites 2 and 3 recorded 9,654,528 safe man-hours; and IMI Cavite, 279,552 safe man-hours. Three sites also attained a zero disabling-accident record.

Compliance. We conduct periodic conformance audits and safety inspections to check compliance to procedures, standards, and legal requirements. A regular management review assesses our overall EHS performance against EHS objectives and targets.

We are fully compliant with the Philippine government's Department of Environment and Natural Resources (DENR) Toxic Substances, Hazardous and Nuclear Wastes Control Act 6969 and the Ecological Solid Waste Management Act 9003. We judiciously enforce the 3R (Reduce-Reuse-Recycle) program in the disposition of its chemicals for manufacturing processes, waste segregation, and on-site and off-site waste composting. In 2015, IMI Laguna attained 98 percent recycling recovery in diverting recoverable waste from the municipal landfill.

In the same year, IMI Laguna turned over its hazardous recyclable wastes (e.g., used oil, solvent chemical, and used lead battery)—a total of 34,560 KG—to the ABS-CBN Foundation's Bantay Kalikasan. The proceeds (₱99,224) were donated to Tahanang Walang Hagdanan Inc.

Tree Planting and Growing. It is always a good thing when even the simplest of actions evolves and acquires greater consequence. Since 2011, the HR and Plant Engineering-EHS divisions, in cooperation with the provincial and community natural resources offices, have been conducting regular tree-planting activities. In 2015, they undertook tree planting with the intent to monitor and develop an inventory of the 800 trees they planted in Barangay Canlalay, Biñan, Laguna. “We have intensified our gardening and composting activities in our Laguna site,” said Jaquilmo. “In 2013, we started using canteen waste, and by 2015 we were also using fallen leaves. From 2014 to 2015 we generated 6.1 tons of composted waste.”

GREEN MANUFACTURING

Our green manufacturing initiatives are fully aligned with sustainability. We are committed to reduce or avoid the use of chemicals and other materials that pose hazards to the environment and our people. These chemicals are identified in order to manage safe handling, storage, use, recycling, reuse and disposal. No violation has been reported for 2015.

“Managing greenhouse gases in manufacturing has also become an important issue for companies due to the growing concerns over climate change,” said Israel Lualhati, manager and global chemist and CSR audit head. On the heels of the historic Paris climate conference (COP21) in December 2015, in which 195 countries adopted the first-ever universal, legally binding global climate deal, we acknowledge the need to take action against climate change and we are actively working to implement initiatives with the goal of reducing greenhouse gases.

Our commitment to protect the environment has been awarded with the ISO 14001 recertification. Moreover, the revisions in the ISO 14001 introduced major changes to better address current and future environmental risks. We are reviewing our management system in order to align with the new versions across all manufacturing sites.

We also fully adhere to all applicable laws, regulations, and other customer requirements on the prohibition or restriction of specific substances in products and in manufacturing. In 2015, compliance request increased by 10 percent, material declaration by 7 percent, and conflict minerals reporting by 5 percent versus 2014.

Also in 2015, the Supplier Code of Conduct was approved and fully executed to strengthen communication, promote understanding, and implement IMI sustainability requirements across its supply chain in support of manufacturing needs.

"We at IMI are setting the bar higher for manufacturing," Lualhati said with pride.

GREEN SUPPLY CHAIN

In support of our green manufacturing initiatives, the Material Management Group (MMG) has required suppliers to do their own checking of raw material composition for them to be compliant with RoHS (Restriction of Hazardous Substances) and material declaration. Suppliers are required to submit material declaration and certificate of compliance (COC) to IMI's chemist.

To further support these initiatives, the enterprise-wide computer system—SAP enterprise resource planning—has been customized to specifically identify the materials that are supposed to be RoHS compliant. Materials marked with a code starting with "R" are RoHS compliant. "This is known to manufacturing people, inspectors, and suppliers," said Cecille Puertollano, senior supplier quality engineer. "This means those that are RoHS compliant should not be mixed with those that are not."

In 2015, IMI became more aggressive in requiring all material suppliers to do due diligence when they buy 3TG metals (tin, tantalum, tungsten, and gold). We encourage our suppliers to source 3TG metals from Conflict-free Smelter Initiative (CFSI) and Compliant Smelter lists developed by Electronic Industry Citizenship Coalition (EICC) and the Global e-Sustainability Initiative (GeSI). Suppliers are required to submit their corresponding CMRT (Conflict Minerals Reporting Template) to the IMI chemist.

Sustainability also means minimizing waste down the supply chain. A high percentage of rejections in the manufacturing line translates to higher energy usage and higher material scrappage. In line with this, MMG is developing a database of suppliers who contribute to this kind of waste.

Since 2013, the Supplier Quality Engineering (SQE) group under MMG has been conducting supplier trainings. "Suppliers who have been attending IMI trainings have reported an improvement in quality," Puertollano noted. "Previously their defective parts per million (DPPM) was as high as five to six digits. Last year, some suppliers reported three- or two-digit DPPMs."

The Sustainability program is supported by an information infrastructure, a global shared folder, maintained by the SQE group that helps save time, money, and effort. This shared folder is where all records pertaining to supplier qualification are shared across the enterprise. Once qualified, suppliers in one site can be tapped by other sites.

In November, IMI's SQE and Sustainability team conducted a sustainability assessment orientation seminar among key local and foreign suppliers on the IMI's Supplier Code of Conduct. After the seminar, five local suppliers were audited by IMI's Sustainability audit team.

Clearly, the global discussion on sustainability is no longer about the direction and the ultimate destination. Instead, it is now all about the best way to achieve the goals and the best pace at which it can be done.

GRI INDICATORS

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

INDICATOR	2015	2014	REMARKS
ENVIRONMENT			
EN 3: Direct energy consumption by primary energy source	154.5 MT	426.2 MT	Fuel consumption of all shuttle buses, generator set, included in 2014 data, in 3 sites
EN 4: Indirect - - Scope 2. energy consumption by primary source (CO_2 emission)	30,400.6 MT	33,051.5 MT	Meralco-sourced energy
EN 4: Indirect - - Scope 3. energy consumption by primary source (CO_2 emission)	2,068 MT	1,719.8 MT	Diesel consumption of shuttle buses/ company cars
EN 4: Indirect - - Scope 2. energy consumption by primary source	50,398,915 kWh	54,793,566.4 kWh	Decrease due to lower facility utilization
EN 5: Energy saved due to conservation and efficiency improvements	473,644.3 kWh	1,805,012.8 kWh	
EN 10: Percentage and total volume of water recycled and reused	2.4% reduction or 17,383.5 m3	1.39% reduction or 10,473.2 m3	Increase in percentage and total volume due to reuse of treated waste water and rainwater capture
EN 16 : Total indirect greenhouse gas emissions by weight	30,400.6 MT	33,051.5 MT	Decrease due to low facility utilization and decline in indirect power consumption
EN 22: Total weight of waste by type and disposal method	**Total Generated Waste: 1,111.15 MT** 1. Common residual waste: 22.6 MT 2. Hazardous waste: 170.9 MT 3. Recyclable waste: 940.6 MT	**Total Generated Waste: 1,226 MT** 1. Common residual waste: 25.6 MT 2. Hazardous waste: 111.7 MT 3. Recyclable waste: 1,089 MT	Increase in recycling and recovery of waste by 98%, thus reducing the volume of waste in municipal landfill. This is attributable to site composting
EN 28: Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations	None	None	No fine
Initiatives to mitigate environmental impacts of products and services	Energy Management, Water Management, Waste Management, Chemical and Hazardous Substance Process Management	Energy Management, Water Management, Waste Management, Chemical and Hazardous Substance Process Management	
HUMAN RIGHTS			
HR 4: Total number of incidents of discrimination and actions taken	None	None	No case
HR 6: Operations identified as having significant risk for incidents of child labor, and measures taken to contribute the elimination of child labor	None	None	
HR 7: Operations identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of forced or compulsory labor	Nones	None	

INDICATOR	2015	2014	REMARKS
LABOR			
LA 1: Total workforce by employment type, gender, and age	**Total Workforce: 4,953** **Employment Type:** Permanent (proby/perma): 4,872 Contractual: 81 **Gender:** Male: 1,059 Female: 3,894 **Age:** over 50 to 82 31 to 50: 3,252 under 30: 1,619	**Total Workforce: 5,452** **Employment Type:** Permanent (proby/perma): 4,453 Contractual: 999 **Gender:** Male: 1,095 Female: 4,357 **Age:** over 50 to 72 31 to 50: 3,157 under 30: 2,223	
LA 2: Total number and rate of employee turnover by age group and gender	**Employee Turnover: 422** **Turnover by age group:** over 50: 1 (0%) 31 to 50: 271 (5%) 30 below: 150 (3%) **Gender:** Male: 74 (1%) Female: 348 (7%)	**Employee Turnover: 560** **Turnover by age group:** over 50: 4 (0%) 31 to 50: 244 (5%) 30 below: 312 (6%) **Gender:** Male: 140 (3%) Female: 420 (8%)	
LA 3: Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations	1. **Life Insurance** – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment	1. **Life Insurance** – 24x Monthly Basic Salary; double indemnity for Accidental Death & Dismemberment	
	2. **Medical Insurance** – group hospitalization with inner limits (depending on rank) per illness per confinement	2. **Medical Insurance** – group hospitalization with inner limits (depending on rank) per illness per confinement	
	3. **Outpatient Benefit** – consultation and laboratory exams within annual benefit limits (depending on rank)	3. **Outpatient Benefit** – consultation and laboratory exams within annual benefit limits (depending on rank)	
	4. **Annual Physical Exam** – routine medical examination every year	4. **Annual Physical Exam** – routine medical examination every year	
	5. **Vacation Leave** – 12 days per year; paid leave starts after 1 year of continuous service. Unused VL with max of 4 (varies by tenure) shall be converted to cash for supervisors and up.	5. **Vacation Leave** – 12 days per year; paid leave starts after 1 year of continuous service. Unused VL with max of 4 (varies by tenure) shall be converted to cash for supervisors and up.	
	6. **Sick Leave** – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.	6. **Sick Leave** – 12 days per year; paid leave starts after 6 months of continuous service. All unused sick leave credits will be converted at the end of each year.	
	7. **Emergency Leave** – 3 days per year; paid leave starts after 1 year of continuous service	7. **Emergency Leave** – 3 days per year; paid leave starts after 1 year of continuous service	
	8. **Computer Loan** – up to max of ₱50,000 at zero interest for supervisors & up	8. **Computer Loan** – up to max of ₱50,000 at zero interest for supervisors & up	
	9. **Emergency Loan** – up to max of ₱5,000 at zero interest	9. **Emergency Loan** – up to max of ₱5,000 at zero interest	
	10. **Multipurpose Loan** – eligibility starts after 5 years of continuous service for supervisors and engineers	10. **Multipurpose Loan** – eligibility starts after 5 years of continuous service for supervisors and engineers	

INDICATOR	2015	2014	REMARKS
LA 8: Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases	• **Goiter Awareness Week** - Intensive awareness program through posters, e-mail blasts, and lecture • **Expanded Immunization Program for employees and dependents:** - Expanded Immunization Program for employees' pediatric dependents to cover for vaccinations not given by the Department of Health (DOH) - Influenza vaccines for seasonal flu - Cervical cancer vaccine extended to women above 45 years old • **Heart Month/Hypertension Program** - Weekly e-mail blasts to relay information to all IMI employees about taking care of their heart and ways to avoid heart diseases • **Blood Donation 3-part Series** - Employees donated blood (1st part - Feb 20, July 10, and Dec. 4); donated some of the blood packs to St. Luke's • **Special Health Bulletins on MERS CoV** - Information dissemination through e-mail and posters • **Random Drug Testing (2 were conducted for the year)** - Employees were randomly tested • **Summer Health Bulletin** - Employees were informed through a series of bulletin posts and e-mail blasts on safety during the summer season • **Medical Outreach Program** - Volunteers from IMI, in cooperation with clinic nurses and doctors, offered help to a community by giving free hair cuts, seminars, and medicines • **Pneumonia Vaccination** - Employees and dependents were given large discounts if they availed themselves of the vaccination • **Breast Cancer Awareness Month** - Breast cancer awareness through e-mail blasts and posters • **Annual Physical Exam** - Conducted last December, employees were physically examined on site • **Ayala Fun Run** - Employees who participated in this event were treated to Zumba, fitness advise, dietary plans, and dancing	• **Immunization Program for employees and dependents:** - Expanded Immunization Program for employees' pediatric dependents to cover for vaccinations not given by the DOH - Influenza vaccines for seasonal flu - Cervical cancer vaccine extended to women above 45 years old • **Breast Cancer Month** -Intensive awareness program through posters, e-mail blasts, and lecture • **Blood Donation** - 25% higher turnout of donors during the rainy season in preparation for dengue outbreak with demands exceeding availability of blood (>30% of donated blood) at St. Luke's Blood Bank • **Leptospirosis Program** - Special Health Bulletin on Leptospirosis during Typhoon Maring/Habagat (Sept. 23, 2013) - Prophylactic medicines (Doxycycline capsules) given to employees exposed to flood waters. • **Outreach Program** - Free medical, dental, and optical consultation, and treatment and medicines in Barangay Timbao in July 2013 - Family Health Day with free consultations, ECG and medicines, with lectures on adult and pediatric immunization. • **Fitness Program** - Program that offers Aerobics, Zumba, and Basic Belly Dancing to all employees who want to be physically fit and healthy. There are about 133 employees who actively joined the program that lasted for 3 months	
LA 10 : Average hours of training per year per employee by employee category	**Training Man-hours Per Position:** Managers: 2,666 hours Engineers & Supervisors: 8,902 hours Rank & File: 3,010 hours Operators: 3,428 hours Others: 1,512 hours	**Training Man-hours Per Position:** Managers: 2,454 hours Engineers & Supervisors: 14,030 hours Rank & File: 4,080.5 hours Operators: 3,921 hours Others: 3,909 hours	IMI University started to promote career enhancement in 2014. Employees who already attended the training were not required to attend similar trainings, hence the drop in man-hours training
LA 13: Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity	**BOD Total Number of Members:** 11 Gender: Male, 10; Female, 1 Age Group: over 50, 9; 30 to 50, 2	**BOD Total Number of Members:** 11 Gender: Male, 10; Female, 1 Age Group: over 50, 9; 30 to 50, 2	

INDICATOR	2015	2014	REMARKS
ECONOMIC			
EC 1: Economic value generated and distributed, included revenues, operating costs, employee compensation, donations and other community investments, and payments to capital providers and government	• **Economic Value (in million pesos):** Revenues: 10,243 Net Income: 537 • **Distribution:** Suppliers/contractors: 9,198 Employees (salaries and benefits): 1,424 Government (taxes): 87 Stockholders (dividends): 337 Charitable contributions: 0.5 **Total Distribution: 11,046** • **Investments:** Equity Investment: 5,911 Capex: 424 **Total Investments: 6,335**	• **Economic Value (in million pesos):** Revenues: 9,100 Net Loss: (590) • **Distribution:** Suppliers/contractors: 8,575 Employees (salaries and benefits): 1,401 Government (taxes): 67 Stockholders (dividends): 141 Charitable contributions: 1.6 **Total Distribution: 10,186** • **Investments** Equity Investment: 5,552 Capex: 208 **Total Investments: 5,760**	Revenues increased due to strong demand from automotive and industrial sectors, compensating the decline in the storage device business
EC 3: Coverage of the organization's defined benefit plan obligations	**Tenure** / **Separation Benefit** 5<10: 25% of monthly basic pay per yr of service 10<15: 50% of monthly basic pay per yr of service 15<20: 75% of monthly basic pay per yr of service 20 yrs and above: 100% of monthly basic pay per yr of service	**Tenure** / **Separation Benefit** 5<10: 25% of monthly basic pay per yr of service 10<15: 50% of monthly basic pay per yr of service 15<20: 75% of monthly basic pay per yr of service 20 yrs and above: 100% of monthly basic pay per yr of service	
SOCIAL			
SO 8: Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with laws and regulations	None	None	No fine
PRODUCT RESPONSIBILITY			
PR 5 - Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	**Overall CSAT Rating:** Key Accounts: 4.12 Non-Key Accounts: 4.59	**Overall CSAT Rating** Key Accounts: 4.04 Non-Key Accounts: 4.30	
PR 6 – Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Adherence to EICC Code of Conduct - which is fair advertising	Our policy on advertising or production of marketing collaterals states that IMI adheres to truth in advertising and production of marketing collaterals, and that it does not engage in any unethical practices.	
PR 7: Total number of incidents of noncompliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	None	None	

FORWARD

FINANCIAL PERFORMANCE

MANAGEMENT DISCUSSION AND ANALYSIS

Review of 2015 Operations versus 2014

Our consolidated revenues of $814.4 million decreased by 4 percent year-over-year due mainly to a weak euro and the downturn in the computing and telecommunications segments. Robust demand in automotive and industrial business segments and improved capacity, efficiency, and quality in our Mexico facility helped cushion the softness in revenues. Excluding the impact of changes in currency exchange, total revenues would be up by 2 percent.

Our focus segments—automotive, industrial, telecommunications and medical—represented 79 percent of total sales for the year. Automotive revenue contribution rose from 38 percent a year ago to 43 percent in 2015.

During the year, our business pipeline further progressed with 207 newly awarded projects from either new customers or new divisions/models from existing customers, up from 155 in 2014.

Net sales to our 10 largest customers totaled 53 percent. No single customer accounted for 15 percent or more of our net sales.

Performance of Geographic Locations

Our China operations recorded $279.3 million in revenues in 2015, a 14 percent decline from the previous year as the 4G telecommunications network rollout in China reaches its projected volume and the consumer electronics segment experiences a slowdown. China accounted for 34 percent of our total revenues.

Our Europe and Mexico operations posted combined revenues of $267.4 million, flat from last year. The persistent weakness in the euro resulted in a 3 percent revenue decline for our Bulgaria and Czech Republic factories. In Mexico, revenues increased by 9 percent due to higher demand for plastic injection and assembly. Overall revenues for our Europe and Mexico plants would have increased by 15 percent if not for the weak euro. Europe accounted for 25 percent of our total revenues while Mexico contributed 8 percent.

In the Philippines, total revenues including PSiTech amounted to $267.3 million. Our electronics manufacturing services operations delivered $225.3 million in revenues, a 10 percent growth from $204.9 million in 2014 due to a strong demand for automotive cameras and security and access control devices. PSiTech posted $42.1 million in revenues, down 6 percent year-over-year due to low volume hit rate of certain models.

Performance of Industry Segments

The impact of currency fluctuations during the year presented a challenge in our automotive business but the strong volume growth resulted to an increase of 9 percent year-on-year to $349.9 million. In particular, our ADAS programs such as automotive camera recorded a 66 percent increase in revenues in 2015 driven by volume production ramp-up which surged 203 percent. Excluding currency impact, the revenue increase would be 22 percent compared to last year. Automotive segment represented 43 percent of our total revenue.

Following the significant growth from installation of 4G network infrastructure in China's major cities in 2014, revenues from our telecommunications decreased 14 percent to $151.3 million. The telecom industry remains second to the top contributors accounting for 19 percent of our total business.

Industrial segment continued to grow by 12 percent year over year to $116.7 million from sustained demand in security and access control devices. We achieved accelerated growth as we maintained our rank as number one supplier in Asia for one of our top customers in the segment. During the year, we also celebrated 20 years of business partnership with one of our industrial Japanese customers. Industrial electronics represented 14 percent of our total revenue.

The slower economic activity in China affected our computer peripherals and consumer electronics segments including white goods and lighting. These markets are no longer our key focus as they inherently have shorter product life cycles.

Net Income

Significant improvement in our profitability was evident at operating income level with growth of 28 percent from last year to $37.9 million and operating margin increasing by 114 basis points. However, unfavorable foreign currency exchange and weakness in China's economy led to a net income of $28.8 million that is almost flat from $29.1 million in 2014. Our strategy to shift our portfolio mix toward higher margin segments and our internal efficiencies improved our net profit margin by 10 basis points to 3.5 percent.

Capital Expenditure

For the full year 2015, we spent a total of $35.1 million capital expenditures, 41 percent higher than the $24.9 million spent in 2014. The bulk of capital expenditures were spent in facility investments including acquisition of property, plant and equipment and additions in construction in progress.

For 2016, we allocated $40.8 million for capital expenditures to be partially funded by the remaining balance of the proceeds from the follow-on offering, cash from operations and debt. This will support the completion of ongoing expansion programs particularly in Mexico, China, and the Philippines. The main components of these expenditures are new buildings and extensions, purchase of equipment for new projects, various machineries restorations and strategic investments.

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

FOR THE YEAR ENDED 31 DECEMBER 2015

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; and (f) the preparation of year-end report of the Committee for approval of the Board and to be included in the annual report.

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

- An independent director chairs the Committee;
- We had four (4) regular meetings during the year with all the members present;
- We met separately with the external auditors in an executive session during the year;
- We have reviewed and discussed the quarterly unaudited consolidated financial statements and the annual audited consolidated financial statements of Integrated Micro-Electronics, Inc. and subsidiaries ("IMI") with management, the internal auditors, as well as SGV & Co. as the independent auditor of IMI, and that these activities were performed in the following context:
  - Management has the primary responsibility for the financial statements and the financial reporting process; and
  - SGV & Co. is responsible for expressing an opinion on the conformity of IMI's audited consolidated financial statements with Philippine Financial Reporting Standards;
- We have discussed and approved the overall scope and plans for the respective audit reviews of the internal auditors and SGV & Co.;
- We have discussed the audit results of SGV & Co. and their assessment of the overall quality of IMI's financial reporting process, mainly on financial statements and compliance to financial reporting standards, and their management letter of comments on internal control weaknesses observed during the audit;
- We have discussed the audit results and reports of the internal auditors and their follow-ups on the implementation of audit recommendations, ensuring that management is taking appropriate corrective actions in a timely manner, including addressing internal control and compliance issues;
- We have reviewed and discussed the adequacy of IMI'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, 2015 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 2016 based on the review of their performance and qualifications.

04 February 2016

EDGAR O. CHUA	**RAFAEL MA. C. ROMUALDEZ**	**DELFIN C. GONZALEZ, JR.**
Chairman	Member	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, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

JAIME AUGUSTO ZOBEL DE AYALA
Chairman, Board of Directors

ARTHUR R. TAN
President 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, 2015 and 2014, 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, 2015, 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, 2015 and 2014 and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 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. 08-001998-15-2015,
June 26, 2015, valid until June 25, 2018
PTR No. 5321627, January 4, 2016, Makati City

February 9, 2016

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	**$101,532,409**	$117,625,491
Receivables - net (Note 6)	**169,291,581**	195,122,068
Inventories (Note 7)	**88,255,209**	91,389,469
Other current assets (Note 8)	**10,935,700**	11,871,721
Total Current Assets	**370,014,899**	416,008,749
Noncurrent Assets		
Property, plant and equipment - net (Note 9)	**93,101,971**	81,687,930
Goodwill (Note 10)	**46,876,213**	46,876,213
Intangible assets (Note 11)	**2,398,461**	4,002,745
Available-for-sale financial assets (Notes 12 and 30)	**583,510**	522,361
Deferred tax assets (Note 23)	**1,527,537**	1,731,656
Other noncurrent assets (Note 13)	**2,032,068**	1,877,753
Total Noncurrent Assets	**146,519,760**	136,698,658
	$516,534,659	$552,707,407

LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 14)	**$152,817,225**	$182,087,233
Trust receipts and loans payable (Note 15)	**42,297,356**	52,094,452
Current portion of long-term debt (Note 16)	**42,953,009**	2,800,640
Income tax payable	**2,533,995**	3,651,669
Total Current Liabilities	**240,601,585**	240,633,994
Noncurrent Liabilities		
Noncurrent portion of:		
Long-term debt (Notes 16 and 30)	**34,648,756**	57,298,750
Advances from customers (Note 17)	**1,123,343**	1,442,853
Obligation under finance lease (Notes 28 and 30)	**–**	2,257,583
Net retirement liabilities (Note 25)	**5,791,612**	4,711,551
Deferred tax liabilities (Note 23)	**1,358,303**	1,434,399
Accrued rent (Note 28)	**454,878**	480,695
Other noncurrent liabilities	**118,418**	181,917
Total Noncurrent Liabilities	**43,495,310**	67,807,748
Total Liabilities	**284,096,895**	308,441,742

(Forward)

	December 31	
	2015	2014
EQUITY		
Equity Attributable to Equity Holders of the Parent Company		
Capital stock - common (Note 18)	**$34,933,728**	$34,876,616
Capital stock - preferred (Note 18)	**–**	26,601,155
Subscribed capital stock (Note 18)	**1,907,584**	1,797,638
Additional paid-in capital (Note 18)	**82,527,542**	80,480,981
Subscriptions receivable (Note 18)	**(13,131,734)**	(12,906,784)
Retained earnings:		
Appropriated for expansion (Note 18)	**–**	20,660,981
Unappropriated (Note 18)	**149,437,014**	109,481,277
Treasury stock (Note 18)	**(1,012,586)**	(1,012,586)
Reserve for fluctuation on available-for-sale financial assets	**251,030**	184,119
Cumulative translation adjustment	**(16,544,691)**	(10,709,346)
Other comprehensive loss	**(6,295,673)**	(5,573,564)
Other reserves	**170,714**	170,714
	232,242,928	244,051,201
Equity Attributable to Non-controlling Interests in Consolidated Subsidiaries	**194,836**	214,464
Total Equity	**232,437,764**	244,265,665
	$516,534,659	$552,707,407

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2015	2014	2013
REVENUES			
Sale of goods	**$750,514,863**	$746,158,727	$670,772,413
Sale of services	**63,849,241**	98,315,342	74,259,450
	814,364,104	844,474,069	745,031,863
COST OF SALES (Note 19)			
Cost of goods sold	**663,659,753**	664,495,465	607,557,635
Cost of services	**56,672,880**	86,045,599	69,545,328
	720,332,633	750,541,064	677,102,963
GROSS PROFIT	**94,031,471**	93,933,005	67,928,900
OPERATING EXPENSES (Note 20)	**(56,098,525)**	(64,232,479)	(55,794,676)
OTHERS - Net			
Interest expense and bank charges (Note 22)	**(2,716,385)**	(2,814,803)	(2,879,941)
Foreign exchange gains (losses) - net	**(2,419,021)**	36,401	1,430,757
Interest income (Note 5)	**658,003**	196,271	218,577
Gain on sale and retirement of property, plant and equipment - net (Note 9)	**165,776**	14,506,946	125,172
Impairment loss on goodwill (Note 10)	**–**	(7,478,980)	–
Rental income (Note 28)	**–**	909,628	634,273
Gains on insurance claims (Note 7)	**–**	334,695	–
Miscellaneous income (loss) - net	**1,054,201**	(199,393)	2,060,257
	(3,257,426)	5,490,765	1,589,095
INCOME BEFORE INCOME TAX	**34,675,520**	35,191,291	13,723,319
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 23)			
Current	**5,731,204**	8,927,759	5,408,640
Deferred	**174,204**	(2,727,851)	(881,359)
	5,905,408	6,199,908	4,527,281
NET INCOME	**$28,770,112**	$28,991,383	$9,196,038
Net Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$28,789,740**	$29,117,024	$10,472,995
Non-controlling interests	**(19,628)**	(125,641)	(1,276,957)
	$28,770,112	$28,991,383	$9,196,038
Earnings Per Share (Note 24)			
Basic and diluted	**$0.015**	$0.017	$0.006

See accompanying Notes to Consolidated Financial Statements.

INTEGRATED MICRO-ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2015	2014	2013
NET INCOME FOR THE YEAR	**$28,770,112**	$28,991,383	$9,196,038
OTHER COMPREHENSIVE INCOME (LOSS)			
Other comprehensive income (loss) to be reclassified into profit or loss in subsequent periods:			
Exchange differences arising from translation of foreign operations	**(5,835,345)**	(9,284,204)	878,397
Fair value changes on available-for-sale financial assets	**66,911**	(5,482)	(8,293)
	(5,768,434)	(9,289,686)	870,104
Other comprehensive income (loss) not to be reclassified into profit or loss in subsequent periods:			
Remeasurement gains (losses) on defined benefit plans (Note 25)	**(722,109)**	3,384,509	(4,339,837)
	(6,490,543)	(5,905,177)	(3,469,733)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**$22,279,569**	$23,086,206	$5,726,305
Total Comprehensive Income (Loss) Attributable to:			
Equity holders of the Parent Company	**$22,299,197**	$23,211,847	$7,003,262
Non-controlling interests	**(19,628)**	(125,641)	(1,276,957)
	$22,279,569	$23,086,206	$5,726,305

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, 2015, 2014 AND 2013

	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 (Note 18)	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, 2015	$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
Issued shares during the year (Note 18)	57,112	–	(57,112)	–	–	–	–	–	–	–	–	–	–	–
Redemption of preferred shares (Note 18)	–	(26,601,155)	–	–	–	–	(1,834,644)	–	–	–	–	–	–	(28,435,799)
Subscriptions during the year (Notes 18 and 26)	–	–	222,366	913,925	(1,136,291)	–	–	–	–	–	–	–	–	–
Collections on subscriptions (Note 18)	–	–	–	–	460,634	–	–	–	–	–	–	–	–	460,634
Forfeitures during the year (Note 18)	–	–	(55,308)	(395,399)	450,707	–	–	–	–	–	–	–	–	–
Cost of share-based payments (Note 26)	–	–	–	1,528,035	–	–	–	–	–	–	–	–	–	1,528,035
Reversal of appropriated retained earnings (Note 18)	–	–	–	–	–	(20,660,981)	20,660,981	–	–	–	–	–	–	–
Reversal of cash dividends declared in advance (Note 18)							207,625							207,625
Cash dividends (Note 18)	–	–	–	–	–	–	(7,867,965)	–	–	–	–	–	–	(7,867,965)
	34,933,728	–	1,907,584	82,527,542	(13,131,734)	–	120,647,274	(1,012,586)	184,119	(10,709,346)	(5,573,564)	170,714	214,464	210,158,195
Net income (loss)	–	–	–	–	–	–	28,789,740	–	–	–	–	–	(19,628)	28,770,112
Other comprehensive income (loss)	–	–	–	–	–	–	–	–	66,911	(5,835,345)	(722,109)	–	–	(6,490,543)
Total comprehensive income (loss)	–	–	–	–	–	–	28,789,740	–	66,911	(5,835,345)	(722,109)	–	(19,628)	22,279,569
Balances at December 31, 2015	$34,933,728	$–	$1,907,584	$82,527,542	($13,131,734)	$–	$149,437,014	($1,012,586)	$251,030	($16,544,691)	($6,295,673)	$170,714	$194,836	$232,437,764

	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 (Note 18)	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

	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 (Note 18)	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

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**$34,675,520**	$35,191,291	$13,723,319
Adjustments for:			
Depreciation of property, plant and equipment (Note 9)	**21,016,819**	20,859,849	21,070,099
Interest expense (Note 22)	**2,479,770**	2,739,455	2,743,244
Amortization of intangible assets (Note 11)	**2,231,851**	2,120,434	1,789,772
Cost of share-based payments (Note 26)	**1,528,035**	165,006	14,852
Provision for (reversal of):			
Allowance for inventory obsolescence (Notes 7 and 21)	**1,591,170**	3,737,353	2,123,145
Doubtful accounts (Notes 6 and 21)	**438,344**	(899,304)	(103,124)
Allowance for decline in value of inventories (Notes 7 and 21)	**100,000**	84,267	(107,131)
Impairment on goodwill (Note 10)	**–**	7,478,980	–
Impairment on available-for-sale financial assets (Note 12)	**–**	1,753,589	–
Impairment on property, plant and equipment	**–**	–	4,991
Interest income (Note 5)	**(658,003)**	(196,271)	(218,577)
Unrealized foreign exchange losses (gains) - net	**412,921**	385,512	(878,010)
Loss/(gain) on derivative transactions (Note 31)	**(225,162)**	35,096	479,062
Gain on sale and retirement of property, plant and equipment (Note 9)	**(165,776)**	(14,506,946)	(125,172)
Write-off of available-for-sale financial assets (Note 12)	**–**	1,350,368	–
Operating income before working capital changes	**63,425,489**	60,298,679	40,516,470
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Receivables	**17,997,699**	(21,105,686)	(26,275,532)
Inventories	**362,890**	(3,036,540)	(12,648,183)
Other current assets	**1,068,255**	4,748,248	(9,194,057)
Increase (decrease) in:			
Accounts payable and accrued expenses	**(26,235,224)**	7,529,186	30,429,189
Retirement liabilities	**654,925**	1,398,735	395,838
Advances from customers	**(301,952)**	(299,476)	(288,689)
Other noncurrent liabilities	**(63,499)**	(1,638)	96,946
Accrued rent	**(25,817)**	37,668	(142,381)
Net cash generated from operations	**56,882,766**	49,569,176	22,889,601
Income tax paid	**(6,848,877)**	(6,925,623)	(5,670,217)
Interest paid	**(2,420,048)**	(2,761,850)	(3,376,928)
Interest received	**667,492**	288,192	522,183
Net cash provided by operating activities	**48,281,333**	40,169,895	14,364,639

(Forward)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Property, plant and equipment (Notes 9 and 33)	**($35,120,182)**	($24,213,138)	($17,819,927)
Intangible assets (Note 11)	**(659,794)**	(1,287,611)	(776,158)
Available-for-sale financial assets	**–**	–	(350,369)
Proceeds from sale and retirement of property, plant and equipment	**672,955**	19,193,171	2,868,782
Decrease (increase) in other noncurrent assets	**(154,315)**	705,533	(841,810)
Net cash used in investing activities	**(35,261,336)**	(5,602,045)	(16,919,482)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of loans	**50,465,041**	24,299,485	6,134,943
Payments of:			
Loans payable	**(38,053,777)**	(16,301,258)	(4,468,943)
Long-term debt	**(2,397,400)**	(2,903,578)	(2,656,400)
Redemption of preferred shares	**(28,435,799)**	–	–
Dividends paid to equity holders of the Parent Company (Notes 14 and 18)	**(8,559,041)**	(3,099,043)	(2,661,415)
Decrease in obligations under finance lease	**(2,257,583)**	(1,452,792)	(523,260)
Settlement of derivatives (Note 31)	**169,612**	(75,702)	(438,456)
Collections of subscriptions receivable (Note 18)	**460,634**	328,621	207,888
Proceeds from shares issuance (Notes 5 and 18)	**–**	35,921,140	–
Transaction costs on shares issuance (Note 18)	**–**	(1,502,981)	–
Cash paid on acquisition of non-controlling interests (Note 2)	**–**	(638,622)	(124,875)
Acquisition of treasury shares	**–**	(1)	–
Net cash provided by (used in) financing activities	**(28,608,313)**	34,575,269	(4,530,518)
EFFECT OF CHANGES IN FOREIGN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS	**(504,766)**	(560,227)	(68,422)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(16,093,082)**	68,582,892	(7,153,783)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**117,625,491**	49,042,599	56,196,382
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	**$101,532,409**	$117,625,491	$49,042,599

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **Corporate Information**

Integrated Micro-Electronics, Inc. (the "Parent Company"), a stock corporation organized and registered under the laws of the Republic of the Philippines on August 8, 1980, has four 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 50.64% 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 49.01% 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 assemblies (PCBA), flip chip assemblies, electronic sub-assemblies, box build products and enclosure systems. It also provides the following solutions: product design and development, test and systems development, advanced manufacturing engineering, and power module assembly, among others. It serves diversified markets that include those in the automotive, industrial, medical, storage device, and consumer electronics industries.

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, telecommunications, industrial equipment, and medical device sectors, among others.

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

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"). IMI EU/MX Subsidiaries design and produce printed circuit board assemblies (PCBAs), engage in plastic injection, supply assembled and tested systems and sub-systems which include drive and control elements for automotive equipment, household appliances, and industrial equipment, among others. 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 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 advanced manufacturing process development, new product introduction (NPI), 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. PSi provides comprehensive package design, assembly and test services for power semiconductors used in various electronic devices.

The consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015 were authorized for issue by the Parent Company's Board of Directors (BOD) on February 9, 2016.

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 2015	2014	2013	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)	**100.00%**	100.00%	70.00%	Bulgaria	BGN
IMI CZ	**100.00%**	100.00%	100.00%	Czech Republic	Czech Koruna (CZK)
IMI MX [e]	**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
IMI USA	**100.00%**	100.00%	100.00%	USA	USD
IMI Japan	**100.00%**	100.00%	100.00%	Japan	USD
PSi	**100.00%**	100.00%	83.25%	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 wherein a Deed of Assignment was executed between the Parent Company and STPH. STPH is a dormant company.
[d] Cooperatief is 99% owned by Monarch and 1% owned by IMI Singapore.
[e] On March 1, 2014, IMI MX changed its functional currency from MXN to USD.

Acquisition of Non-controlling Interests
Acquisition of additional interest in PSi
On January 9, 2013, pursuant to the second amendment to 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"), the parties received the exercise notice which is one of the conditions for the completion of the sale and purchase of the Option Shares.

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 ownership 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 follows:

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

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, 2015 and 2014 and for each of the three years in the period ended December 31, 2015.

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 financial statement 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 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
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial years, except for the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2015. The nature and the impact of each new standards and amendments are described below:

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

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

PFRS 2, *Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
- A performance condition must contain a service condition.
- A performance target must be met while the counterparty is rendering service.
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group.
- A performance condition may be a market or non-market condition.
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted). This is consistent with the Group's current accounting policy and, thus, this amendment did not impact the Group's accounting policy.

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'; and
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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

Annual Improvements to PFRSs (2011-2013 cycle)
The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after July 1, 2014 and did not have a material impact on the Group. These include:

PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3; and
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

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

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

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

Effective January 1, 2016

PAS 1, *Presentation of Financial Statements - Disclosure Initiative* (Amendments)
The amendments to PAS 1 clarify, rather than significantly change, existing PAS 1 requirements. The amendments clarify:
- The materiality requirements in PAS 1.
- That specific line items in the statements of income and comprehensive income and the statement of financial position may be disaggregated.
- That entities have flexibility as to the order in which they present the notes to financial statements.
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statements of income and comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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

PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants* (Amendments)
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments)
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 28, *Investment Entities: Applying the Consolidation Exception*
The amendments address issues that have arisen in applying the investment entities exception under PFRS 10. The amendments to PFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to PFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to PAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

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

Annual Improvements to PFRSs (2012-2014 cycle)
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016. These include:

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

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

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.

Effective January 1, 2018

PFRS 9, *Financial Instruments*
In July 2014, the IASB issued the final version of PFRS 9. The new standard reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

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 adoption will also have an effect on the Group's determination of the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

Interpretation with deferred effectivity

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Securities and Exchange Commission and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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, 2018 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.

IFRS 16, *Leases*
On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces IAS 17, the current lease standard, and related Interpretations.

Under the new lease standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the asset and related liabilities for most of leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Lease with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual period beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either the full retrospective approach or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 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, 2015 and 2014 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 nonhedge derivatives.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

1. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
2. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
3. The hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether an embedded derivative is required to be separated from the host contract when the Group first becomes 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 nonderivative financial assets with fixed or determinable payments that are not quoted in an active market.

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

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

This accounting policy relates primarily to the Group's cash and cash equivalents, receivables and miscellaneous deposits reported under "Other noncurrent assets".

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 and common equity shares.

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

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

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 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.

Preferred shares may be issued with various rights. In determining whether a preference share is financial liability or equity instrument, the issuer is required to assess the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preference share redeemable only at the holder's option is an equity instrument because the issuer does not have a present or future obligation to transfer financial assets to the shareholder.

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 dividends 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 and CZK. 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 Income Tax Holiday (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 (CPF) scheme in Singapore, a defined contribution scheme. Contributions to the CPF scheme 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, a defined contribution scheme. 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. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

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. Contributions to this defined contribution scheme are recognized as expense in the period in which the related service is performed.

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

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 payable 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, Bulgaria, Czech, 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 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
The Group has entered into contract leasing out various office spaces. The Group has determined that it retains all significant risks and rewards of ownership of these properties as the Group considered among others the length of the lease term as compared with the estimated useful life of the assets.

The Group's operating lease contracts are accounted for as noncancellable operating leases. In determining whether a lease contract is cancellable or not, the Group considers among others, the significance of the penalty, including the economic consequence to the lessee.

Operating lease commitments - Group as lessee
The Group has entered into contracts with various lease contracts for office spaces and land. The Group has determined that all significant risks and rewards of ownership of these properties are retained by the lessor.

Finance lease commitments - Group as lessee
The Group has entered into various finance lease agreements related to machineries and production equipment. They have determined, based on the evaluation of the terms and conditions of the arrangement, that they bear substantially all the risks and rewards incidental to ownership of the said machineries and equipment 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 does 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 impairment assessment. 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.

Evaluation of impairment of nonfinancial assets
The Group reviews property, plant and equipment, goodwill and intangible assets for impairment of value. Impairment for goodwill is assessed at least annually. This includes considering certain indications of impairment such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. The Group estimates the recoverable amount as the higher of the fair value less costs to sell and value in use. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that may affect property, plant and equipment, and intangible assets. For goodwill, this requires an estimation of the recoverable amount which is the fair value less costs to sell or value in use of the cash-generating units to which the goodwill is allocated. Estimating a value in use amount requires management to make an estimate of the expected future cash flows for the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of cash flows. Further details on property, plant and equipment, goodwill and intangible assets are disclosed in Notes 9, 10 and 11, respectively.

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:

	2015	2014
Cash on hand	**$34,756**	$82,142
Cash in banks	**67,159,479**	63,504,005
Short-term investments	**34,338,174**	54,039,344
	$101,532,409	$117,625,491

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 include proceeds from the public offering with a balance amounting to $3.07 million in 2015 and $35.24 million in 2014.

Interest income earned from cash in banks and short-term investments amounted to $0.66 million in 2015, $0.20 million in 2014 and $0.22 million in 2013.

6. **Receivables - net**

This account consists of:

	2015	2014
Trade	**$165,831,122**	$192,038,296
Nontrade	**1,737,293**	1,598,225
Receivable from employees	**735,464**	588,787
Due from related parties (Note 29)	**196,341**	180,788
Others	**2,486,775**	2,892,412
	170,986,995	197,298,508
Less allowance for doubtful accounts	**1,695,414**	2,176,440
	$169,291,581	$195,122,068

Trade
Trade receivables arise from manufacturing and other related services for electronic products and components and have credit terms averaging 45 to 90 days from invoice date.

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 averaging 45 days from invoice date.

Others
Others include 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 $1.70 million and $2.18 million as of December 31, 2015 and 2014, 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 upon conversion to common stock of the customer.

Movements in the allowance for doubtful accounts are as follows:

	December 31, 2015				
	Trade	**Nontrade**	**Receivable from Employees**	**Others**	**Total**
At beginning of year	**$1,020,047**	**$72,075**	**$17,895**	**$1,066,423**	**$2,176,440**
Provisions (reversals)	**442,247**	**(4,312)**	**409**	**–**	**438,344**
Accounts written-off	**(918,494)**	**(1)**	**(866)**	**(9)**	**(919,370)**
At end of year	**$543,800**	**$67,762**	**$17,438**	**$1,066,414**	**$1,695,414**

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

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:

	2015	2014
Raw materials and supplies	**$64,279,114**	$67,570,479
Work-in-process	**15,814,870**	13,252,772
Finished goods	**17,696,686**	18,462,078
	97,790,670	99,285,329
Less allowance for:		
Inventory obsolescence	**9,351,194**	7,811,593
Decline in value of inventories	**184,267**	84,267
	9,535,461	7,895,860
	$88,255,209	$91,389,469

The cost of the inventories carried at NRV amounted to $30.17 million and $28.37 million as of December 31, 2015 and 2014, respectively. The amount of inventories recognized as an expense under "Cost of goods sold and services" account amounted to $546.90 million in 2015, $547.25 million in 2014 and $498.22 million in 2013 (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 statement of income in 2014.

Movements in the allowance for inventory obsolescence are as follows:

	2015	2014
At beginning of year	**$7,811,593**	$5,151,060
Provisions (Note 21)	**1,591,170**	3,737,353
Write-offs	**(51,569)**	(1,076,820)
At end of year	**$9,351,194**	$7,811,593

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

	2015	2014
At beginning of year	**$84,267**	$228,388
Provisions (Note 21)	**100,000**	84,267
Write-offs	–	(228,388)
At end of year	**$184,267**	$84,267

The Group recognized gains from sale of materials amounting to $0.08 million in 2015 and 2014, and $0.07 million in 2013. Gains from sale of materials are included under "Miscellaneous income (loss) - net" account in the consolidated statement of income.

8. Other Current Assets

This account consists of:

	2015	2014
Tax credits	**$4,845,950**	$7,122,658
Advances to suppliers	**3,368,484**	750,335
Prepayments	**1,944,718**	2,861,079
Input taxes	**710,431**	1,136,322
Derivative assets (Notes 30 and 31)	**66,117**	–
Others	**–**	1,327
	$10,935,700	$11,871,721

Tax credits include amounts withheld from income tax payments of the Parent Company and PSi and value added tax refund claims of IMI MX and IMI BG.

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

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

9. Property, Plant and Equipment - net

Movements in this account are as follows:

	2015						
	Buildings and Improvements	**Machineries and Facilities Equipment**	**Furniture, Fixtures and Office Equipment**	**Transportation Equipment**	**Tools and Instruments**	**Construction in Progress**	**Total**
Cost							
At beginning of year	**$67,855,568**	**$107,813,052**	**$17,072,026**	**$1,348,489**	**$4,033,096**	**$3,166,512**	**$201,288,743**
Additions	**5,114,407**	**15,796,577**	**1,688,760**	**357,988**	**2,055,485**	**10,106,965**	**35,120,182**
Disposals	**(153,057)**	**(14,112,822)**	**(608,948)**	**(188,637)**	**(582,097)**	**(101,934)**	**(15,747,495)**
Retirement	**–**	**–**	**(32,678)**	**–**	**–**	**–**	**(32,678)**
Transfers	**157,786**	**3,152,302**	**9,275**	**15,140**	**(16,608)**	**(3,317,895)**	**–**
Foreign currency exchange difference	**(861,158)**	**(3,751,104)**	**(227,789)**	**(64,654)**	**–**	**(344,517)**	**(5,249,222)**
At end of year	**72,113,546**	**108,898,005**	**17,900,646**	**1,468,326**	**5,489,876**	**9,509,131**	**215,379,530**
Accumulated depreciation							
At beginning of year	**36,259,558**	**65,122,088**	**12,865,245**	**296,404**	**3,325,306**	**–**	**117,868,601**
Depreciation	**3,668,656**	**15,241,827**	**1,542,250**	**471,850**	**92,236**	**–**	**21,016,819**
Disposals	**(149,789)**	**(13,758,091)**	**(606,493)**	**(183,395)**	**(568,871)**	**–**	**(15,266,639)**
Retirement	**–**	**–**	**(6,354)**	**–**	**–**	**–**	**(6,354)**
Foreign currency exchange difference	**(253,775)**	**(2,604,780)**	**(162,303)**	**(46,222)**	**–**	**–**	**(3,067,080)**
At end of year	**39,524,650**	**64,001,044**	**13,632,345**	**538,637**	**2,848,671**	**–**	**120,545,347**
Accumulated impairment losses							
At beginning and end of year	**736,565**	**983,421**	**12,226**	**–**	**–**	**–**	**1,732,212**
Net book value	**$31,852,331**	**$43,913,540**	**$4,256,075**	**$929,689**	**$2,641,205**	**$9,509,131**	**$93,101,971**

	2014						
	Buildings and Improvements	Machineries and Facilities Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Tools and Instruments	Construction in Progress	Total
Cost							
At beginning of year	$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)
At end of year	67,855,568	107,813,052	17,072,026	1,348,489	4,033,096	3,166,512	201,288,743
Accumulated depreciation							
At beginning of year	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)
At end of year	36,259,558	65,122,088	12,865,245	296,404	3,325,306	–	117,868,601
Accumulated impairment losses							
At beginning and end of year	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

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 for 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 $0.17 million in 2015, $0.18 million in 2014 and $0.13 million in 2013.

As of December 31, 2015 and 2014, the cost of fully depreciated property, plant and equipment still being used by the Group amounted to $161.79 million and $154.98 million, respectively.

The carrying values of equipment under finance lease amounted to nil and $4.03 million as of December 31, 2015 and 2014, respectively.

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

	2015	2014	2013
Cost of goods sold and services (Note 19)	**$18,570,445**	$18,332,968	$18,698,523
Operating expenses (Note 20)	**2,446,374**	2,526,881	2,371,576
	$21,016,819	$20,859,849	$21,070,099

10. **Goodwill**

As of December 31, 2015 and 2014, goodwill acquired through business combinations had been allocated to five individual CGUs as follows:

STEL Group	$45,128,024
IMI USA	656,610
IMI CZ	650,413
Parent Company	441,166
	$46,876,213

As mentioned in Note 4, 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. The assessment resulted to an impairment loss for the remaining balance of the goodwill amounting $7.48 million in 2014.

STEL Group, IMI USA, IMI CZ and PSi
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:

	2015	2014
STEL Group	**13.01%**	10.18%
IMI USA	**10.51%**	8.47%
IMI CZ	**8.79%**	10.50%
PSi	**–**	11.07%

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 2015, 2014 and 2013. For PSi, the assessment resulted to an impairment loss for the remaining balance of the goodwill amounting to $7.48 million in 2014.

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 acquisition 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 2015, 2014 and 2013.

11. Intangible Assets

Movements in this account are as follows:

	December 31, 2015			
	Customer Relationships	**Unpatented Technology**	**Computer Software**	**Total**
Cost				
At beginning of year	**$19,666,617**	**$100,000**	**$4,854,715**	**$24,621,332**
Additions	**–**	**–**	**659,794**	**659,794**
Foreign currency exchange difference	**–**	**–**	**(130,327)**	**(130,327)**
At end of year	**19,666,617**	**100,000**	**5,384,182**	**25,150,799**
Accumulated amortization				
At beginning of year	**17,523,854**	**100,000**	**2,994,733**	**20,618,587**
Amortization	**1,353,323**	**–**	**878,528**	**2,231,851**
Foreign currency exchange difference	**–**	**–**	**(98,100)**	**(98,100)**
At end of year	**18,877,177**	**100,000**	**3,775,161**	**22,752,338**
Net book value	**$789,440**	**$–**	**$1,609,021**	**$2,398,461**

	December 31, 2014			
	Customer Relationships	Unpatented Technology	Computer Software	Total
Cost				
At beginning of year	$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)
At end of year	19,666,617	100,000	4,854,715	24,621,332
Accumulated amortization				
At beginning of year	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)
At end of year	17,523,854	100,000	2,994,733	20,618,587
Net book value	$2,142,763	$–	$1,859,982	$4,002,745

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, 2015 and 2014.

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

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:

	2015	2014	2013
Cost of goods sold and services (Note 19)	**$15,604**	$6,182	$11,290
Operating expenses (Note 20)	**2,216,247**	2,114,252	1,778,482
	$2,231,851	$2,120,434	$1,789,772

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

This account consists of:

	2015	2014
Investment securities	**$1,753,589**	$1,753,589
Club shares	**583,510**	522,361
	2,337,099	2,275,950
Less allowance for impairment loss on AFS financial assets	**1,753,589**	1,753,589
	$583,510	$522,361

As of December 31, 2015 and 2014, the balance of investment securities pertains to Class A common stock of a customer (see Note 6). This investment was provided with full allowance in 2014 due to the investee company's financial difficulties.

13. **Other Noncurrent Assets**

This account consists of:

	2015	2014
Miscellaneous deposits	**$1,897,070**	$1,705,650
Others	**134,998**	172,103
	$2,032,068	$1,877,753

Miscellaneous deposits include electric and water meter deposits.

14. **Accounts Payable and Accrued Expenses**

This account consists of:

	2015	2014
Trade payables	**$103,563,112**	$119,390,018
Accrued compensation and benefits	**23,263,280**	24,691,621
Accrued expenses	**15,734,289**	25,222,419
Nontrade payables	**5,121,760**	6,347,988
Taxes payable	**1,366,363**	1,502,367
Employee-related contributions	**580,374**	645,131
Customers' deposits	**572,997**	304,625
Advances from customers (Note 17)	**552,086**	817,971
Accrued interest payable	**509,027**	449,305
Derivative liabilities (Note 30)	**10,567**	–
Due to related parties (Note 29)	**4,681**	33,715
Dividends payable	**–**	898,700
Current portion of obligation under finance lease (Note 28)	**–**	853,164
Others	**1,538,689**	930,209
	$152,817,225	$182,087,233

Trade Payables
Trade payables are noninterest-bearing and are normally settled on 30 to 90-day average terms.

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

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

Nontrade Payables
This account consists of obligations related to outsourced manpower, logistics and freight forwarders, professional and service fees and other nontrade 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.

Others
This account consists of unreleased checks and consignment payables of the Parent Company for the materials received from its customers.

15. Trust Receipts and Loans Payable

This account consists of borrowings of the following entities:

	2015	2014
Parent Company	**$25,000,000**	$29,000,000
STEL	**8,000,000**	13,500,000
PSi	**9,297,356**	9,594,452
	$42,297,356	$52,094,452

Parent Company
As of December 31, 2015 and 2014, the Parent Company has short-term loans aggregating to $25.0 million and $29.0 million, respectively. The short-term loans have maturities ranging from 30 to 180 days, and fixed annual interest rates ranging from 1.03% to 1.50% in 2015, from 1.75% to 2.20% in 2014 and from 1.90% to 2.40% in 2013.

The Parent Company incurred interest expense on its short-term loans amounting to $0.46 million in 2015, $0.64 million in 2014 and $0.62 million in 2013 (see Note 22).

STEL
The loans of STEL are clean loans from existing revolving credit facilities with a Singaporean bank and bear annual interest rate of 1.73% in 2015, from 1.93% to 2.38% in 2014 and from 2.30% to 2.39% in 2013 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 $0.16 million in 2015, $0.17 million in 2014 and $0.15 million in 2013 (see Note 22).

PSi
PSi has short-term loans from a local bank amounting to $9.20 million as of December 31, 2015 and 2014, respectively, and trust receipts payable amounting to $0.10 million and $0.39 million as of December 31, 2015 and 2014, 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 of 2.03% to 2.82% in 2015, from 2.23% to 2.53% in 2014 and from 2.16% to 2.57% in 2013. This credit facility is renewable annually, and the current term is until May 2016.

The undrawn credit facility amounted to $0.70 million and $0.41 million as of December 31, 2015 and 2014, respectively.

PSi incurred interest expense on its short-term loans and trust receipts payable amounting to $0.24 million in 2015, $0.23 million in 2014 and $0.28 million in 2013 (see Note 22).

16. Long-Term Debt

This account consists of borrowings of the following entities:

	2015	2014
Parent Company	**$65,494,000**	$46,091,500
Cooperatief	**8,980,407**	12,442,999
IMI BG	**659,494**	974,864
IMI CZ	**2,467,864**	590,027
	77,601,765	60,099,390
Less current portion:		
Parent Company	**40,000,000**	–
Cooperatief	**2,177,400**	2,428,200
IMI BG	**219,831**	243,716
IMI CZ	**555,778**	128,724
	42,953,009	2,800,640
Noncurrent portion	**$34,648,756**	$57,298,750

Parent Company
On August 12, 2015, the Parent Company obtained a $20 million 5-year term loan from a local bank payable as the end of the loan term subject to a fixed interest rate per annum equal to the 5-year Dollar Benchmark rate plus a spread of 5 bps or the rate of 2.8%, whichever is higher. Interests are payable quarterly in arrears on each interest payment date.

On February 29, 2012, the Parent Company obtained a €5.00 million ($5.49 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.

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%. As of December 31, 2015, the loan was reclassified to current liability.

The Parent Company incurred interest expense on its long-term loans amounting to $0.98 million in 2015 and $0.81 million in 2014 and 2013 (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, 2015 and 2014, 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 annual interest rate of 1.60% plus 1.50%. Cooperatief had already paid €2.00 million ($2.19 million) in 2015 and €2.00 million ($2.58 million) in 2014.

Below is the amortization schedule:

Due Dates	In EUR	In USD
2016	€2,000,000	$2,177,400
2017	2,000,000	2,177,400
2018	4,248,743	4,625,607
	€8,248,743	$8,980,407

Cooperatief incurred interest expense on its long-term debt amounting to $0.32 million in 2015, $0.47 million in 2014 and $0.55 million in 2013 (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.

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 $1.35 million.

IMI BG incurred interest expense amounting to $0.02 million in 2015 and $0.18 million in 2014 (see Note 22).

IMI CZ
On August 14, 2015, IMI CZ obtained a new term loan facility from Citibank amounting to €2.00 million that was used to settle intercompany loans. The principal shall be paid in 60 regular monthly installments and bears interest of 3-month EURIBOR plus 1.20% but is not to exceed 15% per annum.

In 2013, IMI CZ obtained a long-term debt from Citibank that relates to a term loan facility for the purchase of its new SMT machine. The debt bears annual 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 2015, 2014 and 2013 (see Note 22).

17. Advances from Customers

Advances from customers consist of advances from customers of PSi and the Parent Company.

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, if any, the residual cash advances, less any amount applied to pay the fees as detailed in the SSA.

Advances from customers of the Parent Company, represents advance payments made by customers for goods and services.

As of December 31, 2015 and 2014, the current and noncurrent portion of Group's advances from the local customers follows:

	2015	2014
Total outstanding advances from local customers	**$1,675,429**	$2,260,824
Less current portion (Note 14)	**552,086**	817,971
Noncurrent portion	**$1,123,343**	$1,442,853

18. Equity

Capital Stock
This account consists of:

	2015		2014		2013	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Authorized - ₱1 par value						
Common	**2,250,000,000**		2,250,000,000		2,250,000,000	
Preferred	**1,500,000,000**		1,500,000,000		1,500,000,000	
Issued - Common						
At beginning of year	**1,790,416,179**	**$34,876,616**	1,572,129,429	$30,016,551	1,571,874,431	$30,011,256
Issuances during the year:						
ESOWN	**3,013,586**	**57,112**	3,286,750	70,580	254,998	5,295
Public offering	**–**	**–**	215,000,000	4,789,485	–	–
At end of year*	**1,793,429,765**	**$34,933,728**	1,790,416,179	$34,876,616	1,572,129,429	$30,016,551
Issued - Preferred						
At beginning of year	**1,300,000,000**	**$26,601,155**	1,300,000,000	$26,601,155	1,300,000,000	$26,601,155
Redemption	**(1,300,000,000)**	**(26,601,155)**	–	–	–	–
At end of year	**–**	**$–**	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, 2015 and 2014 and 15,892,109 shares as of December 31, 2013 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 June 25, 2015, the BOD of the Parent Company approved the redemption and retirement of all of the outstanding 1,300,000,000 redeemable preferred shares which were issued in 2008. The shares, which were redeemed at a price of ₱1.00 per share, were paid on August 24, 2015 to the stockholders of record as of July 24, 2015, including all accumulated unpaid cash dividends.

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).

As of December 31, 2015, 2014 and 2013, there were 367, 456 and 526 registered common stockholders, respectively.

Subscribed Capital Stock
Details of this account follow:

	2015		2014		2013	
	Shares	**Amount**	Shares	Amount	Shares	Amount
At beginning of year	**82,375,866**	**$1,797,638**	57,141,000	$1,229,926	60,421,000	$1,300,851
Subscriptions during the year - ESOWN	**10,393,394**	**222,366**	31,797,958	708,590	–	–
Issuances during the year - ESOWN	**(3,013,586)**	**(57,112)**	(3,286,750)	(70,580)	(254,998)	(5,295)
Forfeitures during the year - ESOWN	**(2,555,329)**	**(55,308)**	(3,276,342)	(70,298)	(3,025,002)	(65,630)
At end of year	**87,200,345**	**$1,907,584**	82,375,866	$1,797,638	57,141,000	$1,229,926

Subscriptions Receivable
Details of this account are as follows:

	2015	2014	2013
At beginning of year	**$12,906,784**	$9,590,746	$9,650,842
Subscriptions during the year	**1,136,291**	4,187,765	–
Forfeitures during the year	**(450,707)**	(622,524)	(647,750)
Collections during the year	**(460,634)**	(328,621)	(207,888)
Accretion during the year (Note 26)	**–**	79,418	795,542
At end of year (Note 26)	**$13,131,734**	$12,906,784	$9,590,746

Additional Paid-in Capital
The grant of equity-settled awards to the Group's employees was recognized as increase in the "Additional paid-in capital" account.

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
2015
On February 17, 2015, the BOD of the Parent Company approved the declaration of cash dividend of $0.0042 or ₱0.1868 per share to all outstanding common shares as of record date of March 4, 2015, payable on March 19, 2015.

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

The fourth quarter dividends payable amounting to $0.21 million was cancelled and credited back to the "Retained Earnings" account upon redemption of the preferred shares on August 17, 2015.

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 BOD of the Parent Company 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

Retained Earnings
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.

The foreign exchange translation difference between the redemption date and the original issuance of preferred shares amounting to $1.83 million was charged against "Retained Earnings" account.

Accumulated net earnings of the subsidiaries amounting to $105.76 million and $63.48 million as of December 31, 2015 and 2014, 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.

The retained earnings are restricted to dividend declaration to the extent of the cost of treasury shares amounting to $1.01 million.

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, 2015 amounted to $17.53 million.

19. Cost of Goods Sold and Services

This account consists of:

	2015	2014	2013
Direct, indirect and other material-related costs (Note 7)	**$546,897,934**	$547,251,922	$498,220,475
Direct labor, salaries, wages and employee benefits (Note 25)	**121,291,155**	144,418,120	120,088,886
Depreciation and amortization (Notes 9 and 11)	**18,586,049**	18,339,150	18,709,813
Facilities costs and others (Note 21)	**33,557,495**	40,531,872	40,083,789
	$720,332,633	$750,541,064	$677,102,963

20. Operating Expenses

This account consists of:

	2015	2014	2013
Salaries, wages and employee benefits (Note 25)	**$31,366,967**	$35,769,440	$31,856,630
Depreciation and amortization (Notes 9 and 11)	**4,662,621**	4,641,133	4,150,058
Facilities costs and others (Note 21)	**20,068,937**	23,821,906	19,787,988
	$56,098,525	$64,232,479	$55,794,676

21. Facilities Costs and Others

This account consists of:

	Cost of Goods Sold and Services			Operating Expenses		
	2015	2014	2013	**2015**	2014	2013
Utilities	**$9,381,438**	$10,863,335	$11,507,507	**$1,217,805**	$845,160	$1,099,034
Repairs and maintenance	**7,049,883**	8,112,925	7,319,614	**502,700**	531,423	599,233
Variable overhead	**6,876,249**	10,085,587	8,336,469	**–**	–	–
Outsourced activities	**6,763,026**	7,491,405	6,533,853	**6,799,414**	6,006,755	5,907,212
Government-related	**981,847**	1,235,608	1,312,753	**3,098,023**	3,439,593	3,562,265
Insurance	**710,192**	692,566	801,624	**1,193,732**	1,177,782	1,072,684
Staff house	**587,741**	577,605	977	**222,900**	346,955	294,622
Travel	**541,422**	545,473	622,964	**1,550,962**	1,906,188	1,803,638
Postal and communication	**319,625**	404,019	322,637	**708,817**	867,256	943,065
Promotional materials, representation and entertainment	**154,098**	148,576	185,416	**782,715**	900,744	821,979
Technology-related	**71,019**	637,437	211,685	**774,398**	1,361,518	1,800,141
Membership fees	**2,289**	2,187	634	**134,131**	90,386	89,998
Provision for inventory obsolescence (Note 7)	**–**	–	220,256	**1,591,170**	3,737,353	1,902,889
Provision (reversal of provision) for allowance for decline in value of inventories (Note 7)	**–**	–	(107,131)	**100,000**	84,267	–
Reversal of loss on purchase commitments	**–**	–	(51,552)	**–**	–	–
Sales commission	**–**	–	–	**362,708**	1,084,492	731,918
Provision (reversal of provision) for doubtful accounts (Note 6)	**–**	–	–	**438,344**	(899,304)	(103,124)
Others	**118,666**	(264,851)	2,866,083	**591,118**	2,341,338	(737,566)
	$33,557,495	$40,531,872	$40,083,789	**$20,068,937**	$23,821,906	$19,787,988

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:

	2015	2014	2013
Interest expense on loans (Notes 15 and 16)	**$2,207,309**	$2,517,542	$2,429,992
Bank charges	**236,615**	75,348	136,697
Others	**272,461**	221,913	313,252
	$2,716,385	$2,814,803	$2,879,941

Others include interest on finance lease obligations.

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, 2015, there are five 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, 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 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 15% in 2015 and 2014, and 25% in 2013 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 and STJX are subject to taxation at the statutory tax rate of 25% in 2015, 2014 and 2013 on their taxable income as reported in their respective financial statements 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 2015, 2014 and 2013 on the assessable profit for the year.

Cooperatief
Taxation is calculated on the reported pre-tax result, at the prevailing tax rate of 20% on the first EUR 200,000 and 25% on the taxable amount exceeding EUR 200,000, 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 2015, 2014 and 2013 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 2015, 2014 and 2013 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 2015, 2014 and 2013 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 2015, 2014 and 2013 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, 2015, 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:

	2015	2014
Deferred tax assets:		
Fair value adjustment on property, plant and equipment arising from business combination	**$436,416**	$530,921
Allowance for inventory obsolescence	**414,315**	511,499
Allowance for doubtful accounts	**159,768**	274,191
Allowance for impairment loss on AFS	**100,867**	87,679
Others	**958,228**	720,874
	$2,069,594	$2,125,164

(Forward)

	2015	2014
Deferred tax liabilities:		
Fair value adjustment on property, plant and equipment arising from business combination	**$1,536,602**	$1,687,227
Unrealized foreign exchange loss on monetary assets - net	**281,248**	81,480
Unrealized foreign exchange loss on AFS	**82,213**	59,200
Others	**297**	–
	$1,900,360	$1,827,907

Deferred tax assets and deferred tax liabilities are offset on per entity level and the net amount is reported in consolidated balance sheets as follows:

	December 31, 2015			
	Deferred Tax Assets	**Deferred Tax Liabilities**	**Total Deferred Tax Assets - net**	**Total Deferred Tax Liabilities - net**
Parent Company	**$242,101**	**($363,461)**	**$–**	**($121,360)**
IMI BG	**462,083**	**(299,956)**	**162,127**	**–**
IMI CZ	**677,157**	**–**	**677,157**	**–**
IMI MX	**688,253**	**–**	**688,253**	**–**
STEL	**–**	**(63,887)**	**–**	**(63,887)**
Others	**–**	**(1,173,056)**	**–**	**(1,173,056)**
	$2,069,594	**($1,900,360)**	**$1,527,537**	**($1,358,303)**

	December 31, 2014			
	Deferred Tax Assets	Deferred Tax Liabilities	Total Deferred Tax Assets - net	Total Deferred Tax Liabilities - net
Parent Company	$211,450	($140,680)	$70,770	$–
IMI BG	482,987	(252,828)	230,159	–
IMI CZ	789,020	–	789,020	–
IMI MX	641,707	–	641,707	–
STEL	–	(34,067)	–	(34,067)
Others	–	(1,400,332)	–	(1,400,332)
	$2,125,164	($1,827,907)	$1,731,656	($1,434,399)

Others pertain to the deferred tax liabilities resulting from the acquisition of IMI EU/MX Subsidiaries.

As of December 31, 2015 and 2014, the temporary differences for which no deferred tax assets have been recognized are as follows:

PSi

	2015	2014
Accumulated impairment losses on property, plant and equipment	**$10,138,416**	$9,695,203
Advances from customer	**1,440,377**	1,742,329
Excess of:		
Cost over NRV of inventories	**1,200,211**	1,164,694
Rent expense under operating lease arrangement computed on a straight-line basis over the amount computed based on lease agreement	**454,878**	480,695
Accrued retirement benefits obligation	**1,132,864**	1,275,339
Allowance for doubtful accounts	**67,630**	376,222
	$14,434,376	$14,734,482

STEL

	2015	2014
Depreciation	**$5,747,000**	$–
Allowance for inventory obsolescence	**2,170,000**	2,110,000
Unused tax losses	**960,000**	370,000
	$8,877,000	$2,480,000

IMI CZ

	2015	2014
Tax losses	**$–**	$3,175,932
Noncurrent assets	**1,337,664**	1,294,737
Provisions	**360,029**	421,053
Excess of cost over NRV of inventories	**211,680**	184,211
Allowance for doubtful accounts	**69,411**	31,579
	$1,978,784	$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.

As of December 31, 2015 and 2014, deferred tax liabilities have not been recognized on the undistributed earnings of subsidiaries and the related cumulative translation adjustments 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:

	2015	2014	2013
Income before income tax	**$34,675,520**	$35,191,291	$13,723,319
Tax on:			
Income from foreign subsidiaries	**4,055,783**	7,502,756	4,348,720
Income subject to 5% gross income tax	**1,570,027**	1,173,753	979,448
Income subject to RCIT	**105,394**	217,976	51,629
Others	**–**	33,274	28,843
Current income tax expense	**5,731,204**	8,927,759	5,408,640
Deferred income tax expense (benefit)	**174,204**	(2,727,851)	(881,359)
Effective income tax	**$5,905,408**	$6,199,908	$4,527,281

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:

	2015	2014	2013
Statutory income tax	**30.00%**	30.00%	30.00%
Tax effects of:			
Nondeductible expenses	**22.12%**	59.96%	39.98%
Income subject to gross income tax	**(22.56%)**	(14.49%)	(25.82%)
Difference in tax jurisdiction	**(11.15%)**	(54.04%)	(10.80%)
Income subject to ITH	**(1.27%)**	(3.79%)	(0.28%)
Interest income subjected to final tax	**(0.11%)**	(0.02%)	(0.09%)
Provision for income tax	**17.03%**	17.62%	32.99%

24. **Earnings per Share**

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

	2015	2014	2013
Net income	**$28,789,740**	$29,117,024	$10,472,995
Less dividends on preferred stock (Note 18)	**–**	851,495	871,089
	$28,789,740	$28,265,529	$9,601,906
Weighted average number of common shares outstanding	**1,858,578,676**	1,632,132,778	1,616,151,239
Basic and diluted EPS	**$0.015**	$0.017	$0.006

As of December 31, 2015, 2014 and 2013, the Group has no dilutive potential common shares.

25. **Personnel Costs**

Salaries, wages, and employee benefits follow:

	2015	2014	2013
Salaries and benefits	**$118,268,993**	$130,621,781	$114,869,711
Retirement expense under defined contribution plans	**5,379,119**	5,649,301	4,607,873
Social security costs	**2,212,856**	2,357,681	2,727,124
Net retirement expense under defined benefit plans	**1,857,985**	2,061,727	1,682,245
Others	**24,939,169**	39,497,070	28,058,563
	$152,658,122	$180,187,560	$151,945,516

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:

	2015	2014	2013
Cost of goods sold and services (Note 19)	**$121,291,155**	$144,418,120	$120,088,886
Operating expenses (Note 20)	**31,366,967**	35,769,440	31,856,630
	$152,658,122	$180,187,560	$151,945,516

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, 2015.

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:

	2015	2014
Parent Company	**$4,155,241**	$3,042,606
PSi	**1,132,864**	1,275,339
IMI BG	**503,507**	393,606
	$5,791,612	$4,711,551

Parent Company, PSi and IMI BG

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

	2015											
		Net Retirement Expense					**Remeasurements**					
	January 1	**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**
Present value of defined benefit obligation	**$17,819,360**	**$1,653,303**	**$801,282**	**$–**	**$2,454,585**	**($1,203,060)**	**$–**	**$1,225,579**	**($691,992)**	**$533,587**	**($962,291)**	**$18,642,181**
Fair value of plan assets	**(13,107,809)**	**–**	**(596,600)**	**–**	**(596,600)**	**–**	**188,522**	**–**	**–**	**188,522**	**665,318**	**(12,850,569)**
Net retirement liabilities	**$4,711,551**	**$1,653,303**	**$204,682**	**$–**	**$1,857,985**	**($1,203,060)**	**$188,522**	**$1,225,579**	**($691,992)**	**$722,109**	**($296,973)**	**$5,791,612**

	2014											
		Net Retirement Expense					Remeasurements					
	January 1	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
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)	($141,441)	$17,819,360
Fair value of plan assets	(12,781,676)	–	(683,611)	–	(683,611)	–	261,520	–	–	261,520	95,958	(13,107,809)
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

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, 2015 and 2014 follows:

	2015	2014
Government securities	**$8,297,792**	$7,449,068
Cash and cash equivalents	**1,606,341**	1,472,042
Trust funds	**1,285,735**	1,564,730
Investment properties	**697,238**	473,614
Corporate bonds	**445,040**	466,451
Mutual funds	**313,464**	1,281,587
Equities	**262,643**	264,870
Liabilities	**(271)**	(13,210)
Others	**(57,413)**	148,657
	$12,850,569	$13,107,809

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, 2015			
	Equity Securities	**Debt Securities**	**Other Securities**	**Total**
Fair Value				
BPI UITF	**$867,674**	**$–**	**$–**	**$867,674**
AC bonds	**–**	**279,383**	**–**	**279,383**
ALI bonds	**–**	**32,407**	**–**	**32,407**
BPI deposits	**–**	**–**	**1,597,292**	**1,597,292**
	$867,674	**$311,790**	**$1,597,292**	**$2,776,756**
Carrying Value				
BPI UITF	**$870,118**	**$–**	**$–**	**$870,118**
AC bonds	**–**	**276,243**	**–**	**276,243**
ALI bonds	**–**	**31,874**	**–**	**31,874**
BPI deposits	**–**	**–**	**1,599,045**	**1,599,045**
	$870,118	**$308,117**	**$1,599,045**	**$2,777,280**
Unrealized Gain (Loss)				
BPI UITF	**($2,444)**	**$–**	**$–**	**($2,444)**
AC bonds	**–**	**3,140**	**–**	**3,140**
ALI bonds	**–**	**533**	**–**	**533**
BPI deposits	**–**	**–**	**(1,753)**	**(1,753)**
	($2,444)	**$3,673**	**($1,753)**	**($524)**

	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

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 $2.83 million to the defined benefit plans for 2016.

The actual return of plan assets amounted to $0.41 million, $0.42 million and $0.80 million in 2015, 2014 and 2013, respectively.

The average duration of net retirement liabilities at the end of the balance sheet date is 21.69 to 24.5 years as of December 31, 2015 and 20.20 to 22.70 years as of December 31, 2014.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2015 and 2014:

	2015	2014
Less than one year	**$449,305**	$569,329
More than one year to five years	**1,313,428**	4,657,600
More than five years to ten years	**3,033,503**	7,072,904
More than ten years to fifteen years	**6,864,091**	13,219,880
More than fifteen years	**70,466,253**	97,474,821
	$82,126,580	$122,994,534

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

	2015	2014
Discount rate	**2.00% - 5.09%**	4.63% - 4.66%
Turnover rate	**2.92% - 12.75%**	3.07% - 12.75%
Salary increase rate	**4.00% - 5.00%**	4.00% - 5.00%

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 **2015**	Effect on Net Retirement Liability 2014
Discount rate	+1%	**($2,013,320)**	($2,125,845)
	-1%	**2,429,869**	2,580,695
Turnover rate	+2%	**(889,152)**	(845,172)
	-2%	**855,599**	975,358
Salary increase rate	+1%	**2,372,810**	2,515,713
	-1%	**(2,006,458)**	(2,104,644)

PSi

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2015**	Effect on Net Retirement Liability 2014
Discount rate	+1%	**($186,960)**	($181,336)
	-1%	**232,012**	221,637
Turnover rate	+2%	**(35,418)**	(45,616)
	-2%	**36,780**	51,406
Salary increase rate	+1%	**222,583**	209,182
	-1%	**(183,624)**	(176,886)

IMI BG

Actuarial Assumption	Increase/ Decrease in Actuarial Assumption	Effect on Net Retirement Liability **2015**	Effect on Net Retirement Liability 2014
Discount rate	+1%	**($29,337)**	($22,607)
	-1%	**30,829**	24,663
Turnover rate	+2%	**110,470**	(45,900)
	-2%	**(108,455)**	43,845
Salary increase rate	+1%	**21,447**	17,127
	-1%	**(21,449)**	(17,127)

The mortality rate in 2015 and 2014 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 2015 and 2014.

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

	2015	2014	2013
Cost of goods sold and services	**$1,453,575**	$1,654,285	$1,126,038
Operating expenses	**404,410**	407,442	556,207
	$1,857,985	$2,061,727	$1,682,245

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:

	2015	2014	2013
Cost of goods sold and services	**$4,300,805**	$4,652,375	$3,568,458
Operating expenses	**1,078,314**	996,926	1,039,415
	$5,379,119	$5,649,301	$4,607,873

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.

The key features of the plan are as follows:

- The subscription price per share shall be based on the average closing price at the PSE for 20 consecutive trading days with a discount to be determined by the Parent Company's Compensation Committee.
- Term of payment is eight years reckoned from the date of subscription:

Initial payment	2.5%
1st Anniversary	5.0%
2nd Anniversary	7.5%
3rd Anniversary	10%
Over the remaining years	75% balance

- Holding period:

40%	after one (1) year from subscription date
30%	after two (2) years from subscription date
30%	after three (3) years from subscription date

On August 5, 2015, the Executive Committee of the Parent Company approved the grant of stock options to qualified executives covering up to 27,189,000 shares at a subscription price of ₱5.11 per share, equivalent to the average closing price of the Parent Company's common shares, at the PSE for 20 consecutive trading days ending June 25, 2015, net of 15% discount. Out of the total shares granted, 10,393,394 shares were subscribed by 78 executives of the Group.

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 fair value of stock options granted in 2015 and 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 2015, 2014 and 2013 follow:

	2015		2014		2013	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
At beginning of year	**135,902,428**	**₱6.71**	107,380,812	₱6.95	110,405,814	₱6.95
Forfeitures	**(2,555,329)**	**6.37**	(3,276,342)	6.95	(3,025,002)	6.95
Subscriptions	**10,393,394**	**5.11**	31,797,958	5.91	–	–
At end of year	**143,740,493**	**₱6.69**	135,902,428	₱6.71	107,380,812	₱6.95

The balance of the subscriptions receivable amounted to $13.13 million, $12.91 million and $9.59 million as of December 31, 2015, 2014 and 2013, respectively (see Note 18).

The share option expense amounted to $1.53 million, $0.17 million and $0.01 million in 2015, 2014 and 2013, 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 nil, $0.08 million and $0.80 million for the years ended December 31, 2015, 2014 and 2013, 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, 2015, 2014 and 2013:

December 31, 2015	Philippines		Singapore/ China	Bulgaria	Czech	Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi								
Revenue:										
Third party	$225,258,796	$42,062,621	$279,263,000	$181,643,852	$24,454,937	$61,314,195	$350,855	$15,848	$–	$814,364,104
Intersegment	163,415	256,310	5,584,234	34,932	–	–	2,808,557	852,690	(9,700,138)	–
Total revenue	$225,422,211	$42,318,931	$284,847,234	$181,678,784	$24,454,937	$61,314,195	$3,159,412	$868,538	($9,700,138)	$814,364,104
Segment interest income	$1,140,205	$1,831	$288,410	$–	$–	$–	$–	$39	($772,482)	$658,003
Segment interest expense	$1,497,509	$580,928	$302,780	$294,146	$99,921	$386,870	$2,143	$1,170	($449,082)	$2,716,385
Segment profit (loss) before income tax	$13,309,497	($1,534,782)	$1,508,553	$23,110,451	$1,268,573	$70,081	$446,564	$24,390	($3,527,807)	$34,675,520
Segment provision for income tax	(1,750,946)	(93,592)	(1,084,167)	(2,412,679)	(362,796)	(196,951)	–	(4,277)	–	(5,905,408)
Segment profit (loss) after income tax	$11,558,551	($1,628,374)	$424,386	$20,697,772	$905,777	($126,870)	$446,564	$20,113	($3,527,807)	$28,770,112
Net income (loss) attributable to the equity holders of the Parent Company	$11,558,551	($1,628,374)	$444,015	$20,697,772	$905,777	($126,870)	$446,564	$20,113	($3,527,807)	$28,789,740

December 31, 2014	Philippines		Singapore/China	Bulgaria	Czech	Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi								
Revenue:										
Third party	$204,940,387	$44,932,489	$325,647,491	$188,294,791	$24,336,956	$55,958,214	$354,090	$9,651	$–	$844,474,069
Intersegment	200,256	–	4,362,775	–	–	–	2,944,034	911,822	(8,418,887)	–
Total revenue	$205,140,643	$44,932,489	$330,010,266	$188,294,791	$24,336,956	$55,958,214	$3,298,124	$921,473	($8,418,887)	$844,474,069
Segment interest income	$801,508	$1,657	$158,954	$–	$–	$1,501	$–	$29	($767,378)	$196,271
Segment interest expense	$1,512,464	$604,941	$191,172	$246,586	$95,790	$456,384	$2,808	$1,049	($296,391)	$2,814,803
Segment profit (loss) before income tax	($12,046,881)	($1,213,530)	$25,371,530	$26,828,033	$1,187,301	($5,867,410)	($601,838)	($49,921)	$1,584,007	$35,191,291
Segment provision for income tax	(1,122,750)	(121,146)	(4,376,209)	(2,719,692)	404,654	1,735,815	–	(580)	–	(6,199,908)
Segment profit (loss) after income tax	($13,169,631)	($1,334,676)	$20,995,321	$24,108,341	$1,591,955	($4,131,595)	($601,838)	($50,501)	$1,584,007	$28,991,383
Net income (loss) attributable to the equity holders of the Parent Company	($13,169,631)	($1,111,118)	$20,976,438	$24,029,307	$1,591,955	($4,131,595)	($601,838)	($50,501)	$1,584,007	$29,117,024

December 31, 2013	Philippines		Singapore/China	Bulgaria	Czech	Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi								
Revenue:										
Third party	$188,897,146	$43,084,648	$277,190,054	$146,647,581	$22,409,285	$66,084,682	$372,446	$346,021	$–	$745,031,863
Intersegment	261,710	–	4,649,240	–	–	–	2,441,304	808,166	(8,160,420)	–
Total revenue	$189,158,856	$43,084,648	$281,839,294	$146,647,581	$22,409,285	$66,084,682	$2,813,750	$1,154,187	($8,160,420)	$745,031,863
Segment interest income	$597,797	$1,845	$149,568	$–	$–	$1,229	$–	$33	($531,895)	$218,577
Segment interest expense	$1,366,794	$459,089	$43,784	$512,846	$83,943	$389,351	$2,158	$955	$21,021	$2,879,941
Segment profit (loss) before income tax	$323,199	(4,833,528)	$4,130,632	$16,121,725	$1,173,838	($2,805,467)	($378,217)	($8,863)	$–	$13,723,319
Segment provision for income tax	(488,474)	(51,629)	(2,193,264)	(1,734,262)	–	(58,982)	–	(670)	–	(4,527,281)
Segment profit (loss) after income tax	($165,275)	($4,885,157)	$1,937,368	$14,387,463	$1,173,838	($2,864,449)	($378,217)	($9,533)	$–	$9,196,038
Net income (loss) attributable to the equity holders of the Parent Company	($165,275)	($3,587,672)	$1,928,903	$14,375,400	$1,173,838	($2,864,449)	($378,217)	($9,533)	$–	$10,472,995

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 $9.70 million in 2015, $8.42 million in 2014 and $8.16 million in 2013, intersegment cost of sales of $0.17 million in 2015, $0.20 million in 2014 and $0.26 million in 2013, and intersegment operating expenses aggregating to $9.12 million in 2015, $8.22 million in 2014 and $8.57 million in 2013.

The following table presents segment assets of the Group's geographical segments as of December 31, 2015 and 2014:

	Philippines		Singapore/ China	Europe	Mexico	USA	Japan	Consolidation and Eliminations	Total
	Parent Company	PSi							
2015	**$273,699,329**	**$15,305,610**	**$216,719,333**	**$125,968,453**	**$50,762,577**	**$1,688,937**	**$898,846**	**($168,508,426)**	**$516,534,659**
2014	$297,116,764	$19,378,617	$252,990,711	$119,917,406	$43,305,691	$1,436,835	$859,846	($182,298,463)	$552,707,407

Segment assets do not include investments in subsidiaries and intersegment receivables amounting to $125.60 million and $42.68 million as of December 31, 2015, respectively, and $124.15 million and $58.01 million as of December 31, 2014, 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, 2015 and 2014.

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

	2015	2014	2013
Europe	**$426,440,705**	$418,391,628	$379,465,943
America	**205,280,233**	208,581,244	222,740,713
Japan	**52,900,214**	71,620,075	68,075,201
Rest of Asia/Others	**129,742,952**	145,881,122	74,750,006
	$814,364,104	$844,474,069	$745,031,863

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 13.29%, 12.63% and 13.51% of the Group's total revenue in 2015, 2014 and 2013, respectively.

The following table presents revenues per product type:

	2015	2014	2013
Automotive	**$349,864,147**	$320,532,486	$278,269,042
Telecommunication	**151,351,589**	176,669,820	134,748,260
Industrial	**116,711,182**	106,273,619	108,412,410
Consumer	**84,232,744**	101,939,801	104,083,799
Multiple market	**63,060,796**	66,556,982	56,873,912
Computer peripherals	**21,825,130**	49,137,199	37,841,556
Medical	**27,318,516**	23,364,162	24,802,884
	$814,364,104	$844,474,069	$745,031,863

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

	2015	2014
Europe	**$36,563,576**	$25,996,998
America	**19,745,926**	16,431,213
Japan	**21,163**	22,596
Rest of Asia/Others	**86,045,980**	90,116,081
	$142,376,645	$132,566,888

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:

	2015	2014	2013
Europe	**$5,599,379**	$5,800,582	$5,156,046
America	**2,013,240**	1,611,235	1,318,224
Japan	**2,757**	2,474	2,550
Rest of Asia/Others	**15,633,294**	15,565,992	16,383,051
	$23,248,670	$22,980,283	$22,859,871

28. **Lease Commitments**

Operating Lease Commitments - Group as Lessor

STEL

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 (Note 9).

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, 2014 up to May 31, 2015. Monthly rental rate amounts to $1,040. Upon sale of the leasehold building, the leasehold agreement was transferred to SBSR through Deed of Assignment between STEL and DBSTL (as trustee of SBSR).

The rental income recognized by STEL amounted to nil, $0.91 million and $0.63 million in 2015, 2014 and 2013, respectively.

IMI USA

On February 26, 2015, IMI USA entered a sub-lease contract to Cogenra Solar Inc. The sub-lease contract shall be effective from April 1, 2015 to October 2015. Cogenra Solar Inc. shall pay monthly rental of $13,826 including utilities, maintenance and internet. Total rental income for 2015 amounted to $96,782.

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.

On March 7, 2014, the Parent Company executed a Lease Agreement with PEZA for the use of land located at the Blk 16 Phase 4 PEZA, Rosario, Cavite to be used exclusively for IMI Cavite's registered activities. The lease is for a period of 50 years renewable once at the option of the lessee for a period of not more than 25 years. The average monthly rental payment amounts to $1,985 in 2015 with an escalation rate every year.

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 ten 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 take over 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 six 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 November 1, 2015, IMI USA renewed its lease contract for another 5 years with fixed rental adjustments.

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, for Lot Nos. 92-A and 92-A-1 with lease term August 15, 2004 up to August 14, 2019 and February 28, 2015 up to June 30, 2017, respectively. 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 2015, the operating lease agreement for the second facility was renewed and executed between CRI and PSi. The operating lease agreement commenced on October 16, 2015 and will expire on October 18, 2018.

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

Accrued rent amounting to $0.45 million and $0.48 million as December 31, 2015 and 2014, respectively, represents the difference in accounting for the rent expense versus the rental payments under the lease contract.

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 $5.91 million in 2015, $5.37 million in 2014, and $3.47 million in 2013.

Future minimum rentals payable under operating leases of the Group as of December 31, 2015 and 2014 follow:

	2015	2014
Within one year	**$5,904,705**	$4,808,220
After one year but not more than five years	**11,702,448**	11,557,249
More than five years	**5,727,526**	8,205,592
	$23,334,679	$24,571,061

<u>Finance Lease Commitments - Group as Lessee</u>
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. The obligation under finance lease was fully settled in advanced in 2015.

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. The obligation under finance lease was fully settled in advance in 2015.

The incurred interest expense on its finance lease commitments amounting to $0.27 million in 2015 and $0.21 million in 2014.

Future minimum lease payments of the Group as of December 31, 2014 are as follows:

	Minimum Lease Payments	Present Value of Payments
Within one year (Note 14)	$952,626	$853,164
More than one year but less than five years	2,367,757	2,257,583
	$3,320,383	$3,110,747

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, 2015, 2014 and 2013, 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, 2015 and 2014, the Group maintains current and savings accounts with BPI amounting to \$1.53 million and \$0.97 million, respectively.

Total interest income earned from investments with BPI amounted to \$25,698, \$5,338 and \$2,639 for the years ended December 31, 2015, 2014 and 2013, respectively.

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

	Receivables		Payables	
	2015	2014	**2015**	2014
BPI	**\$196,341**	\$178,059	**\$–**	\$2,957
AC	**–**	1,352	**–**	–
Makati Development Corporation (MDC)	**–**	776	**–**	–
ALI	**–**	601	**–**	–
Innove Communication Inc. (ICI)	**–**	–	**295**	25,520
Globe Telecom, Inc. (GTI)	**–**	–	**4,386**	5,238
	\$196,341	\$180,788	**\$4,681**	\$33,715

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 in 2014 pertain to the affiliates' share on the Parent Company's expenses incurred during a group-wide conference.

iii. 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.

iv. 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.

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

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

	Receivables		Payables	
	2015	2014	**2015**	2014
IMI EU/MX Subsidiaries	**\$22,298,478**	\$14,695,248	**\$71**	\$–
PSi	**13,471,568**	12,820,656	**99,229**	296
IMI Singapore	**1,010,247**	1,010,247	**–**	–
IMI Japan	**992,795**	981,383	**527,563**	594,201
IMI ROHQ	**362,925**	319,924	**1,162,377**	1,149,654
IMI USA	**251,917**	253,738	**292,243**	196,433
STEL	**214,955**	18,426,739	**1,756,603**	7,369,725
	\$38,602,885	\$48,507,935	**\$3,838,086**	\$9,310,309

The outstanding balances are eliminated upon consolidation.

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 1.25% to 2.85% in 2015, from 2.33% to 2.73% in 2014 and from 2.24% to 3.24% in 2013.

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.

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.

ii. Payables to IMI ROHQ are nontrade in nature and pertain to services provided by IMI ROHQ to the Parent Company which serves as an administrative, communications and coordinating center for its affiliates. These advances are noninterest-bearing and are payable on demand.

iii. 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		
	2015	2014	2013	**2015**	2014	2013
BPI	**$25,698**	$6,021	$2,639	**$–**	$–	$–
MWAP	**–**	9,868	9,971	**–**	–	–
TLI	**–**	7,371	7,713	**1,093,559**	1,115,426	26,328
AG Legal	**–**	–	–	**93,108**	118,774	82,818
ICI	**–**	–	–	**88,936**	55,971	88,266
GTI	**–**	–	–	**86,260**	73,337	70,438
	$25,698	$23,260	$20,323	**$1,361,863**	$1,363,508	$267,850

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

i. Interest income earned from investments and gain on foreign currency forwards with BPI.

ii. Rental income earned by STEL from MWAP from lease of its office premises (see Note 28).

iii. 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.

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:

i. 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.

ii. 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:

	2015	2014
Short-term employee benefits	**$8,825,529**	$7,628,230
Post-employment benefits	**361,372**	243,459
Share-based payments	**1,442,721**	158,608
	$10,629,622	$8,030,297

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, 2015 and 2014:

	Carrying Amounts		Fair Values	
	2015	2014	**2015**	2014
Financial assets:				
Derivative assets	**$66,117**	$–	**$66,117**	$–
AFS financial assets	**583,510**	522,361	**583,510**	522,361
	$649,627	$522,361	**$649,627**	$522,361
Financial liabilities:				
Derivative liabilities	**$10,567**	$–	**$10,567**	$–
Noncurrent portion of:				
Long-term debt	**34,648,756**	57,298,750	**33,311,349**	64,723,021
Obligation under finance lease	**–**	2,257,583	**–**	2,274,365
	$34,659,323	$59,556,333	**$33,321,916**	$66,997,386

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:

Derivatives - These pertains to currency forwards hedged by the Group for risks associated with foreign currency fluctuations.

AFS financial assets - These pertain to investments in club shares. Fair value is based on quoted prices.

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 2015 and 2014 ranged from 1.20% to 3.10% and from 1.86% to 2.98%, 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 from 3.18% to 12.26% for 2015 and 2014, 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 which consist of cash, receivables, accounts payables and accrued expenses, 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, 2015			
	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:				
Derivative assets	**$66,117**	**$–**	**$–**	**$66,117**
AFS financial assets	**583,510**	**–**	**–**	**583,510**
	$649,627	**$–**	**$–**	**$649,627**

(Forward)

	December 31, 2015			
	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Liabilities measured at fair value -				
Derivative liabilities	**$10,567**	**$–**	**$–**	**$10,567**
Liabilities for which fair values are disclosed -				
Long-term debt	**$–**	**$–**	**$33,311,349**	**$33,311,349**

	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 -				
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

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, 2015 and 2014. 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	**2015**	2014
+100	**($686,214)**	($476,564)
-100	**686,214**	476,564

The following table shows the information about the Group's debt as of December 31, 2015 and 2014 that are exposed to interest rate risk presented by maturity profile:

	2015	2014
Within one year	**$40,775,609**	$372,440
One to five years	**27,845,749**	47,283,951
	$68,621,358	$47,656,391

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:

	2015				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Total**
Financial assets					
Cash and cash equivalents*	**$67,108,584**	**$34,338,174**	**$–**	**$–**	**$101,446,758**
Financial liabilities					
Accounts payable and accrued expenses:					
Trade payables	**–**	**103,563,112**	**–**	**–**	**103,563,112**
Accrued expenses**	**–**	**11,753,000**	**–**	**–**	**11,753,000**
Accrued compensation and benefits	**–**	**23,263,280**	**–**	**–**	**23,263,280**
Nontrade payables	**–**	**5,121,760**	**–**	**–**	**5,121,760**
Employee-related payables**	**–**	**149,444**	**–**	**–**	**149,444**
Accrued interest payable	**–**	**–**	**509,027**	**–**	**509,027**
Derivative liabilities	–	**10,567**			**10,567**
Due to related parties	–	**4,681**	–	–	**4,681**
Others	**–**	**1,538,689**	–	–	**1,538,689**
Trust receipt and loans payable	**–**	**–**	**42,449,644**	**–**	**42,449,644**
Current portion of long-term debt	**–**	**–**	**43,296,039**	**–**	**43,296,039**
Noncurrent portion of long-term debt	**–**	**187,856**	**563,568**	**34,836,960**	**35,588,384**
	–	**145,592,389**	**86,818,278**	**34,836,960**	**267,247,627**
	$67,108,584	**($111,254,215)**	**($86,818,278)**	**($34,836,960)**	**($165,800,869)**

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

	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 receipt 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.*

Credit lines
The Group has credit lines with different financing institutions as of December 31, 2015 and 2014, as follows:

	2015		2014	
Financial Institution	**Credit Limit**	**Available Credit Line**	Credit Limit	Available Credit Line
Local:				
USD	**64,000,000**	**54,800,000**	40,000,000	13,405,548
PHP	**100,000,000**	**100,000,000**	860,000,000	860,000,000
Foreign:				
USD	**76,544,838**	**43,544,838**	38,965,000	13,465,000
Singapore Dollar (SGD)	**25,000,000**	**25,000,000**	25,000,000	25,000,000
EUR	**9,830,000**	**7,626,802**	10,880,000	7,115,468

Credit Risk
Credit risk is the risk that the Group's counterparties to its financial assets will fail to discharge their contractual obligations. The Group's major credit risk exposure relates primarily to its holdings of cash and cash equivalents, and 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, 2015 and 2014 is the carrying amounts of the financial assets. The Group's maximum exposure for cash and cash equivalents excludes the carrying amount of cash on hand.

The Group has 40% and 37% of trade receivables relating to three major customers as of December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the aging analysis of receivables and miscellaneous deposits follows:

	December 31, 2015							
		Neither Past Due Nor Impaired	**Past Due but not Impaired**					**Specifically**
	Total		**<30 Days**	**30-60 Days**	**60-90 Days**	**90-120 Days**	**>120 Days**	**Impaired**
Trade	**$165,831,122**	**$141,317,546**	**$18,807,293**	**$3,520,896**	**$196,297**	**$281,231**	**$1,164,059**	**$543,800**
Nontrade	**1,737,293**	**1,223,268**	**105,264**	**71,430**	**73,791**	**77,572**	**118,206**	**67,762**
Receivable from employees	**735,464**	**687,268**	**6,193**	**6,153**	**1,695**	**74**	**16,643**	**17,438**
Due from related parties	**196,341**	**196,341**	**–**	**–**	**–**	**–**	**–**	**–**
Others	**2,486,775**	**1,420,361**	**–**	**–**	**–**	**–**	**–**	**1,066,414**
	$170,986,995	**$144,844,784**	**$18,918,750**	**$3,598,479**	**$271,783**	**$358,877**	**$1,298,908**	**$1,695,414**
Miscellaneous deposits	**$1,897,070**	**$1,897,070**	**$–**	**$–**	**$–**	**$–**	**$–**	**$–**

	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 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	2,892,412	1,821,869	–	–	–	–	4,120	1,066,423
	$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	$–	$–	$–	$–	$–	$–

The following table summarizes the credit quality of the Group's financial assets as of December 31, 2015 and 2014:

	December 31, 2015					
	Neither Past Due nor Impaired				Past Due or	
	Minimal Risk	**Average Risk**	**Fairly High Risk**	**High Risk**	**Individually Impaired**	**Total**
Cash and cash equivalents	**$101,497,653**	**$–**	**$–**	**$–**	**$–**	**$101,497,653**
Receivables:						
Trade	**4,456,008**	**136,861,538**	**–**	**–**	**24,513,576**	**165,831,122**
Nontrade	**1,223,268**	**–**	**–**	**–**	**514,025**	**1,737,293**
Receivable from employees	**687,268**	**–**	**–**	**–**	**48,196**	**735,464**
Due from related parties	**196,341**	**–**	**–**	**–**	**–**	**196,341**
Others	**1,420,361**	**–**	**–**	**–**	**1,066,414**	**2,486,775**
AFS financial assets	**583,510**	**–**	**–**	**–**	**–**	**583,510**
Miscellaneous deposits	**1,897,070**	**–**	**–**	**–**	**–**	**1,897,070**
	$111,961,479	**$136,861,538**	**$–**	**$–**	**$26,142,211**	**$274,965,228**

	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 employees	532,280	–	–	–	56,507	588,787
Due from related parties	180,788	–	–	–	–	180,788
Others	1,821,869	–	–	–	1,070,543	2,892,412
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

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 2015 and 2014, 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 47% and 50% of the Group's sales for the years ended December 31, 2015 and 2014, respectively, and 39% and 49% of costs for the years ended December 31, 2015 and 2014, 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 (₱)

	2015		2014	
	In USD	**In PHP**	In USD	In PHP
Cash and cash equivalents	**$10,517,705**	**₱494,950,826**	$18,287,996	₱817,839,183
Receivables	**764,995**	**35,999,784**	910,486	40,716,938
Miscellaneous deposits	**1,221,963**	**57,504,123**	1,330,605	59,504,646
Accounts payable and accrued expenses	**(19,141,155)**	**(900,760,226)**	(28,795,936)	(1,287,754,274)
Net retirement liabilities	**(5,288,105)**	**(248,852,011)**	(4,317,945)	(193,098,500)
Other noncurrent liabilities	**(420,976)**	**(19,810,638)**	(434,575)	(19,434,194)
Net foreign currency-denominated liabilities	**($12,345,573)**	**(₱580,968,142)**	($13,019,369)	(₱582,226,201)

Singapore Dollar (SGD)

	2015		2014	
	In USD	**In SGD**	In USD	In SGD
Cash and cash equivalents	**$1,688,680**	**SGD2,380,367**	$17,422,989	SGD23,045,388
Receivables	**39,379**	**55,509**	153,158	202,582
Accounts payable and accrued expenses	**(2,037,012)**	**(2,871,376)**	(3,274,870)	(4,331,671)
Net foreign currency-denominated assets (liabilities)	**($308,953)**	**(SGD435,500)**	$14,301,277	SGD 18,916,299

Euro (€)

	2015		2014	
	In USD	**In EUR**	In USD	In EUR
Cash and cash equivalents	**$22,622,321**	**€20,588,206**	$10,539,710	€8,651,205
Receivables	**37,983,693**	**34,568,341**	45,735,098	37,540,283
Accounts payable and accrued expenses	**(18,370,780)**	**(16,718,948)**	(16,730,780)	(13,732,959)
Long-term debt	**(8,621,358)**	**(7,846,158)**	(7,656,391)	(8,543,512)
Net foreign currency-denominated assets	**$33,613,876**	**€30,591,441**	$31,887,637	€23,915,017

Japanese Yen (JPY or ¥)

	2015		2014	
	In USD	**In JPY**	In USD	In JPY
Cash and cash equivalents	**$318,115**	**¥38,280,962**	$214,167	¥25,781,435
Receivables	**678,069**	**81,596,775**	1,459,607	175,707,523
Miscellaneous deposits	**20,037**	**2,411,153**	20,693	2,491,043
Accounts payable and accrued expenses	**(2,654,521)**	**(319,436,989)**	(3,099,202)	(373,081,879)
Net foreign currency-denominated liabilities	**($1,638,300)**	**(¥197,148,099)**	($1,404,735)	(¥169,101,878)

Renminbi (RMB)

	2015		2014	
	In USD	**In RMB**	In USD	In RMB
Cash and cash equivalents	**$12,006,713**	**RMB77,879,699**	$23,174,367	RMB141,838,714
Receivables	**61,492,725**	**398,863,107**	75,142,422	459,909,194
Accounts payable and accrued expenses	**(35,463,931)**	**(230,031,336)**	(43,976,172)	(269,156,161)
Net foreign currency-denominated assets	**$38,035,507**	**RMB246,711,470**	$54,340,617	RMB332,591,747

Hong Kong Dollar (HKD or HK$)

	2015		2014	
	In USD	**In HKD**	In USD	In HKD
Cash and cash equivalents	**$41,726**	**HK$323,384**	$43,424	HK$336,926
Receivables	**5,626**	**43,599**	1,177,086	9,133,013
Accounts payable and accrued expenses	**(192,917)**	**(1,495,130)**	(362,957)	(2,816,186)
Net foreign currency-denominated assets (liabilities)	**($145,565)**	**(HK$1,128,147)**	$857,553	HK$6,653,753

British Pound (GBP or ₤)

	2015		2014	
	In USD	**In GBP**	In USD	In GBP
Cash	**$66,682**	**₤44,786**	$63,161	₤40,582
Accounts payable and accrued expenses	**–**	**–**	(2,417)	(1,553)
Net foreign currency-denominated assets	**$66,682**	**₤44,786**	$60,744	₤39,029

<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, 2015 and 2014. 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.

	Increase/Decrease	**Effect on Net Income before Tax**	
Currency	in USD Rate	**2015**	2014
PHP	+1%	**$82,143**	$123,270
	-1%	**(82,143)**	(123,270)
SGD	+1%	**2,817**	91,271
	-1%	**(2,817)**	(91,271)
EUR	+1%	**(323,885)**	(199,056)
	-1%	**323,885**	199,056
JPY	+1%	**12,129**	15,791
	-1%	**(12,129)**	(15,791)
RMB	+1%	**482,952**	(532,197)
	-1%	**(482,952)**	532,197
HKD	+1%	**2,138**	(8,532)
	-1%	**(2,138)**	8,532
GBP	+1%	**372**	(320)
	-1%	**(372)**	320

<u>Derivatives</u>
The Parent Company and IMI BG entered into various short-term currency forwards with an aggregate notional amount of $11.00 million and €16.25 million ($14.79 million) in 2015 and $17.00 million in 2014. As of December 31, 2015 and 2014, the outstanding forward contracts have a net positive fair value of $0.06 million and nil, respectively. The changes in fair value of currency forwards recognized in 2015 and 2014 amounted to $0.19 million and $0.25 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.

<u>Fair Value Changes on Derivatives</u>
The net movements in the fair value of the Group's derivative instruments as of December 31, 2015 and 2014 follow:

	2015	2014
Derivative assets:		
At beginning of year	**$–**	$–
Fair value of currency forwards	**243,475**	107,914
Fair value of settled currency forwards	**(177,358)**	(107,914)
At end of year	**$66,117**	$–

(Forward)

	2015	2014
Derivative liabilities:		
At beginning of year	**$–**	$40,606
Fair value of currency forwards	**18,313**	143,010
Fair value of settled currency forwards	**(7,746)**	(183,616)
At end of year	**$10,567**	$–

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, 2015 and 2014.

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.

	2015	2014
Trust receipts and loans payable	**$42,297,356**	$52,094,452
Long-term bank borrowings	**68,621,358**	47,656,391
Total bank debt	**110,918,714**	99,750,843
Less cash and cash equivalents	**101,532,409**	117,625,491
Net bank debt (cash)	**$9,386,305**	($17,874,648)
Equity attributable to equity holders of the Parent Company	**$232,242,928**	$244,051,201
Debt-to-equity ratio	**0.48:1**	0.41:1
Net debt (cash)-to-equity ratio	**0.04:1**	(0.07:1)

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 nil, $0.73 million and $3.03 million in 2015, 2014 and 2013, 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 January 20, 2016, a fire broke out in one of the operations buildings at IMI's facility in Jiaxing, China. The estimated financial effect is yet to be determined by the Group.

On February 9, 2016, the BOD of the Parent Company approved the declaration of cash dividend of $0.0046 (₱0.2204) per share to all outstanding common shares as of record date of February 26, 2016 payable on March 10, 2016.

CORPORATE DIRECTORY

Integrated Micro-Electronics, Inc.
North Science Avenue, Special Export Processing Zone
Laguna Technopark, Biñan, 4024,
Laguna, Philippines
Tel. no.: (63 2) 756 6840
Fax no.: (63 49) 544-0322
E-mail: sales@global-imi.com
Website: www.global-imi.com

Block 16, Phase 4
Philippine Economic Zone Authority
Rosario, Cavite
Tel. no.: (63 46) 437 0596 or 437 0534
Fax no.: (63 46) 437 0537

Speedy-Tech Electronics Ltd.
Speedy-Tech Industrial Building
20 Kian Teck Lane
Singapore 627854
Tel. no: (65) 6262 1118
Fax no.: (65) 6262 6668

Shenzhen Speedy-Tech Electronics Co., Ltd.
Speedy-Tech Industrial Building
Area 7, Liantang Industrial Zone
Luo Hu, Shenzhen
People's Republic of China 518004
Tel. no.: (86) 755 2570 8382
Fax no.: (86) 755 2570 8019

Speedy-Tech Building A2-4
Kuichong Bengkang Industrial Park,
Dapeng District
Shenzhen, People's Republic of China
Tel: (86) 755 8977 3788
Fax: (86) 755 8977 3068

Speedy-Tech Electronics (Jiaxing) Co., Ltd.
Building 1-3, No. 688, Blk 3 He Ping Street
Economic Industrial Zone
Jiaxing City, Zhejiang
People's Republic of China 314001
Tel. no.: (86) 573 82224 999
Fax no.: (86) 573 82210 558

IMI (Chengdu) Ltd.
Muwei Industrial Park, Huanghe Road, Xindu
District Industrial Zone, East Chengdu City,
Sichuan Province, People's Republic of China 610500
Tel. no.: (86) 28 8395 8377
Fax no.: (86) 28 8395 5509

IMI USA, Inc.
14312 Franklin Avenue
Suite A, Tustin, CA 92780, USA
Tel. no.: (1 714) 734 7043
Fax no.: (1 714) 838 8787

Integrated Micro-Electronics Bulgaria EOOD
Industrial Zone "Mircroelektronika" P.O 66
2140 Botevgrad, Municipality of Botevgrad
Sofia District, Bulgaria
Tel. no.: (359) 723 68 359
Fax no.: (359) 723 68 246

Integrated Micro-Electronics Czech Republic s.r.o.
Plzeňská 1067, Třemošná 330 11
Czech Republic
Tel. no.: (420) 377 882 611
Fax no.: (420) 377 882 610

Integrated Micro-Electronics México, S.A.P.I. de C. V
Calle 4 Poniente No. 10560 / Calle A 239
Parque Industrial El Salto,
C.P.45680 El Salto, Jalisco, México
Tel. no.: (52) 33 4777 1500

PSi Technologies, Inc.
Food Terminal Inc. Special Economic Zone
Electronics Avenue, Taguig City 1633
Philippines
Tel. no.: (63 2) 405 5001

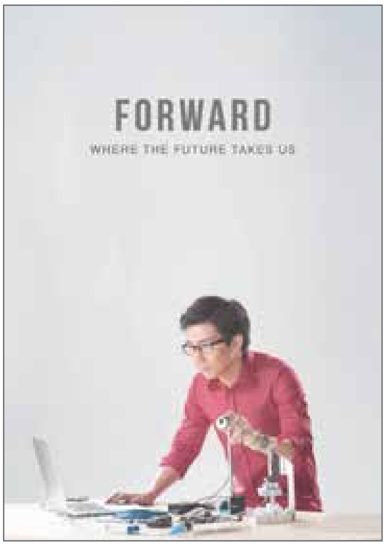
Lot B2-5 Carmelray Industrial Park II
Barangay Milagrosa, Calamba, Laguna 4027
Tel. no.: (63 2) 405 5001
(63 49) 508 0010

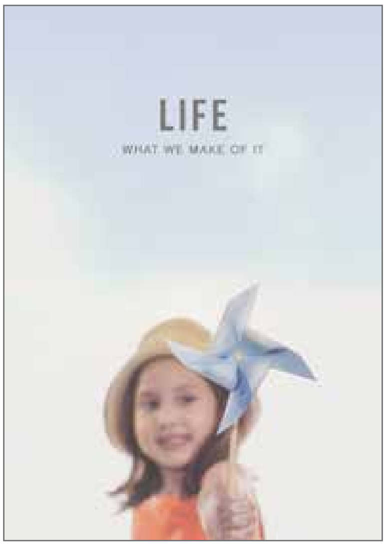
IMI Sales Offices

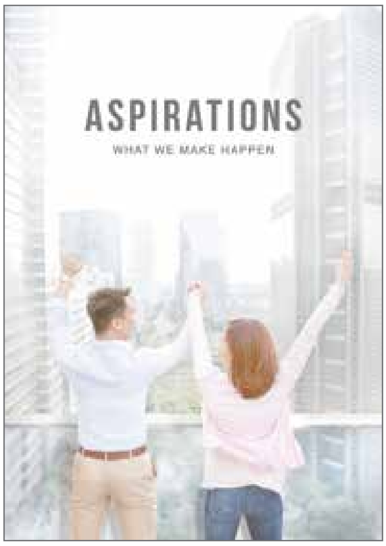
IMI Japan, Inc.
461-0005 Aichi-ken,
Nagoya-shi, Higashi-ku,
Higashisakura 2-5-11
Shoener Building 4th Floor
Tel: (81 52) 932 1001
Fax: (81 52) 932 2002

IMI Europe & Middle East
(Representative Office)
Plockinger Str. 23
D-85 298 Scheyern
Germany
Tel. no.: +49 8441 803840
Fax no.: +49 8441 803916
Mobile no.:+49 1733 555090

IMI Logistics Office
Speedy-Tech Electronics (HK) Ltd.
Unit 2402, 24/F
Cable TV Tower
No. 9 Hoi Shing Road
Tsuen Wan, NT, Hong Kong
Tel. no.: (852) 2413 9830
Fax no.: (852) 2413 5911

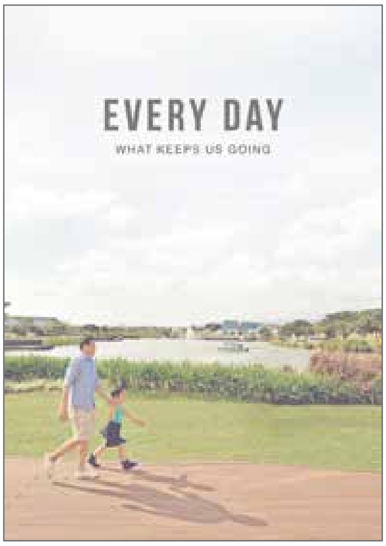


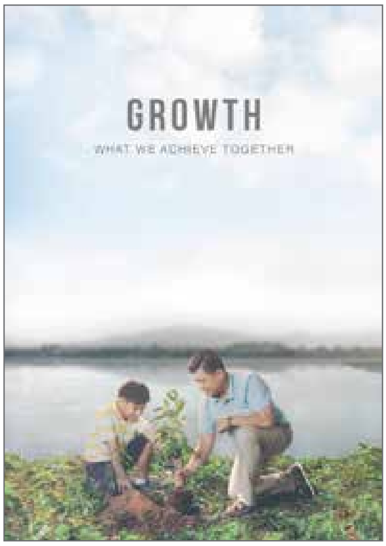


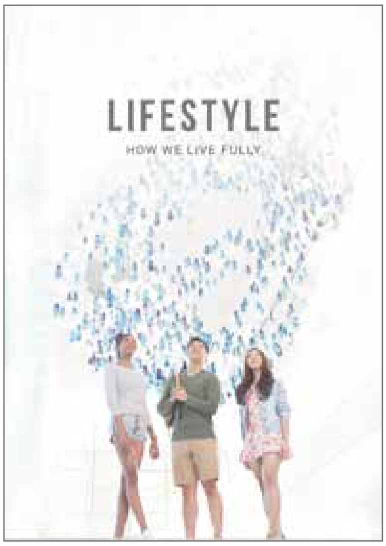


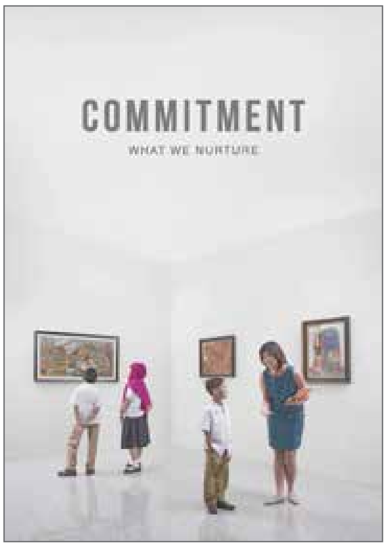
FORWARD

We push where the future takes us—forward. When challenges weaken any market, we take charge. We increase our engineering capabilities as we strengthen our global impact.









CORPORATE INFORMATION

INTEGRATED MICRO-ELECTRONICS, INC.

North Science Avenue
Special Export Processing Zone
Laguna Technopark, Biñan 4024
Laguna, Philippines
www.global-imi.com

STAKEHOLDER INQUIRIES

For inquiries or concerns from analysts, institutional investors, and the financial community, please contact:

IMI Investor Relations Unit
North Science Ave., Laguna Technopark, Special Export Processing Zone, Biñan, Laguna
Tel. No.: +63 (2) 7566840 ext 5425
E-mail: ir@global-imi.com

SHAREHOLDER SERVICES AND ASSISTANCE

For inquiries regarding dividend payments, change of address and account status, lost or damaged stock certificates, please contact:

BPI Stock Transfer Agency
16th Floor BPI Building
6768 Ayala Avenue corner Paseo de Roxas
Makati City, 1226 Philippines
Tel. No: +63(2) 8169067 to 68
+63(2) 8455038
+63(2) 8169898
Fax No: +63(2) 8455515
E-mail: stocktransferoffice@bpi.com.ph

CREDITS

Cover Concept : Medium 3 and IMI
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Portraiture : Wig Tysmans
Erik Liongoren
Operational : Erik Liongoren

"You will find IMI in the heart of things
that power these developments.
IMI will always be relevant, if not on the
leading edge of the next big thing."

- Arthur R. Tan

INTEGRATED MICRO-ELECTRONICS, INC.
North Science Avenue
Special Export Processing Zone
Laguna Technopark
Biñan 4024
Laguna, Philippines
www.global-imi.com