

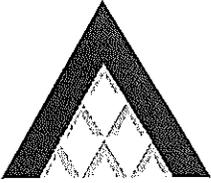
Annex “B”

**Alsons Consolidated Resources, Inc. and
Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
And Years Ended December 31, 2013, 2012 and 2011**

and

Report of Independent Auditors



Alsons Consolidated Resources, Inc.

(Listed in the Philippine Stock Exchange Trading Symbol "ACR")

2nd Floor, Alsons Building
2286 Chino Roces Ext., (formerly P. Tamo Ext.), Makati City
1231 Metro Manila Philippines
Tel. Nos.: (632) 982-3000 Fax Nos.: (632) 982-3077
Website: www.acr.com.ph

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

SECURITIES AND EXCHANGE COMMISSION,
SEC Building, EDSA, Greenhills, Mandaluyong City

The management of Alsons Consolidated Resources Inc., is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012 , including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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


TOMAS I. ALCANTARA
Chairman and President


TIRSO G. SANTILLAN, JR.
Executive Vice-President


LUIS R. YMSON, JR.
Chief Financial Officer

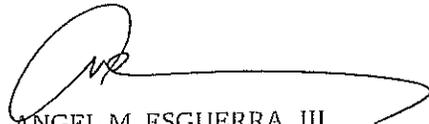
APR 14 2014

SUBSCRIBED AND SWORN to before me this _____ of _____ affiants exhibiting to me their Identifications, as follows:

| <u>Name</u> | <u>Identification No.</u> | <u>Date</u> | <u>Place of Issue</u> |
|-------------------------|---------------------------|-------------|-----------------------|
| Tomas I. Alcantara | PP#EB8610644 | 07-09-13 | DFA Manila |
| Tirso G. Santillan, Jr. | DL#N17-72-000977 | 02-12-12 | LTO Q.C. |
| Luis R. Ymson, Jr. | PP#EB1623317 | 12-29-10 | DFA Manila |

Doc No. 140
Page No. 33
Book No. 1
Series of 2014




ANGEL M. ESGUERRA, III
Notary Public for Makati City, Until December 31, 2015
PTR OR No. 4235940; 01/15/14; Makati City
IBP Lifetime No. 00259; 06/01/95; Pasay Chapter
Roll No. 34787; 06/01/87
Alsons Bldg., 2286 Chino Roces Ave., Makati City



SyCip Gorres Velayo & Co
6768 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

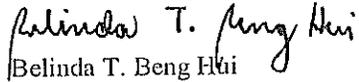
BOAFPRC Reg. No. 0001.
December 28, 2012, valid until December 31, 2015
SEC Accreditation No. 0012-FR-3 (Group A),
November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Alsons Consolidated Resources, Inc.
2286 Don Chino Roces Ave. Extension,
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated March 28, 2014. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.


Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),
March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2012,
June 19, 2012, valid until June 18, 2015

PTR No. 4225152, January 2, 2014, Makati City

March 28, 2014

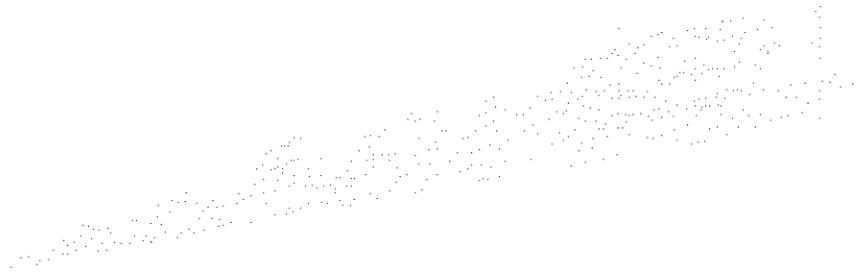
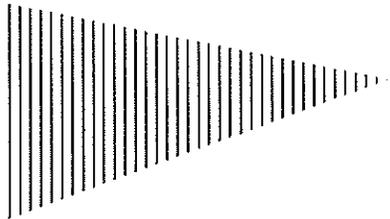


**Alsons Consolidated Resources, Inc.
and Subsidiaries**

Consolidated Financial Statements
December 31, 2013 and 2012
and Years Ended December 31, 2013, 2012 and 2011

and

Independent Auditors' Report



SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Alsons Consolidated Resources, Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui

Belinda T. Beng Hui

Partner

CPA Certificate No. 88823

SEC Accreditation No. 0923-AR-1 (Group A),

March 25, 2013, valid until March 24, 2016

Tax Identification No. 153-978-243

BIR Accreditation No. 08-001998-78-2012,

June 19, 2012, valid until June 18, 2015

PTR No. 4225152, January 2, 2014, Makati City

March 28, 2014



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31 | January 1 | |
|--|--|--|------------------------|
| | 2012 | 2012 | |
| | (As restated - Notes 3, 10 and 12) | (As restated - Notes 3, 10 and 12) | |
| | 2013 | | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents (Notes 7, 33 and 34) | ₱1,422,362,785 | ₱277,436,876 | ₱453,177,125 |
| Short-term cash investments (Notes 7, 33 and 34) | 8,802,310 | 1,068,264,481 | 776,046,934 |
| Trade and other receivables (Notes 8, 21, 33 and 34) | 4,319,949,469 | 2,926,644,834 | 2,945,026,324 |
| Spare parts and supplies (Note 9) | 204,349,009 | 125,257,320 | 144,184,895 |
| Real estate inventories (Note 10) | 649,416,295 | 843,244,822 | 796,235,647 |
| Prepaid expenses and other current assets (Notes 33 and 34) | 236,228,525 | 241,105,192 | 129,177,878 |
| Total Current Assets | 6,841,108,393 | 5,481,953,525 | 5,243,848,803 |
| Noncurrent Assets | | | |
| Noncurrent portion of installment receivables (Notes 8, 33 and 34) | 9,756,899 | 11,408,975 | 10,051,213 |
| Investments in real estate (Note 10) | 1,477,259,866 | 2,473,109,767 | 2,499,173,103 |
| Investments in associates (Note 11) | 1,219,595,317 | 1,315,533,080 | 1,362,930,089 |
| Property, plant and equipment (Notes 12 and 20) | 6,673,763,949 | 2,517,432,651 | 2,812,395,991 |
| Available-for-sale (AFS) financial assets (Notes 13 and 34) | 55,862,692 | 64,394,470 | 46,374,762 |
| Goodwill (Note 14) | 994,928,342 | 923,214,539 | 983,029,619 |
| Retirement asset (Note 29) | 49,965,852 | 60,554,087 | 68,935,253 |
| Deferred tax assets - net (Note 30) | 11,630,735 | 6,115,738 | 6,323,800 |
| Other noncurrent assets (Note 15) | 624,572,058 | 1,170,071,868 | 958,449,310 |
| Total Noncurrent Assets | 11,117,335,710 | 8,541,835,175 | 8,747,663,140 |
| | ₱17,958,444,103 | ₱14,023,788,700 | ₱13,991,511,943 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities | | | |
| Accounts payable and other current liabilities (Notes 16, 33 and 34) | ₱877,737,772 | ₱461,450,851 | ₱415,441,324 |
| Loans payable (Notes 17, 33 and 34) | 794,366,639 | - | 10,156,855 |
| Income tax payable (Note 30) | 100,872,098 | 69,482,159 | 64,358,347 |
| Derivative liability (Notes 18 and 34) | 37,923,780 | 21,545,856 | - |
| Current portion of long-term debt - net of unamortized transaction costs (Notes 18, 33 and 34) | 454,022,139 | 496,909,791 | 258,134,367 |
| Total Current Liabilities | 2,264,922,428 | 1,049,388,657 | 748,090,893 |
| Noncurrent Liabilities | | | |
| Long-term debt - net of current portion and unamortized transaction costs (Notes 18, 33 and 34) | 4,736,472,902 | 1,184,866,758 | 777,633,622 |
| Deferred tax liabilities - net (Note 30) | 425,715,041 | 406,795,745 | 403,453,737 |
| Retirement payable (Note 29) | 9,488,962 | 38,500,438 | 24,051,982 |
| Customers' deposits (Notes 19, 33 and 34) | - | 57,994,573 | 50,423,523 |
| Asset retirement obligation (Notes 12 and 20) | 78,801,367 | 69,558,363 | 62,225,406 |
| Deferred lease income (Note 19) | - | 11,597,353 | 7,059,717 |
| Total Noncurrent Liabilities | 5,250,478,272 | 1,769,313,230 | 1,324,847,987 |
| Total Liabilities | 7,515,400,700 | 2,818,701,887 | 2,072,938,880 |

(Forward)



| | December 31 | | January 1 |
|--|------------------------|--|--|
| | 2013 | 2012 (As restated - Notes 3, 10 and 12) | 2012 (As restated - Notes 3, 10 and 12) |
| Equity (Note 22) | | | |
| Capital stock | 6,309,283,333 | 6,291,500,000 | 6,291,500,000 |
| Other reserves | 175,793,653 | 31,679,317 | 22,417,458 |
| Cumulative translation adjustment | 1,575,034,794 | 1,093,631,739 | 1,254,366,627 |
| Retained earnings: | | | |
| Appropriated | 850,000,000 | 850,000,000 | - |
| Unappropriated | 1,156,385,631 | 803,775,342 | 1,207,574,548 |
| Attributable to equity holders of the parent | 10,066,497,411 | 9,070,586,398 | 8,775,858,633 |
| Non-controlling interests | 376,545,992 | 2,134,500,415 | 3,142,714,430 |
| Total Equity | 10,443,043,403 | 11,205,086,813 | 11,918,573,063 |
| | ₱17,958,444,103 | ₱14,023,788,700 | ₱13,991,511,943 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| | Years Ended December 31 | | |
|--|-------------------------|-----------------------------------|-----------------------------------|
| | 2013 | 2012 (As restated – Note 3) | 2011 (As restated – Note 3) |
| CONTINUING OPERATIONS | | | |
| REVENUE | | | |
| Energy fees (Note 35) | P3,391,414,236 | P2,068,686,056 | P2,059,619,021 |
| Sale of real estate (Note 35) | 17,515,916 | 30,521,191 | 20,731,067 |
| Management fees (Note 35) | 27,063,025 | 32,019,719 | 30,448,095 |
| Rental income and others (Note 32) | 9,827,272 | 11,229,171 | 10,470,978 |
| | <u>3,445,820,449</u> | <u>2,142,456,137</u> | <u>2,121,269,161</u> |
| INCOME (EXPENSES) | | | |
| Cost of services (Notes 23 and 25) | (1,978,477,036) | (875,278,689) | (877,900,891) |
| Cost of real estate sold (Note 10) | (19,506,240) | (44,837,635) | (33,643,838) |
| General and administrative expenses (Notes 7, 24 and 25) | (362,875,246) | (373,440,679) | (296,416,501) |
| Interest income (Note 7) | 25,186,522 | 46,443,117 | 65,169,617 |
| Finance charges (Note 27) | (119,372,797) | (84,290,660) | (30,313,394) |
| Other income (loss) - net (Note 28) | (48,981,949) | 423,544,149 | 372,528,199 |
| | <u>(2,504,026,746)</u> | <u>(907,860,397)</u> | <u>(800,576,808)</u> |
| INCOME BEFORE INCOME TAX | <u>941,793,703</u> | <u>1,234,595,740</u> | <u>1,320,692,353</u> |
| PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 30) | | | |
| Current | 294,235,703 | 232,099,888 | 249,201,422 |
| Deferred | 6,673,501 | 9,054,613 | (22,162,839) |
| | <u>300,909,204</u> | <u>241,154,501</u> | <u>227,038,583</u> |
| NET INCOME FROM CONTINUING OPERATIONS | <u>640,884,499</u> | <u>993,441,239</u> | <u>1,093,653,770</u> |
| DISCONTINUED OPERATIONS (Note 31) | | | |
| NET INCOME FROM DISCONTINUED OPERATIONS | <u>196,295,608</u> | <u>85,428,052</u> | <u>123,017,766</u> |
| NET INCOME | <u>P837,180,107</u> | <u>P1,078,869,291</u> | <u>P1,216,671,536</u> |
| Attributable to: | | | |
| Equity holders of the parent | | | |
| Net income from continuing operations | P320,524,487 | P457,918,762 | P382,579,121 |
| Net income from discontinued operations | 146,348,389 | 51,197,032 | 73,724,547 |
| | <u>466,872,876</u> | <u>509,115,794</u> | <u>456,303,668</u> |
| Non-controlling interests | | | |
| Net income from continuing operations | 320,360,012 | 535,522,477 | 711,074,649 |
| Net income from discontinued operations | 49,947,219 | 34,231,020 | 49,293,219 |
| | <u>370,307,231</u> | <u>569,753,497</u> | <u>760,367,868</u> |
| | <u>P837,180,107</u> | <u>P1,078,869,291</u> | <u>P1,216,671,536</u> |
| Basic/diluted earnings per share attributable to equity holders of the parent (Note 22) | <u>P0.074</u> | <u>P0.081</u> | <u>P0.073</u> |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|-------------------------|-----------------------------------|-----------------------------------|
| | 2013 | 2012 (As restated – Note 3) | 2011 (As restated – Note 3) |
| NET INCOME | ₱837,180,107 | ₱1,078,869,291 | ₱1,216,671,536 |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Actuarial gains (losses) (Note 29) | (1,994,575) | (12,151,615) | 37,504,584 |
| Limit on retirement asset (Note 29) | (7,547,368) | (4,978,395) | (1,515,863) |
| Tax effect (Note 30) | 1,380,343 | 704,767 | (5,639,520) |
| | (8,161,600) | (16,425,243) | 30,349,201 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Unrealized gains (losses) on fair valuation of AFS financial assets (Note 13) | (6,741,009) | 18,019,708 | 3,813,882 |
| Translation adjustments | 213,527,769 | (266,651,873) | 1,067,077 |
| | 206,786,760 | (248,632,165) | 4,880,959 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX | 198,625,160 | (265,057,408) | 35,230,160 |
| TOTAL COMPREHENSIVE INCOME | ₱1,035,805,267 | ₱813,811,883 | ₱1,251,901,696 |
| Attributable to: | | | |
| Equity holders of the parent: | | | |
| Total comprehensive income from continuing operations | ₱485,476,152 | ₱310,293,431 | ₱404,080,595 |
| Total comprehensive income discontinued operations | 143,027,095 | 47,349,334 | 71,328,288 |
| | 628,503,247 | 357,642,765 | 475,408,883 |
| Non-controlling interests | | | |
| Total comprehensive income from continuing operations | 359,575,463 | 424,510,720 | 728,801,765 |
| Total comprehensive income from discontinued operations | 47,726,557 | 31,658,398 | 47,691,048 |
| | 407,302,020 | 456,169,118 | 776,492,813 |
| | ₱1,035,805,267 | ₱813,811,883 | ₱1,251,901,696 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

Attributable to Equity Holders of the Parent

| | Unrealized | | | | | Appropriated Retained Earnings (Note 22) | Equity Reserves (Note 22) | Cumulative Translation Adjustment | Non-controlling Interests (Note 1) | | Total |
|--|-------------------------|--|--|--|-----------------------------|--|---------------------------|-----------------------------------|------------------------------------|-----------------|-----------|
| | Capital Stock (Note 22) | Actuarial Gains (Losses) on AFS Financial Assets (Notes 13 and 22) | Unappropriated Retained Earnings (Note 22) | Gains (Losses) on AFS Financial Assets (Notes 13 and 22) | Retained Earnings (Note 22) | | | | Total | Interests | |
| Balance at December 31, 2012, as previously reported | ₱6,291,500,000 | (₱3,816,281) | ₱804,037,231 | ₱35,495,598 | ₱850,000,000 | ₱- | ₱1,093,631,739 | ₱9,070,848,287 | ₱2,134,500,415 | ₱11,205,348,702 | (261,889) |
| Effect of adoption of PAS 19 (Note 3) | - | - | (261,889) | - | 850,000,000 | - | 1,093,631,739 | 9,070,848,287 | 2,134,500,415 | 11,205,086,813 | - |
| Balance at December 31, 2012, as restated | 6,291,500,000 | (3,816,281) | 803,775,342 | 35,495,598 | 850,000,000 | - | 1,093,631,739 | 9,070,848,287 | 2,134,500,415 | 11,205,086,813 | - |
| Net income | - | - | 466,872,876 | (6,741,009) | - | - | - | 466,872,876 | 370,307,231 | 837,180,107 | - |
| Other comprehensive income | - | 5,374,648 | (9,565,251) | - | - | - | 172,561,983 | 161,630,371 | 36,994,789 | 198,625,160 | - |
| Total comprehensive income | - | 5,374,648 | (457,307,625) | (6,741,009) | - | - | 172,561,983 | 628,503,247 | 407,302,020 | 1,035,805,267 | - |
| Issuance of preferred shares | 55,000,000 | - | - | - | - | - | - | 55,000,000 | - | 55,000,000 | - |
| Redemption of preferred shares (Note 1) | (37,216,667) | - | - | - | - | - | - | (37,216,667) | - | (37,216,667) | - |
| Acquisition of non-controlling interest (Note 22) | - | - | - | - | - | - | 308,841,072 | 454,321,769 | (119,115,819) | (119,115,819) | - |
| Disposal of a subsidiary (see Note 31) | - | - | - | - | - | - | 145,480,697 | - | (982,332,166) | (527,910,397) | - |
| Dividends | - | - | (104,697,336) | - | - | - | - | (104,697,336) | (594,921,355) | (699,621,691) | - |
| Balance at December 31, 2013 | ₱6,309,283,333 | ₱1,558,367 | ₱1,156,385,631 | ₱28,754,589 | ₱850,000,000 | ₱145,480,697 | ₱1,575,034,794 | ₱10,066,497,411 | ₱376,545,992 | ₱10,443,043,403 | - |
| Balance at December 31, 2011, as previously reported | ₱6,291,500,000 | ₱4,941,568 | ₱1,208,306,857 | ₱17,475,890 | ₱- | ₱- | ₱1,254,366,627 | ₱8,776,590,942 | ₱3,142,714,430 | ₱11,919,305,372 | (732,309) |
| Effect of adoption of PAS 19 (Note 3) | - | - | (732,309) | - | - | - | - | (732,309) | - | - | - |
| Balance at December 31, 2011, as restated | 6,291,500,000 | 4,941,568 | 1,207,574,548 | 17,475,890 | - | - | 1,254,366,627 | 8,775,838,633 | 3,142,714,430 | 11,918,573,063 | - |
| Net income, as previously reported | - | - | 508,645,374 | - | - | - | - | 508,645,374 | 569,753,497 | 1,078,398,871 | - |
| Effect of adoption of PAS 19 (see Note 3) | - | - | 470,420 | - | - | - | - | 470,420 | - | 470,420 | - |
| Net income, as restated | - | - | 509,115,794 | - | - | - | - | 509,115,794 | 569,753,497 | 1,078,869,291 | - |
| Other comprehensive income | - | (8,757,849) | 18,019,708 | - | - | - | (160,734,888) | (151,473,029) | (113,584,379) | (265,057,408) | - |
| Total comprehensive income | - | (8,757,849) | 509,115,794 | - | - | - | (160,734,888) | 357,642,765 | 456,169,118 | 813,811,883 | - |
| Redemption of preferred shares | - | - | - | - | - | - | - | - | (1,102,514,545) | (1,102,514,545) | - |
| Capital contribution | - | - | (850,000,000) | - | - | 850,000,000 | - | - | 354,583,400 | 554,583,400 | - |
| Appropriation of retained earnings | - | - | (62,915,000) | - | - | - | - | (62,915,000) | - | (62,915,000) | - |
| Dividends | - | - | ₱803,775,342 | ₱35,495,598 | ₱850,000,000 | - | ₱1,093,631,739 | (62,915,000) | (716,451,988) | (779,366,988) | - |
| Balance at December 31, 2012 | ₱6,291,500,000 | (₱3,816,281) | ₱803,775,342 | ₱35,495,598 | ₱850,000,000 | ₱- | ₱1,093,631,739 | ₱9,070,848,287 | ₱2,134,500,415 | ₱11,205,086,813 | - |



Attributable to Equity Holders of the Parent

| | Capital Stock (Note 22) | Actuarial Gains (Losses) (Notes 22 and 29) | Unrealized Gains on AFS Financial Assets (Notes 13 and 22) | Unappropriated Retained Earnings (Note 22) | Appropriated Retained Earnings (Note 22) | Equity Reserve (Note 22) | Cumulative Translation Adjustment | Total | Non-controlling Interests (Note 1) | Total |
|--|----------------------------|--|--|---|---|-----------------------------|---|-------------------------------|--|--------------------------------|
| Balance at December 31, 2010, as previously reported | P6,291,500,000 | (P3,892,053) | P13,662,008 | P821,624,316 (1,146,938) | P- | P- | P1,247,908,915 | P8,370,803,186 (1,146,938) | P2,914,192,161 | P11,284,995,347 (1,146,938) |
| Effect of adoption of PAS 19 | - | - | - | 820,477,378 | - | - | 1,247,908,915 | 8,369,656,248 | 2,914,192,161 | 11,283,848,409 |
| Balance at December 31, 2010, as restated | 6,291,500,000 | (3,892,053) | 13,662,008 | 820,477,378 | - | - | 1,247,908,915 | 8,369,656,248 | 2,914,192,161 | 11,283,848,409 |
| Net income | - | - | - | 455,889,039 414,629 | - | - | - | 455,889,039 414,629 | 760,367,868 | 1,216,256,907 414,629 |
| As previously report | - | - | - | 455,889,039 | - | - | - | 455,889,039 | 760,367,868 | 1,216,256,907 |
| Effect of adoption of PAS 19 (see Note 3) | - | - | - | 414,629 | - | - | - | 414,629 | - | 414,629 |
| As restated | - | - | - | 456,303,668 | - | - | - | 456,303,668 | 760,367,868 | 1,216,671,536 |
| Other comprehensive income | - | 8,833,621 | 3,813,882 | - | - | - | 6,437,712 | 19,103,215 | 16,124,945 | 35,230,160 |
| Total comprehensive income | - | 8,833,621 | 3,813,882 | 456,303,668 | - | - | 6,437,712 | 475,408,883 | 776,492,813 | 1,251,901,696 |
| Dividends | - | - | - | (69,206,498) | - | - | - | (69,206,498) | (547,970,544) | (617,177,042) |
| Balance at December 31, 2011 | P6,291,500,000 | P4,941,568 | P17,475,890 | P1,207,574,548 | P- | - | P1,234,366,627 | P8,775,858,633 | P3,142,714,430 | P11,918,573,063 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|-------------------------|----------------|----------------|
| | 2013 | 2012 | 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before tax from: | | | |
| Continuing operation | P941,793,703 | P1,234,595,740 | P1,320,692,353 |
| Discontinued operations (Note 31) | 206,465,528 | 101,188,404 | 130,832,900 |
| Adjustments for: | | | |
| Depletion, depreciation and amortization (Note 26) | 706,131,285 | 622,842,832 | 609,506,648 |
| Finance charges (Notes 27 and 31) | 121,904,845 | 84,873,519 | 30,046,879 |
| Equity in net losses (earnings) of associates (Notes 11 and 28) | 100,920,763 | 22,850,988 | (5,153,081) |
| Unrealized foreign exchange loss (gain) (Note 28) | 83,993,180 | (8,619,819) | (5,917,759) |
| Gain on sale of subsidiary (Note 31) | (71,645,698) | - | - |
| Interest income (Notes 7 and 31) | (27,041,508) | (49,715,083) | (69,138,738) |
| Mark-to-market loss on derivative liability (Notes 28 and 34) | 16,377,924 | 11,632,044 | - |
| Pension costs (Notes 25 and 29) | 12,370,178 | 6,157,131 | 10,639,526 |
| Recovery of impairment loss on real estate inventories due to sale (Note 10) | (4,140,694) | (17,108,236) | (6,744,646) |
| Operating lease income based on straight-line amortization of deferred lease (Note 19) | (1,574,019) | (1,567,108) | (1,036,813) |
| Gain on sale of property, plant and equipment (Note 28) | (356,577) | (1,023,156) | (1,037,601) |
| Provisions for impairment of: | | | |
| Deferred project cost (Notes 15 and 24) | 2,849,457 | 2,849,457 | 2,886,458 |
| Trade and other receivables (Notes 8 and 24) | - | 20,000,000 | 539,296 |
| Short-term cash investments (Notes 7 and 24) | - | 3,968,330 | - |
| Reversal of impairment loss on real estate inventories (Notes 10 and 28) | - | (72,066,280) | - |
| Reversal of provisions for liquidation expenses (Notes 1 and 28) | - | (956,400) | (17,606,990) |
| Gain on dacion en pago (Notes 10, 18, 21 and 28) | - | - | (56,890,005) |
| Write-off of receivables (Notes 8 and 24) | - | - | 2,318,787 |
| Operating income before working capital changes | 2,088,048,367 | 1,959,902,363 | 1,943,937,214 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (207,900,503) | 40,574,852 | 73,546,532 |
| Real estate inventories | 26,815,575 | 40,610,481 | 177,998,819 |
| Spare parts and supplies | (79,405,302) | 12,138,514 | 6,371,957 |
| Prepaid expenses and other current assets | (6,847,721) | (114,291,455) | (5,930,636) |
| Increase (decrease) in: | | | |
| Accounts payable and other current liabilities | 514,445,066 | 30,364,474 | (41,005,359) |
| Customers' deposits | 23,830,464 | 13,429,818 | 3,116,800 |
| Net cash flows from operations | 2,358,985,946 | 1,982,729,047 | 2,158,035,327 |
| Income taxes paid (Note 30) | (269,250,511) | (242,107,451) | (294,053,285) |
| Retirement contributions and benefit paid (Note 29) | - | (457,519) | (7,810,941) |
| Net cash flows from operating activities | 2,089,735,435 | 1,740,164,077 | 1,856,171,101 |

(Forward)



| | Years Ended December 31 | | |
|--|-------------------------|----------------------|------------------------|
| | 2013 | 2012 | 2011 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Decrease (increase) in: | | | |
| Due from related parties | (P1,209,787,525) | (P43,551,124) | (P459,742,424) |
| Short-term cash investments | 1,049,459,622 | (307,791,146) | 154,116,196 |
| Other noncurrent assets | (97,953,061) | (275,115,177) | (331,466,351) |
| Investments in real estate | (90,561,841) | 23,128,693 | (101,414,638) |
| Additions to: | | | |
| Property, plant and equipment (Note 12) | (4,398,985,589) | (449,681,050) | (236,375,442) |
| Investments in associates | (4,983,000) | - | - |
| Computer software (Note 15) | (3,701,167) | (14,688,552) | (226,000) |
| Interest received | 28,169,308 | 61,320,352 | 64,227,612 |
| Proceeds from disposal of: | | | |
| Subsidiary, net of cash and cash equivalents disposed (Note 31) | 952,034,210 | - | - |
| AFS financial assets | 1,790,769 | - | - |
| Associate (Note 11) | - | 24,546,021 | - |
| Property, plant and equipment | 2,480,760 | 2,771,926 | 1,511,990 |
| Net cash flows used in investing activities | (3,772,037,514) | (979,060,057) | (909,369,057) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Availment of loans (Notes 17 and 18) | 4,871,169,729 | 1,010,617,028 | - |
| Payments of: | | | |
| Dividends | (695,588,358) | (779,366,988) | (617,177,042) |
| Debts (Note 18) | (555,566,654) | (283,920,990) | (383,885,322) |
| Interest | (71,348,834) | (46,884,571) | (32,696,812) |
| Loans (Note 17) | - | (10,156,855) | (19,843,145) |
| Transaction costs | (88,718,073) | (84,306,743) | - |
| Acquisition of noncontrolling interest (Note 1) | (527,910,397) | - | - |
| Proceeds from issuance of preferred shares (Note 22) | 13,750,000 | - | - |
| Capital contribution from noncontrolling interest (Note 1) | - | 354,583,400 | - |
| Cash outflow from redemption of redeemable preferred shares (Note 1) | (119,115,819) | (1,102,514,545) | - |
| Net cash flows provided by (used in) financing activities | 2,826,671,594 | (941,950,264) | (1,053,602,321) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,144,369,515 | (180,846,244) | (106,800,277) |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | 556,394 | 5,105,995 | 2,492,857 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7) | 277,436,876 | 453,177,125 | 557,484,545 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7) | P1,422,362,785 | P277,436,876 | P453,177,125 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Alsons Consolidated Resources, Inc. (ACR or Parent Company) is a stock corporation organized on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. in March 1995 and to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. ACR's primary purpose was consequently changed to that of an investment holding company and oil exploration was relegated as a secondary purpose. The registered office address of ACR is 2286 Don Chino Roces Ave. Extension, Makati City.

The consolidated financial statements include the accounts of ACR and the subsidiaries (collectively referred to as "the Group") listed in the table below:

| Subsidiaries | Nature of business | Percentage of Ownership | | | |
|--|-------------------------------|-------------------------|----------|--------|----------|
| | | 2013 | | 2012 | |
| | | Direct | Indirect | Direct | Indirect |
| Conal Holdings Corporation (CHC) | Investment holding | 100.00 | – | 60.00 | – |
| Alsing Power Holdings, Inc. (APHI) | Investment holding | 20.00 | 80.00 | 20.00 | 80.00 |
| Western Mindanao Power Corporation (WMPC) | Power generation | – | 55.00 | – | 55.00 |
| Southern Philippines Power Corporation (SPPC) | Power generation | – | 55.00 | – | 55.00 |
| Alto Power Management Corporation (APMC) | Management services | – | 60.00 | – | 60.00 |
| APMC International Limited (AIL) | Management services | – | 100.00 | – | 100.00 |
| Mapalad Power Corporation (MPC)* | Power generation | – | 100.00 | 100.00 | – |
| Sarangani Energy Corporation (Sarangani) | Power generation | 75.00 | – | 75.00 | – |
| Siguil Hydro Power Corporation (Siguil) | Power generation | 100.00 | – | 100.00 | – |
| Kalaong Power Corporation (Kalaong) | Power generation | 100.00 | – | 100.00 | – |
| San Ramon Power, Inc. (SRPI) | Power generation | 100.00 | – | 100.00 | – |
| Alsons Land Corporation (ALC) | Real estate | 99.55 | – | 99.55 | – |
| Lima Land, Inc. (LLI)** | Real estate | – | – | – | 59.93 |
| Lima Utilities Corporation (LUC) | Power distribution | – | – | – | 100.00 |
| Lima Water Corporation (LWC) | Water distribution | – | – | – | 100.00 |
| Alsons Power International Limited (APIL) | Power generation | 100.00 | – | 100.00 | – |
| ACR Mining Corporation (ACRMC) | Exploration and mining | 100.00 | – | 100.00 | – |
| MADE (Markets Developers), Inc. | Distribution | 80.44 | – | 80.44 | – |
| Kamanga Agro-Industrial Ecozone Development Corporation (KAED) | Agro-industrial economic zone | 100.00 | – | 100.00 | – |
| ACES Technical Services Corporation (ACES) | Management services | 100.00 | – | 100.00 | – |

*Directly owned in 2010 but were transferred to CHC in 2013

**Sold in 2013

SPPC and WMPC are independent power producers (IPPs) with Energy Conversion Agreements (ECAs) with the Philippine government through the National Power Corporation (NPC) (see Note 35a).

Except for AIL and APIL, which are incorporated in the British Virgin Islands (BVI), all of the subsidiaries are incorporated in the Philippines.



Status of Operations

CHC and Subsidiaries. In February 2012, WMPC redeemed in full its redeemable preferred shares while SPPC redeemed a portion of its redeemable preferred shares. In May 2012, CHC redeemed 3,311,901 redeemable preferred shares for a total redemption price of \$29.62 million (₱1,263 million) or \$8.94 per share. In February 2013, CHC redeemed 141,213 redeemable preferred shares for a total redemption price of \$1.26 million (₱55 million). In May 2013, SPPC redeemed a portion of its preferred shares. Consequently, in June 2013, CHC redeemed additional 178,462 redeemable preferred shares for a total redemption price of \$1.6 million (₱69 million). Subsequently, the same preferred shares were retired and are not available for re-issue. The share of the non-controlling interest in the redemption is shown below:

| 2013 | | | |
|------|---------------------|--------------|--|
| | Number of Shares | Total Amount | Share of Non- controlling Interest |
| CHC | 319,675 | ₱120,638,388 | ₱48,240,147 |
| SPPC | 483,874 | 157,501,313 | 70,875,672 |
| | | ₱278,139,701 | ₱119,115,819 |

| 2012 | | | |
|------|---------------------|----------------|--|
| | Number of Shares | Total Amount | Share of Non- controlling Interest |
| CHC | 3,311,901 | ₱1,263,030,275 | ₱505,212,107 |
| WPMC | 3,161,200 | 1,026,961,407 | 458,842,038 |
| SPPC | 967,750 | 308,211,178 | 138,460,400 |
| | | ₱2,598,202,860 | ₱1,102,514,545 |

The Board of Directors (BOD) of Northern Mindanao Power Corporation (NMPC), a subsidiary under CHC, approved on April 25, 2008 the amendments to NMPC's Articles of Incorporation to shorten its corporate life up to November 15, 2009. After November 15, 2009, NMPC is deemed dissolved. Consequently, NMPC's remaining assets and liabilities have all been transferred to CHC's books as at December 31, 2009. CHC is responsible for the final liquidation of NMPC's net assets and the payment to the non-controlling shareholders.

CHC recognized a loss of ₱0.5 million in 2012 on remeasurement of payable to non-controlling shareholders as a result of the reversal of provisions for liquidation expenses. The loss was presented net of the gain on reversal of provisions for liquidation expenses in the consolidated statement of income amounting to ₱1 million in 2012 and ₱18 million in 2011 (see Note 28). The net distributable assets of NMPC at the end of the three-year liquidation period on November 15, 2012 amounted to ₱81 million. Payable to non-controlling shareholders of a dissolved subsidiary amounted to ₱29 million as at December 31, 2012 (see Note 16). In 2013, CHC has fully liquidated the net distributable assets of NMPC and paid the non-controlling shareholders.

On July 2, 2013, the Parent Company entered into a Share Purchase Agreement to acquire 40% interest in voting shares of CHC, increasing its ownership to 100% (see Note 22).



CHC organized and incorporated MPC on July 13, 2010 as wholly owned subsidiary to rehabilitate and operate the 103 MW Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II located in Iligan City. On June 27, 2011, ACR acquired full control of MPC through an agreement with CHC, wherein CHC assigns all shares to ACR. The deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. On August 1, 2013, ACR transferred MPC to CHC for a total consideration of \$7,781 (₱0.3 million). MPC entered into Power Supply Agreements (PSAs) with various distribution utilities and electric cooperatives (see Note 35c). On September 6, 2013, MPC started operating 98 MW of the 103 MW Bunker-Fired IDPPs. MPC expects to complete the rehabilitation and operate the balance of 5 MW by end of the first quarter of 2014.

Sarangani. CHC organized Sarangani on October 15, 2010, as wholly owned subsidiary to construct, commission and operate power generating plant facilities of electricity in Maasim, Sarangani Province. Sarangani's power-generating project "SM 200" is a coal-fired power plant project with a 210 mega-watts (MW) capacity. SM200 is embedded within the franchised area of South Cotabato II Electric Cooperative, Inc. (SOCOTECO II). The total project cost is ₱13.5 billion of which ₱4.2 billion is in the form of equity and ₱9.3 billion through a syndicated term loan from local banks. In 2009, the Department of Energy and the Department of Environment and Natural Resources approved the Environmental Compliance Certificate (ECC) application for SM200. The construction of SM 200 will be in two phases. Construction of phase 1 (105 MW) commenced in 2012 and is expected to be completed in August 2015. Phase 2 (105MW) will follow a year after Phase 1. On June 27, 2011, ACR acquired full control of Sarangani through an agreement with CHC, wherein CHC assigns all shares to ACR. On December 10, 2012, ACR entered into a shareholders agreement with Toyota Tsusho Corporation (TTC), a company incorporated in Japan, wherein TTC agreed to subscribe and paid ₱355 million worth of Sarangani shares, representing 25% of the total equity of Sarangani. On the same date, ACR entered into a Development Fee Agreement with TTC, wherein TTC agreed to pay ACR a development fee amounting to \$5.75 million or ₱236 million, representing compensation to ACR as sole project proponent for the time, risk, and resources in developing Sarangani project. The development fee received by ACR was recorded as part of "Other income - net" in the 2012 consolidated statement of income (see Note 28).

Sarangani has obtained a ₱9.3 billion project financing facility from syndicate of domestic banks on December 12, 2012 (see Note 18). The notice to proceed to commence the relevant sub-contract works in accordance with the Engineering Procurement Construction (EPC) Contract was issued to Daelim Industrials, Inc. of Korea on December 28, 2012. Commercial operation is expected to commence in August 2015.

Siguil and Kalaong. The Parent Company organized and incorporated Siguil and Kalaong on July 22, 2011 as wholly owned subsidiaries. Siguil and Kalaong were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. Siguil's 17MW Hydro Power Project is in Maasim Sarangani while Kalaong's 40MW Hydro Power Project is in Bago Negros Oriental. These projects are expected to augment power supply in the cities of General Santos and Bacolod, respectively, once they are completed. As at March 28, 2014, Siguil and Kalaong have not started commercial operations.

SRPI. The Parent Company organized and incorporated SRPI on July 22, 2011, as wholly owned subsidiary. SRPI was incorporated primarily to acquire, construct, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPI has obtained its ECC on March 20, 2012 for the planned 105MW coal fired power plant to be located in Zamboanga Ecozone. SRPI expected construction of the power plant that was previously



forecasted to commence in the later part of 2013 has been deferred at later time. Daelim Industrial, Inc. of Korea is also its EPC contractor. The total project cost is estimated at ₱13.5 billion. As at March 28, 2014, SRPI is still in the process of negotiation with various banks to finance the project.

ACRMC. In 2007, the Parent Company infused capital in ACRMC amounting to ₱195 million to support the latter's acquisition of the 75% interest of Alsons Development and Investment Corporation (Aldevinco), stockholder of Parent Company, in the Joint Venture with Southern Exploration Corporation (SECO) to explore and develop the Manat Mining Claims situated in the provinces of Davao del Norte and Compostela Valley (see Note 15). On October 25, 2012, the Declaration of Mining Project Feasibility was submitted to the Mines and Geosciences Bureau. As at March 28, 2014, ACRMC has not yet started commercial operations.

MADE. MADE, which is in the distribution business, has incurred significant losses in prior years resulting in capital deficiency. Because of the recurring losses, MADE decided to cease operations effective April 30, 2006 and significantly reduced its employees. These factors indicate the existence of a material uncertainty which may cast significant doubt about MADE's ability to continue operating as a going concern. As at March 28, 2014, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading operations.

KAED. On September 3, 2010, the Parent Company incorporated KAED to establish, develop, operate and maintain an agro-industrial economic zone and provide the required infrastructure facilities and utilities such as power and water supply and distribution system, sewerage and drainage system, waste management system, pollution control device, communication facilities and other facilities as may be required for an agro-industrial economic zone. As at March 28, 2014, KAED has not started commercial operations.

ACES. The Parent Company organized and incorporated ACES on July 7, 2011 with primary purpose as the operations and maintenance contractor of the coal power plant (see Note 35b). As at March 28, 2014, ACES has not started commercial operations.

Approval and Authorization of the Issuance of the Consolidated Financial Statements

The consolidated financial statements upon recommendation for approval by the Audit Committee on March 20, 2014, were authorized for issue by the BOD on March 28, 2014.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a 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 Philippine peso, the functional and presentation currency of the Group, except for CHC and Subsidiaries whose functional currency is U.S. dollar.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional consolidated balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the consolidated financial statements. An additional consolidated balance sheet as at January 1, 2012 is presented in the consolidated



financial statements due to retrospective application of revised PAS 19, *Employee Benefits and retrospective restatement* (see Notes 3, 10 and 12).

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council (FRSC). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by FRSC.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 each year (see Note 1).

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

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

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

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

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

Profit or loss and each component of OCI are attributable to equity holders of the parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



A change in 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 interest
- Derecognizes the cumulative translation differences 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
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate as would be required if the Group had directly disposed of the related assets or liabilities.

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

Material Partly-Owned Subsidiaries

The tables below show details of materially partly-owned subsidiaries of ACR through CHC:

| Name of Subsidiary | Place of Incorporation and Operation | Principal Activity | Proportion Ownership Interest and Voting Rights Held by Non-controlling Interests | |
|--------------------|--------------------------------------|--------------------|---|------|
| | | | 2013 | 2012 |
| SPPC | Philippines | Power generation | 45% | 45% |
| WMPC | Philippines | Power generation | 45% | 45% |

The summarized financial information in respect of each of CHC's subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

Summarized balance sheets as at December 31, 2013 and 2012 are as follows:

| | December 31 | | | |
|--------------------------------------|-----------------------|-------------|-----------|-------------|
| | 2013 | | 2012 | |
| | SPPC | WMPC | SPPC | WMPC |
| | <i>(In Thousands)</i> | | | |
| Current assets | ₱521,863 | ₱903,394 | ₱576,640 | ₱887,205 |
| Noncurrent assets | 586,547 | 833,205 | 704,029 | 1,034,435 |
| Current liabilities | (186,459) | (363,018) | (159,349) | (340,101) |
| Noncurrent liabilities | (213,940) | (300,421) | (274,538) | (476,651) |
| Equity | (708,011) | (1,073,160) | (846,782) | (1,104,888) |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱388,412 | ₱579,000 | ₱464,820 | ₱597,180 |
| Non-controlling interests | ₱319,600 | ₱494,294 | ₱381,962 | ₱507,708 |



Summarized statements of income for 2013 and 2012 are as follows:

| | 2013 | | 2012 | |
|----------------------------|-----------------------|------------|-----------|------------|
| | SPPC | WMPC | SPPC | WMPC |
| | <i>(In Thousands)</i> | | | |
| Revenue | ₱714,345 | ₱1,381,296 | ₱716,767 | ₱1,386,144 |
| Expenses | (427,309) | (635,044) | (401,930) | (607,246) |
| Provision for income tax | (75,779) | (182,405) | (67,960) | (164,683) |
| Net income | 211,257 | 563,847 | 246,877 | 614,215 |
| Other comprehensive loss | (721) | (509) | (3,295) | (4,688) |
| Total comprehensive income | ₱210,536 | ₱563,338 | ₱243,582 | ₱609,527 |

| | 2013 | | 2012 | |
|--------------------------------------|-----------------------|----------|----------|----------|
| | SPPC | WMPC | SPPC | WMPC |
| | <i>(In Thousands)</i> | | | |
| Attributable to: | | | | |
| Equity holders of the Parent Company | ₱115,790 | ₱309,821 | ₱133,977 | ₱312,429 |
| Non-controlling interests | ₱94,745 | ₱253,517 | ₱109,606 | ₱274,289 |

Summarized statements of cash flows for 2013 and 2012 are as follows:

| | 2013 | | 2012 | |
|--|-----------|------------|-----------|-------------|
| | SPPC | WMPC | SPPC | WMPC |
| Operating | ₱499,799 | ₱1,115,025 | ₱488,606 | ₱970,227 |
| Investing | 69,079 | 116,137 | (35,986) | 147,395 |
| Financing | (528,079) | (965,325) | (497,766) | (1,283,052) |
| Net increase (decrease) in cash and cash equivalents | ₱40,799 | ₱265,837 | (₱45,146) | (₱165,430) |
| Dividends paid to non-controlling interests | ₱119,867 | ₱319,644 | ₱110,916 | ₱369,720 |

3. Changes in Accounting Policies and Disclosures

New Standards and Interpretations Issued and Effective as at January 1, 2013

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements. These include PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PAS 19, *Employee Benefits (Revised 2011)*, PFRS 13, *Fair Value Measurement* and amendments to PAS 1, *Presentation of Financial Statements*. In addition, the application of PFRS 12, *Disclosure of Interests in Other Entities*, resulted in additional disclosures in the consolidated financial statements.

Several other amendments apply for the first time in 2013. However, they do not impact the consolidated financial statements.

The nature and the impact of each new standard and amendment are described below:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)*. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement,' irrespective of whether they are set-off in accordance with PAS 32.



The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

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

The amendments to PFRS 7 were retrospectively applied during the year. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. PFRS 10 defined control as when an investor 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. A reassessment of control was performed by the Group on all its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Group determined that it has no subsidiaries where the Group has lost its control or new control was gained over previously accounted associates.
- PFRS 11, *Joint Arrangements*. PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 described the accounting for a joint arrangement which is defined as a contractual arrangement over which two or more parties have joint control. The standard requires a joint arrangement to be classified as either a joint operation or a joint venture, based on the contractual rights and obligations of that joint arrangement. The standard removed the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. Adoption of the standard has no impact on the consolidated financial position and performance.
- PFRS 12, *Disclosures of Interests in Other Entities*. This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. While the Parent Company has subsidiaries with material noncontrolling interests, there are no unconsolidated structured entities. PFRS 12 disclosures are provided in Note 11.
- PFRS 13, *Fair Value Measurement*. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.



As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Group has assessed that the application of PFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 34.

- PAS 1, *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendments)*. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the consolidated financial position or performance.
- PAS 19, *Employee Benefits (Revised)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Except for the immediate recognition of past service cost, the adoption did not materially affect the Group’s financial position and performance since actuarial gains and losses are recognized in full in the period in which these occur in other comprehensive income based on the Group’s current accounting policy.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

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

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

| | As at December 31 2013 | As at December 31, 2012 | As at January 1 2011 |
|------------------------------------|------------------------------|-------------------------------|----------------------------|
| Increase (decrease) in: | | | |
| <u>Consolidated Balance Sheets</u> | | | |
| Retained earnings | P227,731 | P261,889 | (P732,309) |
| Accrued retirement expense | 227,731 | 261,889 | 732,309 |



| | 2013 | 2012 |
|--|-----------|------------|
| <u>Consolidated Statements of Income</u> | | |
| Retirement expense | (P34,158) | (P470,420) |
| Net income | 34,158 | 470,420 |

- PAS 27, *Separate Financial Statements (as revised in 2011)*. As a consequence of the new PFRS 10 and PFRS 12, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements of the entities in the Group. The adoption of the amended did not have any significant impact on the consolidated financial statements.
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*. As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosures of Interest in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The adoption of the amended did not have any significant impact on the consolidated financial statements.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation has no impact in the consolidated financial statements.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The Group adopted these amendments in the current year.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*. The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*. The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.



- *PAS 16, Property, Plant and Equipment - Classification of servicing equipment.* The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Group's financial position or performance.
- *PAS 32, Financial Instruments: Presentation - Tax effect of distribution to holders of equity instruments.* The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any impact on the consolidated financial position or performance.
- *PAS 34, Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities.* The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

Standards Issued but not yet Effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt these standards when they become effective. The Group expects no significant impact from the adoption of the standards on its financial position or performance unless otherwise stated.

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments).* The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities,* will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.
- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments).* These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss



has been recognized or reversed during the period. The amendments affect disclosures only and have no impact on the Group's financial position or performance

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Group has not novated its derivatives during the current period. However, these would be considered for future novations.
- Amendments to PFRS 10, PFRS 12 and PAS 27 - *Investment Entities*. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are effective for annual periods beginning on or after January 1, 2014. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- Philippine Interpretation IFRIC 21, *Levies*. IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have any impact on the future consolidated financial statements.

Annual Improvements to PFRSs (2010-2012 cycle)

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

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*. The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*. The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*. The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in



determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*. The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. This amendment is effective for annual periods beginning on or after July 1, 2014.
- PAS 16, *Property, Plant and Equipment - Revaluation Method – Proportionate Restatement of Accumulated Depreciation*. The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*. The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*. The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
 - b. The accumulated amortization is eliminated against the gross carrying amount of the asset.



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

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the consolidated financial position and performance.

Annual Improvements to PFRSs (2011-2013 cycle)

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

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of Effective PFRSs*. The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.
- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*. The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*. The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- PAS 40, *Investment Property*. The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.
- PFRS 9, *Financial Instruments*. PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to



cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO.

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

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group has decided not to early adopt PFRS 9 before the completion of the limited amendments and the second phase of the project. Therefore the consolidated financial statements as at December 31, 2013 do not reflect the impact of this new standard.

- 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. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contracts qualify as construction contract under PAS 11, *Construction Contracts*, or involve 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 Philippine SEC and FRSC deferred its implementation until the final Revenue Standard is issued by the International Accounting Standards Board (IASB) and after an evaluation on the requirements and guidance in the said interpretation vis-à-vis the practices and regulations in the Philippines real estate industry is completed. The Group does not expect this interpretation to have any significant impact on its consolidated financial statements.



4. Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in 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 normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- Expected to be settled in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 34.

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 to 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.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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



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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- 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 re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Cash and Cash Equivalents

Cash include cash on hand and in banks. Cash equivalent are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisitions and are subject to an insignificant risk of change in value.

Short-term Cash Investments

Short-term cash investments are short-term, highly liquid investments that are convertible to known amounts of cash with original maturities of more than three months but less than one year from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of Recognition. The Group recognizes a financial asset in the consolidated balance sheet when it 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, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

Initial Recognition of Financial Instrument. Financial instruments are recognized initially at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.



“Day 1” Difference. Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income 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.

Categories of Financial Instruments

The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. Financial liabilities are further classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no HTM investment as at December 31, 2013 and 2012.

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets designated upon initial recognition as at FVPL and derivative instruments.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading, unless they are designated as effective hedging instruments or a financial guarantee contract.

Financial assets and liabilities may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Included in this category is the Company’s derivative liability.

Loans and Receivables. Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.



After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. These financial assets are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included in this category are the Group's cash and cash equivalents, short-term cash investments, trade and other receivables, and refundable deposits (included as part of "Other noncurrent assets" account).

AFS Financial Assets. AFS financial assets are nonderivative financial assets that are designated as such or are not classified as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the consolidated statement of comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss is recognized in the consolidated statement of income.

When the AFS financial asset is disposed of, the cumulative unrealized gain or loss previously recognized in equity is recognized as "Realized gain (loss) on AFS financial assets" in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income as "Dividend income" when the right to the payment has been established. The losses arising from impairment of such investments are recognized as "Impairment loss on AFS financial assets" in the consolidated statement of income.

Included in this category is the Group's investment in quoted and unquoted equity securities.

Other Financial Liabilities. This category pertains to financial liabilities that are not held for trading or designated as FVPL upon inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. These include liabilities arising from operations or borrowings. The financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization for any related premium, discount and any directly attributable transaction costs. Any effects of restatement of foreign currency-denominated liabilities, if any, are recognized in the consolidated statement of income.

Included in this category are the Group's accounts payable and other current liabilities, loans payable, long-term debt and customers' deposits.



Derivative Financial Instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (sometimes called the “underlying”);
- b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and,
- c. it is settled at a future date.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded Derivatives. The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not measured at fair value with changes in fair value reported in the consolidated statement of income.

Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Options arising from the Parent Company’s loan payable and long-term debt with Alsons Power Holdings Corporation (APHC) are the Group’s bifurcated embedded derivatives (see Note 18).

Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or



- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the Group's right to receive cash flows from the asset has expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or,
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all 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. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial Liability. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where 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, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) 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 where observable data indicate that there is 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 carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for 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 for impairment. 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.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is presented as "Gain on recovery of bad debts" under other income (loss) - net in the consolidated statement of income.

AFS Financial Assets. In the case of equity investments classified as AFS, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment loss, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income – is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed in the consolidated statement of income. Increases in their fair value after impairment are recognized directly in the statement of comprehensive income.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet if, and only if, there is a currently enforceable right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented at gross amounts in the consolidated balance sheet.

Spare Parts and Supplies

Spare parts and supplies are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. Net realizable value is the current replacement cost.



When the circumstances that previously caused the spare parts and supplies to be written down below cost no longer exist, or when there is clear evidences of an increase in net realizable value because of changed economic circumstances, the amount of write-down is reversed. The reversal cannot be greater than the amount of the original write-down.

Real Estate Inventories

Real estate inventories representing real estate opened up for sale are carried at the lower of cost and net realizable value. The cost includes acquisition cost of the land, direct development cost incurred, including borrowing costs and any other directly attributable costs of bringing the assets to its intended use. Net realizable value is the estimated selling price in the ordinary course of business, less estimated cost to sell. A write-down of inventories is recognized in profit or loss when the cost of the real estate inventories exceeds its net realizable value.

Investments in Real Estate

Investments in real estate represent real estate not yet opened up for sale and are carried at cost less any impairment in value. Cost includes acquisition cost of the land and any other directly attributable costs of bringing the asset to its intended use.

Included in the investments in real estate is investment property consisting of land, building and improvements. Subsequent to initial recognition, investment properties, except land, are measured at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Building and improvements are depreciated using the straight line method over estimated useful life of 5 years - 15 years.

Investments in real estate are derecognized when either these have been disposed of or when the investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investments in real estate when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investments in real estate when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. These transfers are recorded using the carrying amount of the investments in real estate at the date of change in use.

Investments in Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The consideration made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net



investment in the associate. The consolidated statement of income reflects the Group's share of the financial performance of the associates. Unrealized gains and losses from transactions with the associates are eliminated to the extent of the Group's interest in the associates. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- a. goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profit or losses.
- b. any excess of the Group's share in the fair value of the associate's identifiable assets, liabilities, and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Group's share of the associate's profit or loss after acquisition are made to account, if any, for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become subsidiary or a joint venture. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Interest in Joint Venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The Group recognized in the accompanying consolidated financial statements its share of the jointly controlled assets, classified as real estate inventories (see Note 10) and mining rights (see Note 15).

A jointly controlled asset involves joint control and ownership by the Group and other venturers of assets contributed to or acquired for the purpose of the joint venture, without the formation of a corporation, partnership or other entity. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.



Property, Plant and Equipment

Property, plant and equipment (except land) is stated at cost, net of accumulated depreciation and amortization and accumulated impairment losses, if any. Such cost includes the cost of replacing the part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is carried at cost less any impairment losses.

Property, plant and equipment are depreciated and amortized using the straight-line method over their expected economic useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.

The components of the power plant complex and their related estimated useful lives are as follows:

| | |
|---|-------------|
| Main engine | 12–18 years |
| Plant mechanical, electrical, switchyard and desulfurization equipment | 18 years |
| Plant structures and others | 18 years |

Other property, plant and equipment are depreciated and amortized using the straight-line method over the following estimated useful lives:

| | |
|--|--|
| Buildings | 10–25 years |
| Leasehold improvements | 2–5 years or term of the lease, whichever period is shorter |
| Machinery and other equipment: | |
| Power and water facilities | 7–30 years |
| Machinery and equipment | 5–10 years |
| Office furniture, fixtures and equipment | 3–5 years |
| Transportation and office equipment | 2–5 years |

Construction in progress represents properties under construction and is stated at cost. Cost includes cost of construction and other direct costs. Construction in progress is depreciated when the asset is available for use.

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

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed at each financial year-end, and adjusted prospectively if appropriate.

Fully depreciated assets are retained in the accounts until these are no longer in use.



Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually as at December 31 or when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (CGU) or group of CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than the carrying amount of the CGU to which goodwill has been allocated, an impairment loss is recognized. Impairment loss relating to goodwill cannot be reversed in future periods.

Goodwill associated 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 fair values of the disposed operation and the proportion of CGU.

Computer Software

Computer software (included as part of "Other noncurrent assets" account) is initially recognized at cost. Following initial recognition, computer software is carried at cost less accumulated amortization and accumulated impairment losses, if any.

The software cost is amortized on a straight-line basis over its useful economic life of three (3) years and assessed for impairment whenever there is an indicator that the computer software may be impaired. The amortization commences when the computer software is available for use. The amortization period and method for the computer software are reviewed at each reporting date.

Changes in the expected useful life is accounted for by changing the amortization period as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income.

Deferred Project Costs

Deferred project costs (included as part of "Other noncurrent assets" account) are costs incurred by the Group on certain on-going projects. These are stated at cost, net of accumulated impairment losses, if any.

Mining Rights

Mining rights (included as part of "Other noncurrent assets" account) are stated at cost less any accumulated depletion and any accumulated impairment losses. The cost of the mining rights includes the purchase price, fees, licenses directly related to the quarry and other similar payments to third parties. Mining rights are not yet subject to depletion until actual extraction of mineral reserves. Depletion of the mining rights is computed using the unit-of-production method. Mining rights are charged to current operations in the year these are determined to be worthless.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less cost to sell or its value in use and 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 exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 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 the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates after application of the equity method. The Group determines at each balance sheet date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investment in associate and the acquisition cost (adjusted for post-acquisition changes in the Group's share of the financial performance of the associates) and recognizes the difference in the consolidated statement of income.

Debt Issue Costs

Transaction costs incurred in obtaining loans payable and long-term debt are presented as reduction in loans payable and long-term debt and are amortized over the terms of the related borrowings using the effective interest method.

Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Redeemable preferred shares is presented as equity when the option for redeeming the redeemable preferred shares is at the Group's discretion and the price of redemption is to be decided by the BOD.



Retained Earnings

Retained earnings include accumulated profits attributable to the equity holders of the Parent Company reduced by dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Cash Dividend and Noncash Distribution to Equity Holders of a Parent

The Company recognizes a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorized and the distribution is no longer at the discretion of the Company. A distribution is authorized when it is approved by the BOD. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and sales taxes. The following specific recognition criteria must also be met before revenue is recognized:

Energy Fees. Revenue from the long-term ECAs under the Build-Operate-Own arrangements for SPPC and WMPC consists of fixed capacity, operation and maintenance fees, infrastructure fee and variable energy fee. Revenues from fixed capacity, operation and maintenance fees, and infrastructure fee are recognized on a straight-line basis over the term of the ECA. Revenue from variable energy fee is recognized upon delivery of the power to NPC. Billings to NPC are denominated either in US dollar or Philippine peso in accordance with the ECAs.

Power Sales and Service Income. Revenue from power sales and service income (see Note 31) was recognized on the accrual basis based on monthly meter reading of the customers' utility and water consumption and wastewater discharge. Electric bill includes generation, transmission, distribution and universal charges.

Sale of Real Estate. Revenue from sales of real estate and cost from real estate projects is accounted for using the full accrual method. The percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess collections over the recognized receivables are included in the "Accounts payable and other current liabilities" account in the consolidated balance sheet.

Rental Income. Revenue is recognized on a straight-line method over the term of the lease agreements.

Management Fees. Revenue from management services is recognized as the services are rendered in accordance with the terms of the agreements.



Interest Income. Income is recognized as the interest accrues, using the effective interest rate, that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the consolidated balance sheet as an asset.

Deferred Oil Exploration Costs

The Group follows the full-cost method of accounting for exploration costs determined on the basis of each Service Contract/Geophysical Survey and Exploration Contract (SC/GSEC) area. Under this method, all exploration costs relating to each SC/GSEC are initially deferred pending determination of whether the area contains oil reserves of commercial quantity. The costs of exploration and development relating to the SC/GSEC area where oil in commercial quantity is discovered are subsequently capitalized upon commercial production as part of "Machinery and other equipment" under "Property, plant and equipment" account in the consolidated balance sheet. When the SC/GSEC is permanently abandoned, the related deferred oil exploration and development costs are written-off. SC/GSECs are considered permanently abandoned if the SC/GSEC has expired and/or there are no definite plans for further exploration and/or development.

Retirement Costs

The Group, excluding SPPC, WMPC and APMC, has an unfunded, noncontributory defined benefit retirement plan covering all qualified employees. SPPC, WMPC, and APMC have a funded, noncontributory defined benefit retirement plan covering all qualified employees. The Group's obligation and costs of retirement benefits are actuarially computed by professionally qualified independent actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which these occur in other comprehensive income.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as part of retirement cost in consolidated statement of income.



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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

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

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

Group as Lessee. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as expense based on terms of the lease contract.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as rental income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the



carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which these are earned.

Foreign Currency-denominated Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the balance sheet date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial transaction. All exchange rate differences are taken to the consolidated statement of income.

The assets and liabilities of subsidiaries whose functional currency is U.S. dollar are translated into Philippine peso at the rate of exchange prevailing at the reporting date and their statement of income are translated at exchange rate at the date of the transactions. The exchange rate differences arising on the translation are recognized under "Translation adjustment" account in the consolidated statement of comprehensive income. On disposal of these subsidiaries, the component of other comprehensive income relating to that particular subsidiary is recognized in the consolidated statement of income.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

Taxes

Current Tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred Tax. Except for AIL and APIL, which is domiciled in the BVI, the Group accounts for its income tax based on its reported income for the period using deferred taxation on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes using the liability method.

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 transaction, affects neither the accounting profit nor taxable income; or
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and its is probable that the temporary differences will not reverse in the foreseeable future.



Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO). Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO 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 income; or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income 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 taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Income 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 other comprehensive income or directly in equity.

Deferred tax assets and 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.

Input Value-added Tax (VAT) Income. Input VAT income represents the excess of the allowable input tax sales of goods and service to the Philippine government, through NPC, of SPPC and WMPC over the actual input tax from purchases.

Provisions

General. 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 some or all of provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

Asset Retirement Obligation. The asset retirement obligation arose from the Group's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment.



Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statement of income.

Basic/Diluted Earnings Per Share

Basic/diluted earnings per share (EPS) is determined by dividing net income by the weighted average number of shares issued and outstanding after giving retroactive adjustment for any stock dividends and stock splits declared during the period. The Group has no financial instrument or other contract that may entitle its holder to common shares that would result to diluted earnings per share.

Business Segments

The Group is organized and managed separately according to the nature of business. The Group conducts majority of its business activities into two major business segments: (1) Energy and Power and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other Investments".

Segment Assets and Liabilities. Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, short-term cash investments, trade and other receivables, investments in real estate and real estate inventories, and property, plant and equipment, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

Inter-segment Transactions. Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Contingencies

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

Discontinued Operations

A disposal group qualifies as discontinued operations if it is:

- A component of the Group that is a CGU or a group of CGUs
- Classified as held for sale or distribution or already disposed in such a way, or
- A major line of business or major geographical area.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the consolidated statement of income.



Additional disclosures are provided in Note 31. All other notes to the consolidated financial statements mainly include amounts for continuing operations, unless otherwise mentioned.

Events After the Reporting Period

Post balance sheet date events that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Post balance sheet date events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at end of reporting period, giving due consideration to materiality.

The uncertainties inherent in these judgments, estimates and assumptions could result in outcomes that could require a material adjustment to the carrying value of the assets or liabilities affected in the future years. The effect of any change in judgments, estimates and assumptions are reflected in the consolidated financial statement as they become reasonably determinable. Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future event that are believed to be determinable under circumstances.

Management believes the following represent a summary of these significant judgments, estimates and assumptions and related impact and associated risks in the consolidated financial statements.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Determination of Functional Currency. On a consolidated basis, the Group follows the functional currency of the Parent Company. The Parent Company and its subsidiaries determine their own functional currency based on the economic substance of the underlying circumstances relevant to each entity in the Group. The Philippine peso is the functional and presentation currency of the Group except for CHC and subsidiaries whose functional currency is the U.S. dollar.

Revenue Recognition. The Group assesses its revenue against specific criteria in order to determine if it is principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Classification of Investment in an Associate. While Parent Company holds less than 20% interest in Indophil Resources, NL (Indophil), the Company classifies and accounts for it as investment in an associate by virtue of an Agreement for the Joint Voting of Indophil shares entered into with Alsons Prime Investment Corporation (APIC) and Alsons Corporation (Alcorp), companies under the Alcantara Group, which defines the basic principles governing their conduct as common shareholders of Indophil and the exercise of their respective voting rights therein. In 2013, the Parent Company recognized equity in net losses of Indophil amounting to ₱101 million



(see Note 28). The carrying value of investment in Indophil amounted to ₱1,215 million and ₱1,316 million as at December 31, 2013 and 2012, respectively (see Note 11).

Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease. The ECAs qualify as leases on the basis that the Group sells all its output to NPC. The agreements call for a take or pay arrangement where payments are made on the basis of the availability of the power plant complex and not on actual deliveries. The lease arrangements are determined to be operating leases where significant portion of the risks and rewards of ownership are retained by the Group. Accordingly, the power plant complex is recorded as part of property, plant and equipment and the fees billed to NPC are recorded as revenue.

Operating Lease Commitments - Group as Lessor. The Group has entered into a lease of its property. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated useful life of the assets and accounts for the lease as an operating lease.

Distinction Between Real Estate Inventories and Investments in Real Estate. The Group determines whether a property will be classified as real estate inventories or investments in real estate. In making this judgment, the Group considers whether the property will be sold in the normal operating cycle (Real estate inventories) or whether it will be retained as part of the Group's landbanking activities for development or sale in the medium or long-term (Investments in real estate).

Classification of Financial Instruments. If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation and when the Group is required to settle its obligation under conditions that are potentially unfavorable to the Group and will require delivery of variable number of the Group's own equity shares, the obligation meets the definition of a financial liability.

The Parent Company continually assesses the classification of the redeemable preferred stock. If the redeemable preferred stock ceases to have all the features or meet all the conditions set out to be classified as equity, the Parent Company will reclassify it as a financial liability and measure it at fair value at the date of reclassifications, with any differences from the carrying amount recognized in equity.

The Parent Company assesses that its preferred stock met all the features or conditions set out to be classified as equity. There was no issuance of redeemable preferred shares as at December 31, 2012. On February 4, 2013, all of the Parent Company's preferred shares have been subscribed by Alcorp (see Note 22).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair Value of Financial Assets and Liabilities. PFRS requires certain financial assets and financial liabilities to be carried and disclosed at fair value, which requires extensive use of accounting estimates and judgments. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates and interest rates), the amount of changes in fair value would differ if the Group utilized a different valuation methodology. Changes in assumptions could affect the reported fair value of the financial assets and liabilities.



The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 34.

Estimation of Allowance for Impairment Losses. The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but not limited to, the age and status of receivable, the length of relationship with the customers, the customer's payment behavior and known market factors. Accounts that are specifically identified to be potentially uncollectible are provided with adequate allowance through charges to income in the form of provision for impairment losses. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Group also makes a collective impairment allowance against exposures which have a greater risk of default than when originally granted. This collective allowance is based on historical loss experience.

The carrying values of trade and other receivables (including noncurrent portion of installment receivables) amounted to ₱4,330 million and ₱2,938 million as at December 31, 2013 and 2012, respectively (see Note 8). Provisions for impairment losses amounted to nil, ₱20 million and ₱1 million in 2013, 2012 and 2011, respectively (see Notes 8, 24 and 31).

Estimation of Net Realizable Value of Inventories. Inventories are valued at the lower of cost and net realizable value. For spare parts and supplies, allowance for inventory obsolescence and losses are maintained at a level considered adequate to provide for potentially nonvaluable items. The level of allowance is based on the turnover/movement of specific inventories and other physical factors affecting usefulness of specific inventories. For real estate inventories, determining the fair value requires the determination of cash flows from the expected sale of the asset less cost of marketing. The determination of fair value requires the Group to make estimates and assumptions that may materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material impact on the Group's financial position and performance.

The carrying values of spare parts and supplies amounted to ₱204 million and ₱125 million as at December 31, 2013 and 2012, respectively (see Note 9). The carrying values of real estate inventories as at the same dates amounted to ₱649 million and ₱843 million, respectively (see Note 10). In 2012, due to the improvement in the sale activity of real estate inventories and improvement on the price of the Group's real estate inventories, reversal of impairment loss amounting to ₱72 million is recognized as part of "Other income (loss) - net" in the 2012 consolidated statement of income (see Note 28). Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱4 million in 2013, ₱17 million in 2012 and ₱7 million in 2011 are also recognized as part of "Other income (loss) - net" in the consolidated statement of income (see Note 28).

Estimation of Useful Lives of Property, Plant and Equipment. The useful lives of the property, plant and equipment is estimated based on the period over which the property, plant and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment. It is



possible that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the carrying values of the property, plant and equipment.

There are no changes in the estimated useful lives of property, plant and equipment in 2013 and 2012. The carrying values of property, plant and equipment amounted to ₱6,674 million and ₱2,517 million as at December 31, 2013 and 2012, respectively (see Note 12).

Purchase Price Allocation in Acquisition of Associate. The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to determine the goodwill embedded in the acquisition. In 2011, the Group acquired 2.75% interest in Indophil. The acquisition in 2011 was accounted on provisional basis pending the fair value of Indophil's net assets at that time. In 2012, the Parent Company has determined that its cost in acquiring Indophil includes goodwill amounting to ₱785 million (see Note 11).

Impairment of AFS Financial Assets. The Group treats AFS financial asset as impaired when there has been a significant or prolonged decline in fair value below its cost or whether an objective evidence of impairment exist. The determination of "significant and prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price of the instrument and future cash flows.

The carrying value of AFS financial assets amounted to ₱56 million and ₱64 million as at December 31, 2013 and 2012, respectively. No impairment loss was recognized on AFS financial assets in 2013, 2012 and 2011. The Group recognized unrealized loss on fair valuation of AFS financial assets recognized in other comprehensive income amounting to ₱7 million in 2013 and unrealized gain amounting to ₱18 million and ₱4 million in 2012 and 2011, respectively (see Note 13).

Impairment of Nonfinancial Assets (except Goodwill). An impairment review is performed when certain impairment indicators are present. Determining the value in use of nonfinancial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that such financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial position and performance. Provision for impairment loss on deferred project costs amounted to ₱3 million in 2013, 2012 and 2011 (see Notes 15 and 24).



The carrying values of nonfinancial assets (except goodwill) subjected to impairment testing follows:

| | 2013 | 2012 |
|---|----------------------|---------------|
| | <i>(In Millions)</i> | |
| Real estate inventories and investments in real estate (see Note 10) | ₱2,127 | ₱3,316 |
| Investments in associates (see Note 11) | 1,220 | 1,316 |
| Property, plant and equipment (see Note 12) | 6,674 | 2,517 |
| Deferred project and financing costs (see Note 15) | 377 | 931 |
| Mining rights (see Note 15) | 195 | 195 |
| Computer software (see Note 15) | 16 | 15 |
| | ₱10,609 | ₱8,290 |

Impairment of Investment in Associates. The Group treats investment in associate as impaired when there has been objective evidence that one or more events occurring after the initial recognition of the investment have had an impact on the estimated future cash flows of the investment that can be reliably estimated. Impairment exists when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

As at December 31, 2013 and 2012, based on the assessment of the Group, there is no impairment in the carrying value of investment in associates. The carrying amount of investment in associates amounted to ₱1,220 million and ₱1,316 million as at December 31, 2013 and 2012, respectively (see Note 11).

Impairment of Goodwill. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

As at December 31, 2013 and 2012, based on the assessment of the Group, there is no impairment in the carrying value of goodwill. The carrying amount of goodwill amounted to ₱995 million and ₱923 million as at December 31, 2013 and 2012, respectively (see Note 14).

Estimation of Retirement Costs and Obligation. The determination of the obligation and cost for retirement and other pension benefits is dependent on the selection of certain assumptions used by actuary in calculating such amounts. Those assumptions, which include among others, discount rates and future salary increase, are described in Note 29. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Group obtained actuarial valuation reports in 2013 and 2012. Retirement asset of SPPC, WMPC, and APMC amounted to ₱50 million and ₱61 million as at December 31, 2013 and 2012, respectively (see Note 29). Retirement payable of the Parent Company and other subsidiaries amounted to ₱9 million and ₱38 million as at December 31, 2013 and 2012, respectively (see Note 29). Pension costs recognized in the consolidated statements of income amounted to ₱12 million, ₱6 million and ₱8 million in 2013, 2012 and 2011, respectively (see Notes 25, 29 and 31).



Asset Retirement Obligation. The asset retirement obligation arises from the Company's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in consolidated statement of income. Carrying amount of asset retirement obligation as at December 31, 2013 and 2012 amounted to ₱79 million and ₱70 million, respectively (see Note 20).

Deferred Tax Assets. The Group's assessment on the recognition of deferred tax assets on deductible temporary differences is based on the forecasted taxable income of the following year. This forecast is based on the Group's past results and future expectations on revenues and expenses.

In 2009, SPPC and WMPC determined that the use of Optional Standard Deduction (OSD) would be advantageous on the next 5 years based on its forecast. Deferred income taxes on items considered in determining gross income for income tax purposes were computed using an effective tax rate of 18% and deferred income taxes on items not part of gross income for income tax purposes were not recognized.

Deferred tax assets recognized net of deferred tax liabilities amounted to ₱12 million and ₱6 million as at December 31, 2013 and 2012. Unrecognized deferred tax assets as at the same dates amounted to ₱126 million and ₱118 million, respectively (see Note 30).

Legal Contingencies. The Group is involved in certain legal proceedings as discussed in Note 36. The estimate of the probable costs for the assessment and resolution of these possible claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon thorough analysis of potential results. In 2013, there are no provisions for probable losses arising from contingencies recognized in the Group's consolidated financial statements as management believes that the resolution will not materially affect the Group's financial position and performance.

6. Segment Information

The Group conducts majority of its business activities in two major business segments: (1) Energy and Power and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other Investments."

Earnings information related to discontinued operation under property and development segment is presented in Note 31. The comparative segment information in 2012 and 2011 have been restated to show only earnings information from continuing operations.



Information with regard to the Group's significant business segments are shown below:

| | 2013 | | | | Adjustments and Eliminations | Consolidated |
|--|------------------------|-------------------------|----------------------|-----------------|------------------------------------|-----------------|
| | Energy and Power | Property Development | Other Investments | Total | | |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | P3,418,477,261 | P27,343,188 | P- | P3,445,820,449 | P- | P3,445,820,449 |
| Inter-segment | - | - | 424,926,000 | 424,926,000 | (424,926,000) | - |
| Total revenues | 3,418,477,261 | 27,343,188 | 424,926,000 | 3,870,746,449 | (424,926,000) | 3,445,820,449 |
| Interest income | 32,238,478 | 482,632 | 622,859 | 33,343,969 | (8,157,447) | 25,186,522 |
| Finance charges | (67,567,678) | (6,063,526) | (104,868,355) | (178,499,559) | 59,126,762 | (119,372,797) |
| Provision for income tax | 302,557,992 | 195,548 | (1,844,336) | 300,909,204 | - | 300,909,204 |
| Net income from continuing operations | 880,619,442 | 473,136,269 | 254,039,997 | 1,607,795,708 | (966,911,209) | 640,884,499 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | | | | | | |
| | 457,758,934 | 922,682,970 | 4,307,182,614 | 5,687,624,518 | (1,260,014,813) | 4,427,609,705 |
| Segment assets | 10,522,605,081 | 1,960,761,096 | 354,785,698 | 12,838,151,875 | 5,120,292,228 | 17,958,444,103 |
| Segment liabilities | 708,984,782 | 119,959,393 | 76,909,158 | 905,853,333 | 6,609,547,367 | 7,515,400,700 |
| Depletion, depreciation and amortization | (678,392,092) | (1,177,984) | (1,058,429) | (680,628,505) | - | (680,628,505) |
| Reversal of (provisions for) impairment losses, bad debts, income from reversal of estimated liquidation expenses | | | | | | |
| | (2,849,457) | 4,140,694 | - | 1,291,237 | - | 1,291,237 |
| Capital expenditures | 4,445,224,912 | 26,365,870 | 77,970 | 4,471,668,752 | - | 4,471,668,752 |
| Equity in net losses | - | - | - | - | (100,920,763) | (100,920,763) |
| Net cash flows provided by (used in) | | | | | | |
| Operating activities | 1,732,043,776 | (829,281,769) | 71,230,533 | 973,992,540 | 1,212,565,817 | 2,186,558,357 |
| Investing activities | (3,619,728,968) | 1,209,180,121 | (71,398,793) | (2,481,947,640) | (1,386,912,796) | (3,868,860,436) |
| Financing activities | 2,785,896,599 | (189,221,078) | 505,134,367 | 3,101,809,888 | (275,138,294) | 2,826,671,594 |
| 2012 | | | | | | |
| | Energy And Power | Property Development | Other Investments | Total | Adjustments and Eliminations | Consolidated |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | P2,100,705,775 | P41,750,362 | P- | P2,142,456,137 | P- | P2,142,456,137 |
| Inter-segment | - | - | 417,286,012 | 417,286,012 | (417,286,012) | - |
| Total revenues | 2,100,705,775 | 41,750,362 | 417,286,012 | 2,559,742,149 | (417,286,012) | 2,142,456,137 |
| Interest income | 45,683,270 | 580,119 | 179,728 | 46,443,117 | - | 46,443,117 |
| Finance charges | (47,227,132) | (6,722,920) | (30,340,608) | (84,290,660) | - | (84,290,660) |
| Provision for income tax | 202,844,489 | (7,549,420) | 28,137,558 | 223,432,627 | 17,721,874 | 241,154,501 |
| Net income from continuing operations | 830,976,251 | (12,746,294) | 567,182,717 | 1,385,412,674 | (391,971,435) | 993,441,239 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | | | | | | |
| | 420,716,889 | 680,639,085 | 3,768,079,375 | 4,869,435,349 | (1,543,814,724) | 3,325,620,625 |
| Segment assets | 6,238,212,836 | 3,171,300,899 | 321,065,106 | 9,730,578,841 | 4,293,209,859 | 14,023,788,700 |
| Segment liabilities | 260,196,644 | 292,379,204 | 76,263,642 | 628,839,490 | 2,189,862,397 | 2,818,701,887 |
| Depletion, depreciation and amortization | (589,403,206) | (973,749) | (3,666,258) | (594,043,213) | - | (594,043,213) |
| Reversal of (provisions for) impairment losses, bad debts, income from reversal of estimated liquidation expenses | | | | | | |
| | (1,893,057) | (1,792,300) | - | (3,685,357) | - | (3,685,357) |
| Capital expenditures | 402,290,426 | 1,792,300 | 59,098 | 404,141,824 | - | 404,141,824 |
| Net cash flows provided by (used in) | | | | | | |
| Operating activities | 1,385,438,937 | 200,256,876 | 216,126,442 | 1,801,822,255 | (61,658,178) | 1,740,164,077 |
| Investing activities | 836,188,500 | 43,244,215 | 164,841,584 | 1,044,274,299 | (2,023,334,356) | (979,060,057) |
| Financing activities | (2,435,130,909) | (219,976,855) | (352,863,125) | (3,007,970,889) | 2,066,020,625 | (941,950,264) |



| | 2011 | | | | | |
|--|------------------------|-------------------------|----------------------|-----------------|------------------------------------|-----------------|
| | Energy And Power | Property Development | Other Investments | Total | Adjustments and Eliminations | Consolidated |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | P2,090,067,116 | P31,202,045 | P- | P2,121,269,161 | P- | P2,121,269,161 |
| Inter-segment | - | - | 326,953,656 | 326,953,656 | (326,953,656) | - |
| Total revenues | 2,090,067,116 | 31,202,045 | 326,953,656 | 2,448,222,817 | (326,953,656) | 2,121,269,161 |
| Interest income | 64,658,981 | 1,437,210 | 1,127,954 | 67,224,145 | (2,054,528) | 65,169,617 |
| Finance charges | (15,608,259) | (9,096,822) | (7,662,841) | (32,367,922) | 2,054,528 | (30,313,394) |
| Provision for (benefit from) income tax | 246,088,033 | (13,079,153) | - | 233,008,880 | (5,970,297) | 227,038,583 |
| Net income from continuing operations | 1,100,066,905 | (175,166) | 349,827,499 | 1,449,719,238 | (356,065,468) | 1,093,653,770 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | | | | | | |
| Segment assets | 7,109,473,955 | 3,119,766,307 | 301,013,861 | 10,530,254,123 | 3,461,257,820 | 13,991,511,943 |
| Segment liabilities | 221,064,182 | 293,476,965 | 446,035,018 | 960,576,165 | 1,112,362,715 | 2,072,938,880 |
| Depletion, depreciation and amortization | (580,279,935) | (661,605) | (3,675,058) | (584,616,598) | - | (584,616,598) |
| Reversal of impairment losses, bad debts, income from reversal of estimated liquidation expenses | 14,113,745 | 4,493,350 | - | 18,607,095 | - | 18,607,095 |
| Capital expenditures | 212,771,293 | 23,424,109 | 180,040 | 236,375,442 | - | 236,375,442 |
| Net cash flows provided by (used in) | | | | | | |
| Operating activities | 1,625,814,467 | 83,964,270 | (28,630,078) | 1,681,148,659 | 175,022,442 | 1,856,171,101 |
| Investing activities | (674,458,584) | 30,640,791 | 142,205,400 | (501,612,393) | (407,756,664) | (909,369,057) |
| Financing activities | (962,061,873) | (408,789,266) | (134,919,523) | (1,505,770,662) | 452,168,341 | (1,053,602,321) |

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to P24 million in 2013, P23 million in 2012 and P21 million in 2010, the Group operates and derives principally all of its revenues from domestic operations. Thus, geographical business information is not required.

The following illustrate the reconciliations of reportable segment assets and liabilities to the Group's corresponding amounts:

| | 2013 | 2012 | 2011 |
|--|------------------------|------------------------|------------------------|
| Assets | | | |
| Total assets for reportable segments | P12,838,151,875 | P9,730,578,841 | P10,530,254,123 |
| Investments in shares of stocks and due from related parties | 11,935,523,259 | 10,126,043,952 | 9,990,102,697 |
| Fair value adjustment on real estate inventories | (552,825,212) | (552,825,212) | (560,340,458) |
| Goodwill | (43,139,631) | (43,139,631) | (43,139,631) |
| Accumulated impairment loss on real estate inventories | 10,246,173 | 14,386,867 | 38,495,103 |
| Accrued interest | 10,709,493 | 11,050,358 | 23,311,994 |
| Elimination and adjustments | (6,240,221,854) | (5,262,306,475) | (5,987,171,885) |
| Consolidated assets | P17,958,444,103 | P14,023,788,700 | P13,991,511,943 |
| Liabilities | | | |
| Total liabilities for reportable segments | P905,853,333 | P628,839,490 | P960,576,165 |
| Due to related parties | 1,305,659,082 | 1,857,656,599 | 3,278,750,778 |
| Long-term debt | 5,190,495,041 | 1,681,776,549 | 1,035,767,989 |
| Deferred tax liabilities | 257,108,494 | 241,526,251 | 255,449,554 |
| Income tax payable | 100,872,098 | 69,482,159 | 64,358,347 |
| Accrued interest | 86,647,869 | 21,294,760 | 4,479,488 |
| Loans | 794,366,639 | - | 10,156,855 |
| Others | (2,790,341) | (12,841,899) | (6,839,880) |
| Elimination and adjustments | (1,122,811,515) | (1,669,032,022) | (3,529,760,416) |
| Consolidated liabilities | P7,515,400,700 | P2,818,701,887 | P2,072,938,880 |



7. Cash and Cash Equivalents and Short-term Cash Investments

| | 2013 | 2012 |
|---------------------|-----------------------|---------------------|
| Cash on hand | P484,496 | P3,793,583 |
| Cash in banks | 1,193,066,876 | 227,803,154 |
| Short-term deposits | 228,811,413 | 45,840,139 |
| | P1,422,362,785 | P277,436,876 |

Cash in banks earn interest at the respective bank deposit rates. Short-term deposits are made for varying periods of up to three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Short-term cash investments amounting to P9 million and P1,068 million as at December 31, 2013 and 2012, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging from 3.00% to 4.10% in 2013 and 2.26% to 4.11% in 2012.

Interest income from cash and cash equivalents and short-term cash investments amounted to P25 million, P46 million and P65 million for the years ended December 31, 2013, 2012 and 2011, respectively.

Provision for impairment loss of P4 million on short-term cash investments was recognized under "General and administrative expenses" account in the 2012 consolidated statement of income (see Note 24).

8. Trade and Other Receivables

| | 2013 | 2012 |
|--|-----------------------|-----------------------|
| Trade | | |
| Power | P610,424,604 | P470,126,890 |
| Real estate | 257,194,970 | 380,859,309 |
| Product distribution and others | 31,730,458 | 31,730,458 |
| Due from related parties (see Notes 10 and 21) | 3,208,014,388 | 2,010,087,545 |
| Retention receivable (see Note 31) | 162,300,000 | - |
| Accrued interest | 265,258 | 1,393,058 |
| Others (see Note 35) | 148,318,954 | 130,749,009 |
| | 4,418,248,632 | 3,024,946,269 |
| Less allowance for impairment losses | 98,299,163 | 98,301,435 |
| | P4,319,949,469 | P2,926,644,834 |

Power

Represent billings to NPC by SPPC and WMPC under existing ECAs (see Note 35a). These receivables are noninterest-bearing and are generally on 30 days term. The trade receivables include long-outstanding receivables of SPPC from NPC amounting to P106 million (\$2.59 million) as at December 31, 2013, representing billings from 2005 to 2006 for additional 5MW installed capacity nominated by SPPC. The allowance provided amounting to P28 million (\$0.69 million) is management best estimate of impairment loss on the long-outstanding receivables from NPC. No additional provision for impairment was recognized nor a reversal of allowance for this receivable was made in 2013, 2012 and 2011.



In 2011, receivables amounting to ₱2 million was charged to expense since management believes that this can no longer be recovered (see Note 24). There was no direct write-off of receivables in 2012 and 2013.

Real Estate

Pertains to receivables from venturers and customers from the sale of residential and commercial lots and units.

Real estate receivables are generally noninterest-bearing and have terms of less than one year except for installment receivables amounting to ₱65 million and ₱64 million as at December 31, 2013 and 2012, respectively, which are collectible in monthly installment over a period of 2 to 10 years and bear interest rates ranging from 18% to 21% computed on the outstanding balance of the principal. Title on the lots sold is passed on to the buyer only upon full settlement of the contract price. The noncurrent portion of the installment receivables amounted to ₱10 million and ₱11 million as at December 31, 2013 and 2012, respectively.

Real estate receivables amounting to ₱220 million and ₱218 million as at December 31, 2013 and 2012, respectively, relate to the Group's share on the sale of the developed residential and commercial lots and golf shares in the Eagle Ridge Golf and Residential Estates jointly developed with Sta. Lucia Realty and Development, Inc. (SLRDI) (see Notes 10 and 35f). In 2012, allowance for doubtful accounts amounting to ₱20 million was recorded under "General and administrative expenses" account in the consolidated statement of income (see Note 24).

Retention Receivable

Retention receivable pertains to the outstanding balance from Aboitz Land, Inc. (ALI) for the sale of Lima Land Inc. (LLI), which will be collected upon accomplishment of certain milestone (see Note 31).

Product Distribution and Others

Pertains to receivables from the supply of goods and merchandise to customers. Product distribution and other receivables are noninterest-bearing and generally have a term of less than one year. Outstanding receivables were fully provided for allowance for impairment losses as at December 31, 2013 and 2012.

Due from Related Parties, Accrued Interest and Other Receivables

Due from related parties, accrued interest and other receivables are due and demandable.

Other receivables primarily include advances to employees, receivables from contractors, receivables from insurance claims and receivables from venturers.

Included in the other receivables are LLI's long outstanding advances to minority shareholder, amounting to ₱41 million as at December 31, 2012. These advances are noninterest-bearing, unsecured and due and demandable. No provision for impairment loss was provided for these advances. The advances were fully collected in 2013.

Also included in the other receivables is LUC's claim from NPC for advances amounting to ₱3 million as at December 31, 2013 and 2012 representing reimbursement due to the installation of transmission line from NPC to substations in Lipa Batangas. No provision for impairment loss was provided for these advances.



The Parent Company has various advances to third parties that were nonmoving since prior years. These advances have been fully provided with allowance and specifically identified to be potentially uncollectible. In 2012, the Parent Company written-off P34 million receivable against allowance for doubtful accounts. No write-off was made in 2013.

Movements of allowance for impairment losses are as follows:

| 2013 | | | | | |
|---|-------------|-------------|----------------------|--------------|--------------|
| | Power | Real Estate | Product Distribution | Others | Total |
| Balance at beginning of year | P28,344,943 | P31,561,222 | P31,730,458 | P6,664,812 | P98,301,435 |
| Effect of change in foreign exchange rate | (1,932) | - | - | (340) | (2,272) |
| Balance at end of year | P28,343,011 | P31,561,222 | P31,730,458 | P6,664,472 | P98,299,163 |
| Individually impaired | P13,810,086 | P- | P- | P5,062,603 | P18,872,689 |
| Collectively impaired | 14,532,925 | 31,561,222 | 31,730,458 | 1,601,869 | 79,426,474 |
| | P28,343,011 | P31,561,222 | P31,730,458 | P6,664,472 | P98,299,163 |
| 2012 | | | | | |
| | Power | Real Estate | Product Distribution | Others | Total |
| Balance at beginning of year | P29,987,875 | P11,561,222 | P31,730,458 | P40,874,862 | P114,154,417 |
| Provision for impairment losses (see Note 24) | - | 20,000,000 | - | - | 20,000,000 |
| Write-off of allowance for impairment losses | - | - | - | (33,550,741) | (33,550,741) |
| Recovery of bad debts (see Note 28) | - | - | - | (119,999) | (119,999) |
| Effect of change in foreign exchange rate | (1,642,932) | - | - | (539,310) | (2,182,242) |
| Balance at end of year | P28,344,943 | P31,561,222 | P31,730,458 | P6,664,812 | P98,301,435 |
| Individually impaired | P12,769,547 | P- | P- | P5,062,943 | P17,832,490 |
| Collectively impaired | 15,575,396 | 31,561,222 | 31,730,458 | 1,601,869 | 80,468,945 |
| | P28,344,943 | P31,561,222 | P31,730,458 | P6,664,812 | P98,301,435 |

9. Spare Parts and Supplies - At Cost

| | 2013 | 2012 |
|------------------------------------|--------------|--------------|
| Spare parts | P148,509,390 | P117,423,461 |
| Oil, lubricants and chemicals | 48,579,791 | 7,584,562 |
| Operating supplies and consumables | 7,259,828 | 249,297 |
| | P204,349,009 | P125,257,320 |

10. Real Estate Inventories and Investments in Real Estate

Real Estate Inventories

| | 2013 | 2012 |
|--|--------------|--------------|
| Eagle Ridge Project (General Trias, Cavite) - at net realizable value (see Note 35f) | P623,563,443 | P627,199,776 |
| Campo Verde Project (Lipa and Malvar, Batangas) - at net realizable value (see Note 35f) | 25,852,852 | 34,071,887 |
| Lima Technology Center Project (LTC) (Lipa and Malvar, Batangas) - at cost (see Note 31) | - | 181,973,159 |
| | P649,416,295 | P843,244,822 |



A summary of the movement in real estate inventories is set out below:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Cost | | |
| Balance at beginning of year | ₱873,510,997 | ₱915,676,338 |
| Disposals of subsidiary (see Note 31) | (171,153,646) | - |
| Disposals (recognized as cost of real estate sold) | (27,031,571) | (117,853,630) |
| Land acquired from cancellation of sale | 215,996 | 3,820,073 |
| Land acquired during the year | - | 70,110,901 |
| Construction / development cost incurred | - | 3,283,892 |
| Reclassifications to investments in real estate | - | (1,554,860) |
| Borrowing cost capitalized | - | 28,283 |
| Balance at end of year | <u>675,541,776</u> | <u>873,510,997</u> |
| Allowance for impairment loss | | |
| Balance as at beginning of year | 30,266,175 | 119,440,691 |
| Recovery of impairment due to sale (see Note 28) | (4,140,694) | (17,108,236) |
| Reversal of allowance for impairment (see Note 28) | - | (72,066,280) |
| Balance at end of year | <u>26,125,481</u> | <u>30,266,175</u> |
| Net realizable value | <u>₱649,416,295</u> | <u>₱843,244,822</u> |

In 1997, the joint venture of LLI and Landmark Communities Inc. (LCI) started development works on the LTC projects in Lipa City and Malvar, Batangas. The project was temporarily suspended in 2001 and partially resumed in 2006 with the start of the development of the housing project of the joint venture of LLI and LCI called "Summer Hills Subdivision" (shown as part of "Real estate inventories" account). The costs of the housing project being developed in a portion of LLI's undeveloped lots are being shouldered by LCI which shall receive 50% of the total sales proceeds. The remaining balance of 50% shall be for LLI. As discussed in Note 31, LLI was sold to ALI.

In 2006, the joint venture of ALC and Sunfields Realty and Development Inc. (SRDI) started the development of Campo Verde Subdivision (shown as part of "Real estate inventories" account). Development costs are shouldered by SRDI which shall receive a number of units in the development project proportionate to its contribution (see Note 35f).

Accumulated costs of the Eagle Ridge Project of ALC and certain portion of the LTC Project (as at December 31, 2012) of LLI that have been opened up for sale are presented as "Real estate inventories" and shown as part of current assets in the consolidated balance sheet. Accumulated costs of the remaining portion of the LTC, Batangas and Laguna projects that have not been opened up for sale are presented as "Investments in real estate" and shown as part of noncurrent assets in the consolidated balance sheet.

The carrying values of disposed real estate inventories due to sale of LLI in 2013 amounted to ₱171 million.

In 2012, due to the improvement in the sale activity of real estate inventories and improvement on the price of the Group's real estate inventories, reversal of impairment loss amounting to ₱72 million is recognized as part of "Other income (loss) - net" in the consolidated statement of income. Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱4 million in 2013, ₱17 million in 2012 and ₱7 million in 2011 are recognized also as part of "Other income (loss) - net" in the consolidated statement of income (see Note 28). Accumulated impairment losses on real estate inventories amounted to ₱26 million and ₱30 million as at December 31, 2013 and 2012, respectively.



In 2012, ALC reclassified house and lot with aggregate cost of ₱2 million, from real estate inventories to investments in real estate.

In 2011, parcels of lots in Eagle Ridge Project costing ₱133 million were used to settle the Group's liabilities which resulted to a recognition of gain on debt settlement amounting to ₱57 million (see Notes 18 and 28).

Included in "Real estate inventories" account are properties with a carrying amount of ₱145 million as at December 31, 2013 and 2012, were used as collateral for the loans availed by ALC, Parent Company and certain affiliates.

Investments in Real Estate

| | 2013 | 2012 (As restated) |
|--|-----------------------|-----------------------|
| CASI Property (Lanang, Davao City) | ₱1,226,174,500 | ₱1,226,174,500 |
| ALC Property (Pasong Tamo, Makati) | 131,312,070 | 126,920,462 |
| Batangas Project (Lipa and Malvar, Batangas) | 115,087,360 | 103,050,795 |
| Laguna Project (Cabuyao, Laguna) | 4,685,936 | 4,685,936 |
| LTC Project (Lipa and Malvar, Batangas) (see Note 31) | - | 1,012,278,074 |
| | ₱1,477,259,866 | ₱2,473,109,767 |

A summary of the movement in investments in real estate is set out below:

| | 2013 | | Total |
|---|-----------------------|------------------------------|-----------------------|
| | Land | Building and Improvements | |
| Cost | | | |
| Balance at beginning of year | | | |
| As previously reported | ₱2,313,930,689 | ₱45,091,816 | ₱2,359,022,505 |
| Reclassification from property, plant and equipment (see Note 12) | 125,000,000 | 23,108,013 | 148,108,013 |
| As restated | 2,438,930,689 | 68,199,829 | 2,507,130,518 |
| Additions | 90,529,721 | 32,120 | 90,561,841 |
| Disposal of a subsidiary (see Note 31) | (1,058,092,614) | (43,599,497) | (1,101,692,111) |
| Reclassification from other noncurrent assets | - | 4,534,718 | 4,534,718 |
| Balance as at December 31, 2013 | 1,471,367,796 | 29,167,170 | 1,500,534,966 |
| Accumulated depreciation | | | |
| Balance at beginning of year | | | |
| As previously reported | - | 11,278,340 | 11,278,340 |
| Reclassification from property, plant and equipment (see Note 12) | - | 22,742,411 | 22,742,411 |
| As restated | - | 34,020,751 | 34,020,751 |
| Depreciation (see Note 26) | - | 3,403,534 | 3,403,534 |
| Reclassification from real estate inventories | - | (14,149,185) | (14,149,185) |
| Balance as at December 31, 2013 | - | 23,275,100 | 23,275,100 |
| Carrying value | ₱1,471,367,796 | ₱5,892,070 | ₱1,477,259,866 |



| | 2012 | | |
|---|-----------------------|------------------------------|-----------------------|
| | Land | Building and Improvements | Total |
| Cost | | | |
| Balance at beginning of year | | | |
| As previously reported | ₱2,336,639,382 | ₱43,567,377 | ₱2,380,206,759 |
| Reclassification from property, plant and equipment (see Note 12) | 125,000,000 | 23,108,013 | 148,108,013 |
| As restated | 2,461,639,382 | 66,675,390 | 2,528,314,772 |
| Additions | 24,110,126 | - | 24,110,126 |
| Disposals (recognized as cost of real estate sold) | (47,238,819) | - | (47,238,819) |
| Reclassification from real estate inventories | 420,000 | 1,524,439 | 1,944,439 |
| Balance as at December 31, 2012 | 2,438,930,689 | 68,199,829 | 2,507,130,518 |
| Accumulated depreciation | | | |
| Balance at beginning of year | | | |
| As previously reported | - | 6,516,961 | 6,516,961 |
| Reclassification from property, plant and equipment (see Note 12) | - | 22,624,708 | 22,624,708 |
| As restated | - | 29,141,669 | 29,141,669 |
| Depreciation (Note 26) | | | |
| As previously reported | - | 4,371,800 | 4,371,800 |
| Reclassification from property, plant and equipment (see Note 12) | - | 117,703 | 117,703 |
| As restated | - | 4,489,503 | 4,489,503 |
| Reclassification from real estate inventories | - | 389,579 | 389,579 |
| Balance as at December 31, 2012 | - | 34,020,751 | 34,020,751 |
| Carrying value | ₱2,438,930,689 | ₱34,179,078 | ₱2,473,109,767 |

On December 27, 2011, the BOD of ACR approved the acquisition of 72% of the outstanding shares of C. Alcantara & Sons, Inc. (CASI) from Alcorp, in behalf of Aldevinco, and Aldevinco, stockholders of ACR, at a consideration of ₱1,226 million (see Note 21). The number of shares acquired consists of 2,000,000 common and 344,498 preferred CASI shares valued at ₱1,048 million and ₱178 million, respectively. The transaction value of ₱1,226 million represents the market value of Lanang landholdings of CASI as determined by an independent third party appraiser. This acquisition provides ACR the right to own and develop 21.27 hectares of land and 3 hectares of foreshore leased area in Lanang, Davao City. The acquisition also caused the reduction of ACR's receivables from Aldevinco equivalent to ₱1,226 million in 2011 (see Note 21).

In accordance with a Memorandum of Agreement (MOA) made and executed on December 29, 2011 by ACR and Aldevinco, ACR has limited rights as shareholder having a sole interest in CASI is its right to receive in full, as a return of capital, the Lanang landholdings. ACR will not exercise any right as CASI shareholder such as, but not limited to, nominating any individual stockholder to the BOD of CASI, voting for any such nominee, or ratifying any act of the BOD of CASI.

ACR, having a sole interest in Lanang property and lost its power to participate in the financial and operating policy decisions of CASI by assigning its voting rights to Aldevinco, does not include the assets and liabilities of CASI in the consolidated financial statements but recognizes only its investment in CASI as investment in real estate representing CASI's Lanang property.



In 2013, ALC reclassified a model house and building improvements from other noncurrent assets to investment in real estate amounting to ₱5 million.

In 2013, ALC reclassified its land, building and improvements from property, plant and equipment to investments in real estate with carrying value of ₱125 million as at December 31, 2012 and January 1, 2012, respectively. These properties are held to earn rentals. The December 31, 2012 and January 1, 2012 consolidated balance sheet were restated to be consistent with current year presentation. This resulted to increase in "Investments in real estate" and decrease in "Property, plant and equipment" accounts as at December 31, 2012 and January 1, 2012 by ₱125 million. The restatement has also no impact to the total assets, consolidated statement of income and consolidated statements of cash flows for the years ended December 31, 2012 and January 1, 2012.

Land and buildings and improvements with a carrying amount of ₱125 million as at December 31, 2013 and 2012 are subject to a mortgage trust indenture and serve as collateral for the long-term debt of ALC (see Note 18).

The carrying value of disposed investments in real estate due to sale of LLI in 2013 amounted to ₱1,058 million.

Fair Value

The fair value of ALC's and CASI's Lanang landholdings amounted to ₱581 million and ₱1,226 million, respectively, as at December 31, 2013 and 2011, respectively. The fair values were determined by an independent firm of appraisers using market value approach. The fair value represents the amount at which the assets could be exchanged between knowledgeable parties in an arm's length transaction at the date of valuation.

11. Investments in Associates

| | Percentage of Ownership | | 2013 | 2012 |
|---|-------------------------|-------|-----------------------|-----------------------|
| | 2013 | 2012 | | |
| At equity: | | | | |
| Acquisition costs: | | | | |
| Indophil | 2.42 | 2.75 | ₱1,315,533,080 | ₱1,315,533,080 |
| RCPHI | 31.24 | 31.24 | 80,851,701 | 80,851,701 |
| T'boli Agro-Industrial Development, Inc. | 22.32 | 22.32 | 66,193,299 | 66,193,299 |
| Aviana Development Corporation (Aviana) | 32.80 | - | 4,983,000 | - |
| Duta, Inc. | 30.00 | 30.00 | 13,725,000 | 13,725,000 |
| | | | 1,481,286,080 | 1,476,303,080 |
| Accumulated equity in net losses: | | | | |
| Balance at beginning of year | | | - | 1,560,461 |
| Equity in net losses for the year (see Notes 28 and 31) | | | (100,920,763) | (22,850,988) |
| Disposal during the year | | | - | 21,290,527 |
| | | | (100,920,763) | - |
| Accumulated impairment loss - | | | | |
| Balance at beginning and end of year | | | (160,770,000) | (160,770,000) |
| Carrying value of investments in associates | | | ₱1,219,595,317 | ₱1,315,533,080 |

Indophil. On December 23, 2010, the Parent Company purchased 29,149,000 shares of Indophil in the amount of ₱1,316 million. Indophil shares are listed in the Australian Stock Exchange. On December 11, 2011, Alsons Power Holdings Corporation (APHC), also a company under the Alcantara Group, entered into a placement agreement (the Agreement) with Indophil to subscribe to Indophil shares in two tranches, 66,666,667 shares in tranche 1 and 141,041,667 shares in tranche 2. On December 26, 2011, APHC incorporated APIC as a wholly owned subsidiary. On December 29, 2011, APIC completed the tranche 1 placement. Accordingly, APIC was issued



with 66,666,667 shares representing 6.28% of Indophil's issued shares of stock, bringing the effective ownership of the Alcantara Group to 9.37%. On the same date, Mr. Nicasio Alcantara, a Director of Aldevinco, APIC and Alcorp, was appointed to Indophil's BOD as a Nonexecutive Director (Indophil has five nonexecutive directors out of seven directors). On December 30, 2011, APIC, Alcorp and ACR entered into an Agreement for the Joint Voting of Indophil shares, which defines the basic principles governing their conduct as common shareholders of Indophil and the exercise of their respective voting rights therein.

On February 6, 2012, APIC completed the trache 2 placement making the Alcantara Group the largest shareholder of Indophil at 19.99%.

Due to these developments in investments of the Alcantara Group in Indophil, ACR has concluded that it has significant influence over Indophil. Accordingly, ACR treats its investment in Indophil as investment in associate using equity method in the consolidated financial statements. The Group has determined that the acquisition cost of Indophil includes goodwill amounting to P785 million.

The financial information of Indophil as at December 31 are as follows:

| | 2013 | 2012 | |
|---------------------------------|--------------|-------------------------------|--------------------------|
| | | <i>(Amounts in Thousands)</i> | |
| Current assets | AUD\$216,162 | ₱8,529,342 | AUD\$236,762 ₱10,103,274 |
| Noncurrent assets | 189,906 | 7,493,330 | 273,951 11,690,229 |
| Current liabilities | 3,018 | 119,085 | 2,266 96,696 |
| Noncurrent liabilities | 149 | 5,879 | 94 4,011 |
| Revenue | 18,804 | 743,636 | 21,212 927,954 |
| Income (loss) before income tax | (102,149) | (4,039,657) | 7,760 339,474 |
| Income (loss) after income tax | (105,452) | (4,170,279) | 5,488 240,082 |

**Balance sheet and profit and loss accounts were translated to Philippine peso using closing exchange rate of P39.46 and average exchange rate of P39.55 in 2013, respectively; and P42.67 and P43.75 in 2012, respectively.*

Summarized financial information of Indophil, significant associate, based on IFRS financial statements, and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

| | 2013 | 2012 |
|--|-------------------------------|-------------|
| | <i>(Amounts in Thousands)</i> | |
| Current assets | ₱8,529,342 | ₱10,103,274 |
| Noncurrent assets | 7,493,330 | 11,690,229 |
| Current liabilities | (119,085) | (96,696) |
| Noncurrent liabilities | (5,879) | (4,011) |
| Equity | 15,897,708 | 21,692,796 |
| Equity interest of Parent Company | 2.42% | 2.75% |
| Share in net assets of Indophil | 384,725 | 596,552 |
| Goodwill | 784,750 | 784,750 |
| Translation adjustment | 45,137 | (65,769) |
| Carrying value of investment in Indophil | ₱1,214,612 | ₱1,315,533 |

The market value per share of Indophil in the Australian Securities Exchange is AUD\$ 0.165 as at December 31, 2013.



Aviana. On March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land (Ayala Land) entered into a joint venture agreement, where Ayala Land shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana Development Corporation (ADC), to undertake the development of the Lanang property in Davao of ACR. On September 17, 2013, ADC was incorporated as JVC. ACR has subscribed 296 preferred shares and 32 common shares for 32.8% ownership in ADC. As of December 31, 2013, ADC has not started operations.



12. Property, Plant and Equipment

| | 2013 | | | | | | | |
|--|--|-----------------|--|-----------------------------|-------------------------------|--------------------------|------------------------------------|------------------|
| Cost | Land, Buildings and Leasehold Improvements | Main Engine | Plant Mechanical, Electrical, Switchyard & Desulfurization Equipment | Plant Structures and Others | Machinery and Other Equipment | Construction in Progress | Cumulative Translation Adjustments | Total |
| Balance at December 31, 2012 | ₱656,416,036 | ₱5,176,265,905 | ₱3,502,552,074 | ₱2,499,345,886 | ₱818,217,385 | ₱168,998,204 | (₱3,134,317,766) | ₱9,687,477,724 |
| As previously reported | (148,108,013) | - | - | - | - | - | - | (148,108,013) |
| Reclassification (see Note 10) | 508,308,023 | 5,176,265,905 | 3,502,552,074 | 2,499,345,886 | 818,217,385 | 168,998,204 | (3,134,317,766) | 9,539,369,711 |
| As restated | 284,747,498 | 175,820,455 | 99,265,798 | 1,015,750,036 | 47,494,395 | 2,848,590,570 | - | 4,471,668,752 |
| Additions | - | - | - | 3,264,462 | - | - | - | 3,264,462 |
| Adjustment on decommissioning liability (see Note 20) | - | (134,940,257) | - | - | (8,597,642) | - | - | (143,537,899) |
| Disposals | (80,042,447) | - | - | - | (541,427,114) | (8,909,956) | - | (630,379,517) |
| Disposal of a subsidiary (see Note 31) | 5,327,290 | 844,225,176 | 814,643,615 | (1,657,652,279) | (2,001,963) | (4,541,839) | - | - |
| Reclassifications | - | - | - | - | - | - | - | - |
| Reclassification from deferred project costs (see Note 10) | - | - | - | - | - | 644,480,157 | - | 644,480,157 |
| Cumulative translation adjustments | - | - | - | - | - | - | 676,592,973 | 676,592,973 |
| Balance at December 31, 2013 | 718,340,364 | 6,061,371,279 | 4,416,461,487 | 1,860,708,105 | 313,685,061 | 3,648,617,136 | (2,457,724,793) | 14,561,458,639 |
| Accumulated Depletion, Depreciation and Amortization and Impairment Loss | - | - | - | - | - | - | - | - |
| Balance at December 31, 2012, as previously reported | (80,313,723) | (4,124,881,282) | (2,476,574,328) | (1,641,276,727) | (462,797,629) | - | 1,741,164,218 | (7,044,679,471) |
| As previously reported | 22,742,411 | - | - | - | - | - | - | 22,742,411 |
| Reclassification (see Note 10) | (57,571,312) | (4,124,881,282) | (2,476,574,328) | (1,641,276,727) | (462,797,629) | - | 1,741,164,218 | (7,021,937,060) |
| As restated | (8,611,758) | (361,857,704) | (217,374,865) | (74,499,680) | (36,741,630) | - | - | (699,085,637) |
| Depletion, depreciation and amortization for the year (see Note 26) | - | 134,365,972 | - | - | 7,047,744 | - | - | 141,413,716 |
| Disposals | - | - | - | - | 249,331,439 | - | - | 267,881,506 |
| Disposal of a subsidiary (see Note 31) | 18,550,067 | (507,249,856) | (693,301,709) | 1,199,335,098 | 1,216,467 | - | - | - |
| Reclassifications (see Note 10) | - | - | - | - | - | - | (575,967,215) | (575,967,215) |
| Cumulative translation adjustments | - | - | - | - | - | - | 1,165,197,003 | 1,165,197,003 |
| Balance at December 31, 2013 | (31,283,032) | (4,882,689,187) | (3,387,250,902) | (516,441,309) | (241,943,609) | - | (7,887,694,690) | (14,856,763,949) |
| Net Book Value | ₱687,057,332 | ₱1,178,682,092 | ₱1,029,210,585 | ₱1,344,266,796 | ₱71,741,452 | ₱3,648,617,136 | (₱1,292,527,790) | ₱6,673,763,949 |



2012 (As restated)

| Cost | Plant | | | | | | Cumulative Translation Adjustments | Total |
|--|--|-----------------|--|-----------------------------|-------------------------------|--------------------------|------------------------------------|-----------------|
| | Land, Buildings and Leasehold Improvements | Main Engine | Plant Mechanical, Electrical, Switchyard & Desulfurization Equipment | Plant Structures and Others | Machinery and Other Equipment | Construction in Progress | | |
| Balance at December 31, 2011 | | | | | | | | |
| As previously reported | ₱595,966,490 | ₱3,146,178,023 | ₱3,502,552,074 | ₱2,499,345,886 | ₱761,065,853 | ₱41,918,732 | (₱2,614,045,570) | ₱9,932,981,488 |
| Reclassification | (148,108,013) | - | - | - | - | - | - | (148,108,013) |
| As restated | 447,858,477 | 5,146,178,023 | 3,502,552,074 | 2,499,345,886 | 761,065,853 | 41,918,732 | (2,614,045,570) | 9,784,873,475 |
| Additions | 105,734,736 | 132,118,739 | - | - | 78,166,141 | 133,661,434 | - | 449,681,050 |
| Adjustment on decommissioning liability (see Note 20) | - | 3,238,339 | - | - | - | - | - | 3,238,339 |
| Disposals (see Note 28) | (44,642,925) | (111,851,158) | - | - | (16,675,193) | - | - | (173,169,276) |
| Reclassifications | (642,265) | 6,581,962 | - | - | (4,339,416) | (6,581,962) | - | (4,981,681) |
| Cumulative translation adjustments | - | - | - | - | - | - | (520,272,196) | (520,272,196) |
| Balance at December 31, 2012 | 508,308,023 | 5,176,265,905 | 3,502,552,074 | 2,499,345,886 | 818,217,385 | 168,998,204 | (3,134,317,766) | 9,539,369,711 |
| Accumulated Depreciation, Depreciation and Amortization and Impairment Loss | | | | | | | | |
| Balance at December 31, 2011 | | | | | | | | |
| As previously reported | (118,674,479) | (3,903,540,258) | (2,299,874,668) | (1,574,259,437) | (447,426,002) | - | 1,348,672,652 | (6,995,102,192) |
| Reclassification | 22,624,708 | - | - | - | - | - | - | 22,624,708 |
| As restated | (96,049,771) | (3,903,540,258) | (2,299,874,668) | (1,574,259,437) | (447,426,002) | - | 1,348,672,652 | (6,972,477,484) |
| Depletion, depreciation and amortization for the year (see Note 26) | | | | | | | | |
| As previously reported | (6,288,919) | (333,191,772) | (176,699,660) | (67,017,290) | (35,273,391) | - | - | (618,471,032) |
| Reclassification | 117,703 | - | - | - | - | - | - | 117,703 |
| As restated | (6,171,216) | (333,191,772) | (176,699,660) | (67,017,290) | (35,273,391) | - | - | (618,353,329) |
| Disposals (see Note 28) | 44,649,675 | 111,850,748 | - | - | 14,920,083 | - | - | 171,420,506 |
| Reclassifications | - | - | - | - | 4,981,681 | - | - | 4,981,681 |
| Cumulative translation adjustments | - | - | - | - | - | - | 392,491,566 | 392,491,566 |
| Balance at December 31, 2012 | (57,571,312) | (4,124,881,282) | (2,476,574,328) | (1,641,276,727) | (462,797,629) | - | 1,741,164,218 | (7,021,937,060) |
| Net Book Value | ₱450,736,711 | ₱1,051,384,623 | ₱1,025,977,746 | ₱838,069,159 | ₱355,419,756 | ₱168,998,204 | (₱1,393,153,548) | ₱2,517,432,651 |



The capitalized asset retirement costs, net of accumulated depreciation, amounted to ₱15 million and ₱23 million as at December 31, 2013 and 2012, respectively.

Property, plant and equipment with a net book value of ₱812 million and ₱1,144 million as at December 31, 2013 and 2012, respectively, are mortgaged as collateral for the long-term debt of SPPC and WMPC (see Note 18).

WMPC recognized ₱4 million in 2012 as income under "Income from insurance claims" account its claim for reimbursement of losses arising from a machinery breakdown in 2010, which was collected in full in 2013 (see Note 28).

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱1,962 million and ₱2,148 million as at December 31, 2013 and 2012, respectively.

13. Available-for-sale Financial Assets

AFS financial assets primarily consist of investments in equity securities which are listed in the Philippine Stock Exchange. Movements of AFS financial assets are as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| Acquisition costs - | | |
| Balance at beginning of year | ₱74,559,512 | ₱74,559,512 |
| Disposal during the year | (1,790,769) | - |
| Balance at end of year | 72,768,743 | 74,559,512 |
| Cumulative unrealized gain on change in fair value recognized in equity: | | |
| Balance at beginning of year | 35,495,598 | 17,475,890 |
| Increase (decrease) in fair value | (6,741,009) | 18,019,708 |
| Balance at end of year | 28,754,589 | 35,495,598 |
| Accumulated impairment loss - | | |
| Balance at beginning and end of year | (45,660,640) | (45,660,640) |
| Carrying value | ₱55,862,692 | ₱64,394,470 |

14. Goodwill

Goodwill acquired through business combinations has been allocated to the power generation cash-generating units consisting of the operations of SPPC and WMPC.

The carrying amount of goodwill allocated to SPPC and WMPC amounted to ₱995 million and ₱923 million as at December 31, 2013 and 2012, respectively. The movement during the year is due to the effect of foreign exchange rate changes from ₱41.05/\$1 as at December 31, 2012 to ₱44.40/\$1 as at December 31 2013 used in translating the amount of goodwill allocated to SPPC and WMPC from their functional currency of U.S. dollars to the Group's functional currency of Philippine peso (see Note 2).

Goodwill is subject to annual impairment testing. The recoverable amounts of the operations of SPPC and WMPC have been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management.



Key assumptions used in value in use calculations

The calculation of value in use for both cash-generating units are most sensitive to the following assumptions explained as follows:

Discount Rates. Discount rates reflect management's estimate of the risks specific to the cash-generating unit. The discount rate used for the cash-generating unit is based on weighted average cost of capital. This rate was further adjusted to reflect the market assessment of any risk specific to the generating unit for which estimates of cash flows have not been adjusted. The discount rates used was 9.79% and 8.60% in 2013 and 2012, respectively.

Terminal Values. Terminal values represent the market values of the power plant complexes upon disposal after the ECA period. The terminal values included in the value in use computation as at December 31, 2013 and 2012, respectively, amounted to \$48.9 million (₱2,171 million) and \$43.50 million (₱1,782 million), respectively.

Consumer Price Index Estimates. The assumptions used for consumer price index are 1.00% and 2.00% in 2013 and 2012 for US dollar-denominated billings. On the other hand, assumptions used for Philippine peso-denominated billings are 3.00% and 4.00% in 2013 and 2012, respectively.

Exchange Rate Inflation. The assumption used to determine foreign exchange rate is a depreciating U.S. dollar of 1.00% and 2.00% every year in 2013 and 2012, respectively.

Sensitivity to Changes in Assumptions

With regard to the assessment of value in use of the cash-generating unit, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

The estimated recoverable amount of the cash-generating units exceeds their carrying amounts by and \$6.07 million (₱270 million) and \$8.21 million (₱337 million) as at December 31, 2013 and 2012, respectively.

15. **Other Noncurrent Assets**

| | 2013 | 2012 |
|--------------------------|---------------------|-----------------------|
| Deferred project costs | ₱209,571,818 | ₱840,606,360 |
| Mining rights | 195,000,000 | 195,000,000 |
| Deferred financing costs | 167,475,759 | 90,112,519 |
| Deposits | 28,500,000 | - |
| Computer software | 16,001,808 | 14,914,552 |
| Others | 8,022,673 | 29,438,437 |
| | <u>₱624,572,058</u> | <u>₱1,170,071,868</u> |

Deferred Project Costs

Deferred project costs are external and incremental direct internal costs related to the Group's energy and power development projects. Costs incurred are initially recorded as part of noncurrent assets and will subsequently reclassified to construction-in-progress under "Property, plant and equipment" account once project reaches certain milestone. Deferred project costs pertain to the following ongoing projects:



SM 200. SM 200 is a coal-fired power plant project with a 200MW capacity in Maasin, Sarangani. Notice to proceed to commence the relevant subcontract works in accordance with EPC contract was issued to the contractor on December 28, 2012. Project costs incurred as at December 31, 2012 amounting to ₱644 million was transferred to construction in progress in 2013.

ZAM 100. ZAM 100 is a coal-fired power plant project with a 100MW capacity in San Ramon, Zamboanga City (see Note 1). As at December 31, 2013 and 2012, costs incurred for this project amounted to ₱188 million and ₱131million, respectively.

Mapalad. Mapalad was formerly the 100MW Iligan Diesel Power Plant (IDPP) that was constructed in 1993 and operated under NMPC until the turnover to NPC of NMPC-1 in 2003, and NMPC-2 in 2006. As at December 31, 2012, costs incurred for this project amounted ₱39 million. As discussed in Note 1, MPC was transferred from Parent Company to CHC in 2013.

Siguil. Siguil hydro powerplant project is a 16.7 MW run-off river with three cascades along Siguil River in Sarangani Province. The project is composed of a non-overflow concrete gravity dam. Its hydrology validation study is on-going and the DOE registration requirements have been completed. As at December 31, 2013 and 2012, costs incurred for this project pertains mainly to administrative costs, which were recognized as outright expense.

Others. Other project costs include deferred exploration costs incurred by ACRMC for the mineral deposits in the Manat Claims. Exploration costs incurred amounted to ₱29 million and ₱20 million as at December 31, 2013 and 2012, respectively. As at March 28, 2014, the Manat MPSA is still in the exploration phase of development.

Other projects also include the Guam Coal project with carrying value amounting to nil and ₱3 million as at December 31, 2013 and 2012. The Group recorded a provision for impairment loss for the Guam Coal project of ₱3 million in 2013 and 2012, recorded under "General and administrative expense" account in the consolidated statement of income (see Note 24). Accumulated provision for impairment loss amounted to ₱14 million and ₱10 million as at December 31, 2013 and 2012, respectively.

Deferred Oil Exploration Costs

ACR, together with other oil exploration companies, has participated in oil exploration activities in prior years. Deferred oil exploration relates to the following areas: .

| | 2013 | 2012 |
|------------------------------------|-------------------|-------------------|
| Onshore Mindoro - GSEC No. 81 | ₱43,137,619 | ₱43,137,619 |
| Northwest Malampaya - GSEC No. 86 | 5,959,900 | 5,959,900 |
| Sibutu Block - GSEC No. 87 | 5,045,019 | 5,045,019 |
| Others | 9,230,396 | 9,230,396 |
| | <u>63,372,934</u> | <u>63,372,934</u> |
| Less provision for impairment loss | 63,372,934 | 63,372,934 |
| | <u>₱-</u> | <u>₱-</u> |

There have been no activities in various exploration areas for some time and management estimates that the carrying amounts of deferred oil exploration and development costs may no longer be recoverable.



Mining Rights

In 1997, Aldevinco entered into a Mineral Production Sharing Agreement (MPSA) with the Republic of the Philippines for the exploration, sustainable development and commercial utilization of mineral deposits covering 1,547.32 hectares in the Municipalities of Nabunturan and Maco in Compostela Valley (the Manat Claims).

In 1999, Aldevinco and SECO entered into a joint venture (the Joint Venture), for the purpose of prospecting, exploring, and developing and mining the Manat Claims. Under the Joint Venture Agreement, SECO shall conduct exploration works on the Manat Claims. SECO's participating interest shall be (a) 25% after completion of certain work program and/or incurring total expenditures of US\$1,000,000; and (b) 50% after completion of certain work program and/or incurring total expenditure of US\$2,250,000. As soon as SECO shall have earned 50% participating interest, SECO and Aldevinco shall register the joint venture as a partnership with the SEC to qualify it to hold legal title to the Manat Claims and other properties acquired by the Joint Venture.

In 2007, ACRMC acquired Aldevinco's 75% participating interest in the Joint Venture for ₱195 million. As at December 31, 2013 and 2012, the participating interests of ACRMC and SECO in the Joint Venture are 75% and 25%, respectively.

Deferred Financing Costs

As at December 31, 2013 and 2012, the debt issue costs incurred by the Company amounted to ₱229 million and ₱90 million, respectively. The debt issue costs pertain to the documentary stamp taxes, mortgage fees, legal and other fees incurred by the Company in relation to the Omnibus Loan and Security Agreement (OLSA) dated December 12, 2012. Upon drawdown from the loan facility covered by the OLSA, a portion of the debt issue costs shall be allocated to, and deducted from, the principal drawn amount to determine the carrying value of the loan. The debt issue costs allocated to the undrawn facility is presented as "Deferred financing costs". The allocation shall be based on the amount of the principal drawn over the total facility. As at December 31, 2013, total amount drawn from the facility amounted to ₱2,500.3 million. Debt issue costs allocated to drawn facility in 2013 amounted to ₱59 million (net of ₱3 million amortization in 2013) were presented against long-term debt (see Note 18). There was no loan drawdown as at December 31, 2012.

Deferred financing costs as at December 31, 2013 and 2012 are shown below:

| | 2013 | 2012 |
|---|--------------|-------------|
| Total debt issue costs incurred | ₱229,057,135 | ₱90,112,519 |
| Less amount allocated to drawn facility | 61,581,376 | — |
| Deferred financing costs | ₱167,475,759 | ₱90,112,519 |

Deposits

In 2013, the ACR paid ₱27.5 million, representing 50% downpayment, to a certain individual for the purchase of land in Davao. Related transaction costs that were capitalized by the ACR amounted to ₱1.0 million.



Computer Software

In 2012, CHC and subsidiaries acquired SAP ERP Financials (SAP). As at December 31, 2012, SAP was not yet available for its intended use. Movements of this account are shown below:

| | 2013 | 2012 |
|---------------------------------|--------------------|--------------------|
| Cost | | |
| Balances at beginning of year | P14,914,552 | P- |
| Additions | 3,701,167 | 14,914,552 |
| Translation adjustment | 1,196,911 | - |
| Balances at end of year | 19,812,630 | 14,914,552 |
| Accumulated Amortization | | |
| Balances at beginning of year | - | - |
| Additions | 3,642,114 | - |
| Translation adjustment | 168,708 | - |
| Balances at end of year | 3,810,822 | - |
| Net book value | P16,001,808 | P14,914,552 |

16. Accounts Payable and Other Current Liabilities

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Trade | P511,255,472 | P190,298,564 |
| Nontrade: | | |
| Project advances | 104,383,289 | 60,494,998 |
| Output tax payable | 54,079,075 | 50,972,955 |
| Commissions payable (see Notes 21 and 35g) | 9,747,057 | 10,122,869 |
| Payable to non-controlling shareholders of a dissolved subsidiary (see Note 1) | - | 28,533,322 |
| Retention payable | - | 2,387,866 |
| Advances from customers | 25,525,647 | 26,797,524 |
| Accrued vacation and sick leave benefits | 26,267,188 | 24,292,609 |
| Accrued interest (see Notes 17 and 18) | 86,647,869 | 21,294,760 |
| Other current liabilities | 59,832,175 | 46,255,384 |
| | P877,737,772 | P461,450,851 |

Trade payables are noninterest-bearing and are normally on a 60 to 75 days term.

Nontrade, advances from customers and other current liabilities are noninterest-bearing and have an average term of 30 days.



17. Loans Payable

In February 12, 2013, ACR obtained peso and dollar-denominated unsecured short-term loans from APHC amounting to ₱249 million and US\$12 million (₱501 million), respectively, to finance additional subscription in Sarangani. The borrowings are payable on February 7, 2014 and bear a fixed rate of 6% per annum.

Transaction costs related to the loan amounting to ₱3.9 million are presented as contra account to the principal balance and are amortized over the term of the loan using effective interest rate. Amortization of transaction costs amounting to ₱3.5 million is presented as part of "Finance charges" (see Note 27).

Outstanding loans payable to APHC amounted to ₱794.4 million as at December 31, 2013, net of unamortized transaction cost of ₱0.4 million.

In 2007, LLI obtained a short-term loan from a local bank bearing an annual interest of 11.0% payable in one year. The loan is renewed annually. In 2010, the loan was renewed for twelve months to mature in July 2011, bearing an annual interest of 10%. In July 2011, the loan was renewed again for twelve months to mature in August 2012, bearing an annual interest of 10%. Such loan is collateralized by certain lots under a Real Estate Mortgage on LLI's investments in real estate with aggregate carrying value of ₱86 million as at December 31, 2011 (see Note 10).

The loan payable was paid in full on August 3, 2012 and the related Real Estate Mortgage was cancelled accordingly.

Finance charge related to this loan payable amounted to ₱0.4 million in 2012 (see Note 27).

18. Long-term Debt

This account consists of U.S. dollar and Philippine peso-denominated obligations as follows:

| | 2013 | 2012 |
|--|--------------|--------------|
| Parent Company | | |
| U.S. dollar-denominated debt - | | |
| Four-year fixed rate corporate note | ₱426,146,391 | ₱293,511,643 |
| Four-year fixed rate note | 577,135,000 | - |
| Philippine peso-denominated debt: | | |
| Five-year fixed rate restructured debt | 49,199,000 | 70,699,000 |
| Five-year fixed rate accommodated and restructured debt | 6,164,556 | 30,822,779 |
| Seven-year floating rate accommodated and restructured debt | - | 181,304,800 |
| CHC's Subsidiaries | | |
| <i>WMPC</i> | | |
| Three and half-year U.S. dollar-denominated floating rate note | 405,897,116 | 562,971,400 |
| Seven-year U.S. dollar-denominated floating rate note | 44,395,000 | 64,507,160 |

(Forward)



| | 2013 | 2012 |
|--|-----------------------|-----------------------|
| <i>SPPC</i> | | |
| Seven-year U.S. dollar-denominated floating rate note | ₱156,968,075 | ₱197,919,660 |
| Three and half-year U.S. dollar-denominated floating rate note | 81,390,833 | 102,625,000 |
| <i>MPC</i> | | |
| Six-year peso-denominated fixed rate debt | 900,000,000 | - |
| ALC and Subsidiary | | |
| <i>ALC</i> | | |
| Five-year peso-denominated fixed rate restructured debt | 85,644,035 | 114,484,035 |
| <i>LUC</i> | | |
| Peso-denominated installment payable | - | 21,405,055 |
| Sarangani | | |
| Thirteen and half year peso-denominated debt | 2,500,279,215 | - |
| MADE | | |
| Five-year peso-denominated fixed rate restructured debt | 85,826,125 | 114,706,125 |
| | 5,319,045,346 | 1,754,956,657 |
| Less unamortized transaction costs | 128,550,305 | 73,180,108 |
| | 5,190,495,041 | 1,681,776,549 |
| Less current portion | 454,022,139 | 496,909,791 |
| | ₱4,736,472,902 | ₱1,184,866,758 |

Movement in the unamortized transaction costs is as follows:

| | 2013 | 2012 |
|---|---------------------|--------------------|
| Balance at beginning of year | ₱73,180,108 | ₱4,376,027 |
| Additions | 88,718,073 | 84,306,743 |
| Amortization of transaction costs (see Note 27) | (33,347,876) | (15,502,662) |
| Balance at end of year | ₱128,550,305 | ₱73,180,108 |

Parent Company

The loans of the Parent company consist of the following:

- a. *US\$65 million Loan Facility Agreement* – On May 24, 2012, the Parent Company entered into a US\$65 million Loan Facility Agreement with APHC to finance the construction of the Sarangani Project (see Note 1). The loan bears 6% interest payable semi-annually starting 6 months from the initial drawdown date up to maturity date of the loan. Following are the salient features of the loan:
 - *Maturity Date* – Principal is payable in full at maturity which is the earliest of (i) 4 years from date of initial drawdown; (ii) commercial operation date of Sarangani; or, (iii) the date of issuance of the takeover certificate to Sarangani for the project. As at December 31, 2012, the Parent Company assessed that the commercial operation date of Sarangani will be the earliest among the three dates. Commercial operation date of Sarangani is expected to commence in August 2015.



- *Mandatory Prepayment* – Prior to maturity date, the Parent Company shall pay the loan, in full or in part (as applicable), within fifteen (15) days from the happening of any of the following: (i) a follow-on offering, payment or subscription transaction involving new common shares of ACR; (ii) initial public offering or trade sale of the investee companies of ACR, which shall include Sarangani or any investee that may in the future, be created or owned by ACR; or (iii) dividends are received by ACR from the investee companies mentioned in (ii), unless APHC may allow ACR to use dividends received by it to service its existing loan obligations, instead of a mandatory prepayment on the loans in this Agreement.
- The loan has embedded derivatives as follows:
 - ▶ *Voluntary Prepayment Option*– the Parent Company, may at its option, prepay the loan in full or in part, together with any accrued interest thereon, subject to the following conditions: (i) the Parent Company shall give APHC written notice not less than 30 days prior to proposed prepayment date; (ii) any prepayment shall be made on an interest payment date; (iii) each partial prepayment shall be for a minimum amount of ₱100 million and in integral multiples thereof; (iv) any amount may not be reborrowed; and (v) any amount prepaid shall be free and clear of, and without deduction for or on account of taxes.
 - ▶ *Conversion and Exchange Options* – In lieu of cash settlement upon mandatory and voluntary prepayment, APHC has the option to convert and/or exchange the outstanding principal amount including any accrued interest, anytime beginning 12 months from initial drawdown date, to the Parent Company’s common shares and/or Sarangani common shares. With respect to the conversion of the loan to Parent Company’s common shares, the conversion price shall be determined using the 12-month volume weighted average price of ACR common shares immediately prior to the date of the Loan Facility Agreement and in which case shall give APHC of up to a maximum of 20% effective voting shares in Sarangani. Conversely, with respect to the exchange of loan to Sarangani common shares, the exchange price shall be based on the par value of Sarangani’s common share and in which case shall give APHC of up to a maximum of 20% interest in Sarangani’s issued and outstanding common shares at the date when the exchange option is exercised.
- The amount due under mandatory and voluntary prepayment shall be equivalent to such amount that will result to APHC receiving yield to redemption of 13.5% based on the principal amount of the loan to be prepaid.
- *Negative Covenants* – ACR is subject to certain negative covenants which require prior approval of APHC for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. In addition, ACR is also required to maintain certain financial ratios. As at December 31, 2012, ACR is in compliance with the loan covenants.

On May 24, 2012, the Exchange Option under APHC-ACR Loan Facility Agreement has been assigned by APHC to its Lender Bank in accordance with the Omnibus Loan and Security Agreement (OLSA) entered into by APHC with the local bank.

The embedded derivatives in the loan were assessed by the Parent Company as for bifurcation based on the provisions of PAS 39 and thus, were accounted for separately as single



compound derivative. The Parent Company determined the value of the compound embedded derivatives using the binomial model which is a standard option pricing model. The Group recognized a derivative liability from the compound embedded derivatives amounting to ₱38 million and ₱22 million as at December 31, 2013 and 2012, respectively. Mark-to market loss recognized in the consolidated statement of income amounted to ₱16 million and ₱12 million in 2013 and 2012, respectively (see Note 28). The derivative liability is presented as part of the "Current liabilities" in the consolidated balance sheet whereas the mark-to-market loss is presented as part of "Other income - net" in the consolidated statement of income.

In 2012, the transaction costs representing fees, taxes and other charges incurred in obtaining the loan amounting to ₱77 million were deferred and amortized over 36 months using effective interest rate. These transaction costs are presented as contra account to the principal balance of the loan. Amortization of transaction costs amounted to ₱22 million and ₱11 million in 2013 and 2012, respectively, are presented as part of "Finance charges" (see Note 27).

In 2013, additional drawdown by ACR amounted to ₱110 million. No related transaction cost was recognized in 2013.

In compliance with PAS 39, the loan was initially recognized at fair value. Accretion on the loan using effective interest rate amounted to ₱2 million and ₱1 million in 2013 and 2012, respectively, was recognized to bring the loan at the amount at the expected settlement date (see Note 27). Loan from APHC amounted to ₱381 million and ₱228 million, net of unamortized transaction costs of ₱46 million and ₱66 million in December 31, 2013 and 2012, respectively.

As at December 31, 2013 and 2012, the Parent Company is in compliance with the terms of its loan covenants.

- b. On July 26, 2013, the Parent Company entered into a US\$13 million loan agreement to finance the acquisition of the 40% of the capital stock of CHC from EGCO (see Note 22). The loan bears a fixed rate of 4.44% per annum, based on the outstanding principal, payable semi-annually in arrears.

Transaction cost incurred in obtaining the loan amounted to ₱8 million were deferred and amortized over 48 months using effective interest rate. Amortization of transaction costs amounted to ₱1 million in 2013 is presented as part of "Finance charges" (see Note 27). The loan was secured by collateral of the Parent Company's 0.8 million common shares and 1 million preferred shares of stock in CHC and assignment of dividends relating to the said shares of stock.

- c. Short-term bank borrowings amounting to ₱145 million as at December 31, 2010, which bear annual interest using a base rate of 8% was approved for restructuring in December 2010.

The creditor approved the restructuring and partial settlement of this loan as follows:

- ₱85 million of which is restructured to be paid quarterly over 5 years until September 2015 with 6% interest per annum.
- The balance is to be settled through dacion en pago.

In October 2011, the compromise settlement agreement and the deed of assignment have been notarized. Accordingly, the restructured loan amounting to ₱85 million has been reclassified to long-term debt. The de-recognition of remaining principal balance and the related interest



payable through dación en pago resulted in the recognition of gain on settlement of loan amounting to ₱57 million in 2011 (see Note 28). Outstanding balance of restructured loan amounted to ₱49 million and ₱71 million as at December 31, 2013 and 2012, respectively.

- d. Bank loans of ₱6 million and ₱31 million as at December 31, 2013 and 2012, respectively, which were accommodated for and on behalf of an affiliated Company and were restructured in 2008, are payable in twenty (20) quarterly amortizations up to 2014 with annual interest rate fixed at 8%.
- e. Bank loans of ₱181 million as at December 31, 2012 were accommodated for and on behalf of an affiliated company and were restructured in 2007 are payable in twenty seven (27) quarterly amortizations up to 2014 with interest rate of 3% over 90-day T-bill rate subject to quarterly repricing. The long-term debt is secured by a pledge of the Parent Company's 1.6 million shares of stock in CHC and all shares of stock in ACRMC. The bank loan was fully settled in 2013.

CHC's Subsidiaries

WMPC. In 2008, WMPC obtained a U.S. dollar-denominated loan amounting to US\$4 million from a local bank under the amended OLSA to finance the maturing obligations with the syndicate lender banks. The loan bears an annual interest rate equal to LIBOR plus 2% and is subject to quarterly repricing. These are payable on a quarterly basis up to August 14, 2015. Balance of this loan amounted to ₱44 million (US\$1 million) and ₱65 million (US\$1.6 million) as at December 31, 2013 and 2012, respectively.

On February 14, 2012, WMPC obtained additional US-dollar denominated loan amounting \$16 million from a local bank representing the remaining balance of the term loan facility under the OLSA. The additional loan bears an annual interest rate equal to LIBOR plus 3.375% and is subject to semi-annual repricing. The additional loan is payable on a semi-annual basis up to August 14, 2015. Balance of this loan amounted to ₱406 million (US\$9 million) and ₱563 million (US\$13.7 million) as at December 31, 2013 and 2012, respectively.

SPPC. On July 15, 2009, SPPC obtained a U.S. dollar-denominated loan amounting to US\$9 million from a local bank under the OLSA to finance the maturing obligations with the syndicate lender banks.. The loan bears an annual interest equal to LIBOR plus 1 year credit default swap and 2% per annum spread. The loan is payable on a quarterly basis up to July 15, 2016. Balance of this loan amounted to ₱157 million (US\$3.5 million) and ₱198 million (US\$4.8 million) as at December 31, 2013 and 2012, respectively.

On January 31, 2012, SPPC obtained additional US dollar-denominated loan amounting to \$3.00 million from a local bank representing the remaining balance of the loan facility under the OLSA. The additional loan is subject to the same interest on the initial loan and is also payable on a quarterly basis up to July 15, 2016. Balance of this loan amounted to ₱81 million (US\$1.8 million) and ₱103 million (US\$2.5 million) as at December 31, 2013.

Under the terms of the OLSAs, WMPC and SPPC are subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. In addition, WMPC and SPPC are also required to maintain certain financial ratios. As at December 31, 2013 and 2012, WMPC and SPPC are in compliance with the loan covenants.



The OLSA contains an embedded prepayment option where WMPC and SPPC may prepay the loan in whole or in part provided certain conditions are met, which include the following, among others:

- Each partial prepayment are in integral multiples of US\$1 million;
- No prepaid amount may be re-borrowed; and
- The entity shall pay a prepayment penalty of one percent (1%) based on the amount of the principal to be prepaid.

WMPC and SPPC determined using the Binomial Model of valuation that the prepayment option is insignificant as at December 31, 2013 and 2012.

Under the agreements, SPPC and WMPC shall provide collateral security, which shall consist of mortgage on property, plant and equipment, including assignment of their rights arising from the project agreements with NPC. Property, plant and equipment with carrying value of ₱812 million and ₱1,144 million as at December 31, 2013 and 2012, respectively, were mortgaged as collateral (see Note 12).

MPC. On July 15, 2013, MPC entered into a fixed interest rate long-term OLSA amounting to ₱900 million from a local bank. The loan is payable in 11 semi-annual principal amortizations beginning immediately at the end of August 16, 2014, the first year from loan draw down, up to August 16, 2019. Interest is computed as the sum of the spread and the applicable benchmark rate, based on outstanding facility amount, and calculated on the basis of the actual number of days elapsed in a year of 360 days. The fixed rate shall be subject to a floor rate of 6.25% per annum, excluding gross receipt tax. The interest is payable every six months reckoned from August 16, 2013, the initial draw down date.

On August 16, 2013, MPC made the first draw down on the loan amounting to ₱800 million. The remaining loan balance amounting to ₱100 million was fully drawn on October 31, 2013.

MPC is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. MPC is also required to maintain certain financial ratios. As at December 31, 2013, MPC is in compliance with the loan covenants.

The OLSA contains derivatives (prepayment option and interest rate floor from commitment date to drawdown date. MPC assessed that the embedded derivatives are not required to be separated from the facility (host contract) as at December 31, 2013.

Under the terms of the OLSAs, MPC, SPPC and WMPC shall provide collateral security which shall consist of mortgage on its property, plant and equipment, including assignment of their rights from the project agreements with NPC. As at December 31, 2013 and 2012, the carrying amount of the property, plant and equipment mortgaged as collateral amounted to \$41 million and \$28 million, respectively.

ALC and Subsidiary

ALC. Loan, which is due in 2003 but extended while in the process of restructuring into a new long-term loan amounting to ₱184 million as at December 31, 2009, had undergone restructuring on November 2, 2010. The balance of the restructured loan amounted to ₱86 million and ₱114 million as at December 31, 2013 and 2012, respectively, and is due to be payable quarterly in five years. The restructuring of the loan does not warrant derecognition of the old financial



liability and recognition of a new one since there is no substantial modification on the loan agreement.

This loan bears an annual interest rate of 5% in 2013 and 2012.

The loan is collateralized by mortgage trust indenture and real estate mortgage on the ALC's land and buildings and improvements with carrying amount of ₱125 million as at December 31, 2013 and 2012 (see Note 10).

LUC. On May 30, 2009, LUC incurred a long-term debt payable to National Transmission Corporation (Transco) amounting to ₱25 million as part of the purchase price of the 69kV transmission line. The liability is payable in 24 equal monthly installment of inclusive of 6% interest per annum based on diminishing balance of the outstanding liability. However, beginning October 1, 2009, LUC ceased to pay monthly installments due to the notice given by Transco. The non-payment is due to the court case filed by Municipality of Labrador, Pangasinan against the Transco. As at December 31, 2012, the remaining principal balance of the installment payable was ₱21 million.

Sarangani

On December 12, 2012, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱9,300 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,600 million for the construction of the Phase 1 100-MW coal-fired power plant and its common or shared areas and facilities; and (2) Series 2 Loan in the principal amount of up to ₱700 million for the construction of the transmission line. The Company should pay interest semi-annually at the rate equal to the higher of (a) PDST-F benchmark bid yield for five-year treasury securities plus 3.5% spread per annum, or (b) 7.5% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, to be adjusted based on the higher of (a) interpolated PDST-F benchmark bid yield for eight and one-half (8 1/2)-year treasury securities plus 2.75% spread per annum, or (b) interest rate applicable on the initial borrowing.

Under the OLSA, Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes eight parcels of land registered in the name of KAED, and one parcel of land registered in the name of Sarangani. The nine parcels of land have an aggregate area of 297,000 square meters and comprise the plant site of the Project. Further, chattel mortgage shall consist of office and transportation equipment with a total value of ₱62 million. In addition to the collaterals, the shares of stocks in Sarangani registered under the names of ACR and TTC representing 100% of its outstanding capital stock have been pledged in favor of the collateral trustee.

Sarangani's long-term debt as at December 31, 2013 is shown below:

| | Series I | Series II | Total |
|-----------------------------------|----------------|-------------|----------------|
| Long-term debt | ₱2,461,779,215 | ₱38,500,000 | ₱2,500,279,215 |
| Less unamortized debt issue costs | 35,145,800 | 23,547,535 | 58,693,335 |
| | ₱2,426,633,415 | 14,952,465 | ₱2,441,585,880 |

Amortization of debt issue costs amounted to ₱2.9 million in 2013. As at December 31, 2012, the Company has not drawn from the facility. Interest expense capitalized during the year ended December 31, 2013 amounting to ₱113.4 million is presented as part of "Construction in-progress" under "Property, plant and equipment."



MADE

Principal amortizations of certain loans amounting to ₱281 million as at December 31, 2009 became due and demandable but have not been paid as at their due dates. In 2010, these ₱97 million loan were settled and the balance of ₱184 was restructured to be payable quarterly in 5 years until 2015. Interest is fixed at 5% p. a. payable quarterly in arrears. The balance of the restructured loan amounted to ₱86 million and ₱115 million as at December 31, 2013 and 2012, respectively. The loan is collateralized by mortgage agreements on real estate properties of ALC.

Repayments of long-term debt outstanding based on nominal amount as at December 31, 2013 are scheduled as follows:

| | Amortization Schedule |
|---------------------|--------------------------|
| 2014 | ₱626,461,286 |
| 2015 | 1,071,958,710 |
| 2016 and thereafter | 3,620,625,350 |
| | ₱5,319,045,346 |

Interest charged to operations amounted to ₱74 million, ₱63 million and ₱21 million for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 27).

19. Customers' Deposits and Deferred Lease Income

Customers' deposits consist of noninterest-bearing service deposits received from customers of LUC to secure payment of the monthly bills for electricity consumption and are equivalent to the estimated bill for one month of service. These deposits are refundable only upon termination of the contract at the customers' request provided that the corresponding receipts are surrendered, the metering equipment and other facilities are returned in good condition and all accounts in the name of the customers have been paid.

In compliance with PAS 39, customers' deposits are initially recognized at fair value at the original transaction date, with the difference between the nominal amount and the discounted value presented in the balance sheet as deferred lease income. The discount recognized from fair value is amortized at effective yield over the life of these liabilities as additional interest expense to bring these liabilities at the amount of liability at the expected settlement dates. Deferred lease income is recognized as income on a straight-line basis over the lease term and recorded under "Other income - others" account.

The movements of the nominal value and unamortized discount of customers' deposits are as follows:

| | 2013 | 2012 |
|------------------------------|--------------|-------------|
| Nominal value: | | |
| Balance at beginning of year | ₱70,604,396 | ₱57,174,578 |
| Additions | 23,852,983 | 14,529,818 |
| Refunds | - | (1,100,000) |
| Disposal of a subsidiary | (94,457,379) | |
| Balance at end of year | - | 70,604,396 |

(Forward)



| | 2013 | 2012 |
|---|--------------|-------------|
| Unamortized discount: | | |
| Balance at beginning of year | P12,609,822 | P6,751,055 |
| Additional discount recognized as deferred lease income | 7,733,543 | 6,104,744 |
| Accretion (see Note 27) | (2,532,048) | (245,976) |
| Disposal of a subsidiary (see Note 31) | (17,811,317) | - |
| Balance at end of year | - | 12,609,823 |
| Carrying value | P- | P57,994,573 |

The movement of deferred lease income is as follows:

| | 2013 | 2012 |
|--|--------------|-------------|
| Balance at beginning of year | P11,597,353 | P7,059,717 |
| Additions | 7,733,543 | 6,104,744 |
| Operating lease income based on straight-line amortization | (1,574,019) | (1,567,108) |
| Disposal of a subsidiary (see Note 31) | (17,756,877) | - |
| Balance at end of year | P- | P11,597,353 |

20. Asset Retirement Obligation

Under the ECC of SPPC and WMPC, the Group have an obligation to decommission or dismantle its power plant complex at the end of the useful lives of the power plant assets. In this regard, the Group established a provision to recognize its estimated liability for the dismantlement of its power plant complex.

Movement in asset retirement obligation follows:

| | 2013 | 2012 |
|---|-------------|-------------|
| Balance at beginning of year | P69,558,363 | P62,225,406 |
| Effects of change in estimate and discount rate (see Note 12) | 3,264,462 | 3,238,339 |
| Accretion expense for the year (see Note 27) | 5,978,542 | 4,094,618 |
| Balance at end of year | P78,801,367 | P69,558,363 |

The actual decommissioning cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required in completing all decommissioning or dismantling activities.

The Company assesses the best estimate of cash flows required to settle the obligation annually every December 31st. The change in estimate resulted to increase in asset retirement obligation by P3 million in 2013 and 2012.



21. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include (a) enterprises that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Group; (b) associates; and (c) individuals owning directly, or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

Affiliate refers to an entity that is neither a parent, subsidiary, nor an associate, but has stockholders common the Group or under common control.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses.

The table below shows the details of the Group's transactions with related parties.

| Related Party | | Advances | Purchases | Due from Related Parties (see Note 8) | Term | Conditions |
|--|------|----------------|---------------|---|-------------------------------------|----------------------------------|
| Major stockholders | 2013 | ₱1,337,417,112 | ₱- | ₱2,899,051,932 | 30 days, noninterest- bearing | Partly secured, no impairment |
| | 2012 | 189,859,037 | - | 1,561,634,820 | 30 days, noninterest- bearing | Partly secured, no impairment |
| | 2011 | 417,707,896 | 1,226,174,500 | 1,585,167,282 | 30 days, noninterest- bearing | Partly secured, no impairment |
| Subsidiaries of major stockholders | 2013 | 18,186,855 | - | 42,945,048 | 30 days, noninterest- bearing | Unsecured, no impairment |
| | 2012 | 36,163,212 | - | 26,626,478 | 30 days, noninterest- bearing | Unsecured, no impairment |
| | 2011 | - | - | 103,201 | 30 days, noninterest- bearing | Unsecured, no impairment |
| Affiliates | 2013 | 91,621,071 | - | 266,017,408 | 30 days, noninterest- bearing | Unsecured, no impairment |
| | 2012 | 51,789,517 | - | 421,826,247 | 30 days, noninterest- bearing | Unsecured, no impairment |
| | 2011 | 15,150,376 | - | 381,265,938 | 30 days, noninterest- bearing | Unsecured, no impairment |
| Total | 2013 | ₱1,447,225,038 | ₱- | ₱3,208,014,388 | | |
| | 2012 | 277,811,766 | - | 2,010,087,545 | | |
| | 2011 | 432,858,272 | 1,226,174,500 | 1,966,536,421 | | |

The outstanding advances to major stockholders include accommodated loans entered into by the Group in favor of the stockholders, which amounted to ₱92 million and ₱327 million as at December 31, 2013 and 2012, respectively.

Parent Company guarantees the obligations of SPPC and WMPC with NPC under the Operational Performance Bonds in accordance with the terms and conditions of the ECAs and to answer for the liabilities that the SPPC and WMPC may incur in connection with the said Performance Bonds.



On December 27, 2011, the BOD of ACR approved the acquisition of 72% of the outstanding shares of CASI held by Alcorp and Aldevinco (major stockholders) at a consideration of ₱1,226 million and such amount was applied against the advances made to Aldevinco (see Note 10).

Compensation of Key Management Personnel

| | 2013 | 2012 | 2011 |
|---------------------------|--------------------|--------------------|--------------------|
| Salaries and wages | ₱46,225,562 | ₱43,836,816 | ₱50,958,763 |
| Retirement costs | 1,478,007 | 1,966,864 | 4,987,515 |
| Other short-term benefits | 8,363,598 | - | - |
| Other long-term benefits | 51,000 | 753,648 | 507,900 |
| | ₱56,118,167 | ₱46,557,328 | ₱56,454,178 |

22. **Equity**

Capital Stock

| | 2013 | | 2012 | |
|-----------------------------------|----------------|------------------------|----------------|------------------------|
| | No. of shares | Amount | No. of shares | Amount |
| Authorized | | | | |
| Common stock - ₱1 par value: | 11,945,000,000 | ₱11,945,000,000 | 11,945,000,000 | ₱11,945,000,000 |
| Preferred stock - ₱0.01 par value | 5,500,000,000 | 55,000,000 | 5,500,000,000 | 55,000,000 |
| | | ₱12,000,000,000 | | ₱12,000,000,000 |
| Common Shares | | | | |
| Issued and outstanding | 6,291,500,000 | ₱6,291,500,000 | 6,291,500,000 | ₱6,291,500,000 |
| Preferred Shares | | | | |
| Subscribed | 5,500,000,000 | 55,000,000 | - | - |
| Subscription receivable | - | (37,216,667) | - | - |
| | | ₱6,309,283,333 | | ₱6,291,500,000 |

Capital Stock

On May 24, 2011, SEC approved the amendment of the Articles of Incorporation of ACR creating a class of preferred shares, by reclassifying 55,000,000 unissued common shares with a par value of ₱1.0 per share into 5,500,000,000 redeemable preferred voting shares with a par value of ₱0.01 per share.

The redeemable preferred shares have the following features:

- a. Redeemable preferred shares may only be issued or transferred to Filipino citizens or corporations or associations at least 60% of capital of such corporations or associations is owned by Filipino citizens.
- b. Holders of redeemable preferred shares are entitled to receive, out of the unrestricted retained earnings of ACR, cumulative dividends at the rate of 8% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares.



- c. ACR may, by resolution of the BOD, redeem the preferred shares at par value. ACR will redeem the preferred shares at par value (i) when the foreign equity limits to which ACR is subject to shall have been removed; and (ii) ACR is not engaged in any other activity likewise reserved exclusively to Filipino citizens, or corporations or associations at least sixty percent (60%) of whose capital is owned by Filipino citizens that would otherwise require ACR to maintain the ownership of the preferred shares by such Filipino citizens. The preferred shares when redeemed will not be retired, and may be reissued upon resolution of the BOD.
- d. In the event of dissolution or liquidation, holders of redeemable preferred shares are entitled to be paid in full, or pro-rata insofar as the assets and properties of ACR will permit, the par value of each preferred share before any distribution shall be made to the holders of common shares, and are not entitled to any other distribution.

All common and preferred shares have full voting rights.

There was no issuance of redeemable preferred shares as at December 31, 2012.

On February 4, 2013, Alcorp subscribed 5,500,000,000 preferred shares with par value of ₱0.01 per share, from unissued authorized preferred shares of the Company. On the same date, Alcorp paid ₱13.8 million for 25% of subscription price of ₱55.0 million. As at December 31, 2013, subscription receivable of Alcorp amounted to ₱37.2 million, net of the 8% dividends declared for preferred shares in 2013.

The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

| Date of SEC Approval | Activity | Authorized Common Shares | No. of Shares Issued | Issue/Offer Price |
|----------------------|---|--------------------------|----------------------|-------------------|
| 1993 | Initial Public Offering | 12,000,000,000 | 6,291,500,000 | ₱1 |
| 2011 | Conversion of unissued common shares to redeemable preferred shares | (55,000,000) | - | |
| | | 11,945,000,000 | 6,291,500,000 | |

As at December 31, 2013, the Parent Company has 482 stockholders.

Retained Earnings

On May 4, 2012, the BOD approved the appropriation of ₱850 million of its retained earnings as at December 31, 2011, for its equity contributions to the following projects:

| Project Name | Nature/Project Description | Amount (In millions) | Timeline (Year) |
|--------------|---|----------------------|-----------------|
| SM200 1 & 2 | Phase I of the 200 MW coal-fired power plant in Maasim Sarangani | ₱400 | 2015 |
| ZAM100 | Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City | 150 | 2016 |
| IDPP 1 & 2 | Rehabilitation of 108 MW diesel plant in Iligan City | 200 | 2013 |
| Siguil | Hydro-electric power in Maasim, Sarangani | 35 | 2017 |
| Bago | Hydro-electric power in Negros Occidental | 15 | 2019 |
| SMI400 | 400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato | 50 | 2019 |
| | | ₱850 | |



On March 28, 2014, the BOD approved additional appropriation of P850.0 million of the Company's retained earnings as at December 31, 2013 for the Company's equity contribution to the following projects:

| Project Name | Nature/Project Description | Amount (In millions) | Timeline (Year) |
|--------------|---|-------------------------|--------------------|
| SM200 1 & 2 | Phase 2 of the 200 MW coal-fired power plant in Maasim Sarangani | P600 | 2015 |
| ZAM100 | Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City | 150 | 2017 |
| Siguil | Hydro-electric power in Maasim, Sarangani | 35 | 2017 |
| Bago | Hydro-electric power in Negros Occidental | 15 | 2019 |
| SMI400 | 400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato | 50 | 2019 |
| | | P850 | |

The P200 million previously appropriated for IDPP 1 & 2 in 2012 has been reallocated to SM200 Phase 2.

The retained earnings are restricted from being declared as dividend to the extent of the appropriation for equity contribution to the foregoing projects.

The dates of declaration, record and payment of cash dividend amounting to P0.016 per share equivalent to P101 million in 2013 and P0.010 per share equivalent to P63 million in 2012 payable to all stockholders are as follows:

| Year | Date of Declaration | Date of Record | Date of Payment |
|------|---------------------|----------------|-----------------|
| 2013 | March 21, 2013 | May 23, 2013 | June 14, 2013 |
| 2012 | May 4, 2012 | May 18, 2012 | June 14, 2012 |

The share of non-controlling interests on the dividends declared by subsidiaries amounted to P497 million and P716 million in 2013 and 2012, respectively.

Dividends on preferred shares amounting to P4 million in 2013 were applied against the Company's subscription receivable from Alcorp.

Other Reserves

On July 2, 2013, the Parent Company entered into a Share Purchase Agreement to acquire 40% interest in voting shares of CHC, increasing its ownership to 100%. Cash consideration paid on August 1, 2013 amounted to P528 million (US\$12.16 million). The carrying value of the net assets of CHC was P2,456 million (US\$38.97 million). Following is the schedule of additional interest acquired in CHC.

| | 2013 |
|---|---------------------|
| Carrying value of the additional interest in CHC | P982,232,166 |
| Cash consideration paid to non-controlling interest | (527,910,397) |
| Excess of book value of non-controlling interest acquired over acquisition cost | P454,321,769 |



The excess of book value of non-controlling interest acquired over acquisition cost was recognized in equity as follows:

| | 2013 |
|---|---------------------|
| Absorbed cumulative translation adjustment from acquired non-controlling interest | P308,841,072 |
| Equity reserves | 145,480,697 |
| | <u>P454,321,769</u> |

As at December 31, 2013 and 2012, other reserves consist of the following:

| | 2013 | | | | Total |
|--|-----------------------------|--|---------------------|--|---------------------|
| | Actuarial Gains (Losses) | Unrealized Gains (Losses) on AFS Financial Assets | Equity Reserves | | |
| Balance at January 1, 2013 | (P3,816,281) | P35,495,598 | P- | | P31,679,317 |
| Acquisition of non-controlling interest | - | - | 145,480,697 | | 145,480,697 |
| Disposal of a subsidiary | 9,565,251 | - | - | | 9,565,251 |
| Actuarial losses, net of tax | (4,190,603) | - | - | | (4,190,603) |
| Gain on fair valuation of AFS financial asset, net of tax | - | (6,741,009) | - | | (6,741,009) |
| Balance at December 31, 2013 | <u>P1,558,367</u> | <u>P28,754,589</u> | <u>P145,480,697</u> | | <u>P175,793,653</u> |

| | 2012 | | | Total |
|--|-----------------------------|--|--|--------------------|
| | Actuarial Gains (Losses) | Unrealized Gains on AFS Financial Assets | | |
| Balance at January 1, 2012 | P4,941,568 | P17,475,890 | | P22,417,458 |
| Actuarial losses, net of tax | (8,757,849) | - | | (8,757,849) |
| Gain on fair valuation of AFS financial asset, net of tax | - | 18,019,708 | | 18,019,708 |
| Balance at December 31, 2012 | <u>(P3,816,281)</u> | <u>P35,495,598</u> | | <u>P31,679,317</u> |

Earnings Per Share Attributable to Equity Holders of the Parent Company

| | 2013 | 2012 | 2011 |
|--|---------------|---------------|---------------|
| Net income attributable to equity holders of the Parent Company | P466,872,876 | P509,115,794 | P456,303,668 |
| Divided by the average number of shares outstanding for the year | 6,291,500,000 | 6,291,500,000 | 6,291,500,000 |
| Basic/Diluted EPS | <u>P0.074</u> | <u>P0.081</u> | <u>P0.073</u> |



23. Cost of Services

The Group's cost of services from continuing operations are as follows:

| | 2013 | 2012 | 2011 |
|--|-----------------------|---------------------|---------------------|
| Spare parts | ₱1,175,951,709 | ₱169,476,985 | ₱175,644,805 |
| Depletion, depreciation and amortization (see Note 26) | 657,826,244 | 580,630,542 | 573,437,670 |
| Insurance expense | 62,985,643 | 46,366,771 | 46,842,623 |
| Personnel costs (see Notes 25 and 29) | 55,142,427 | 45,811,998 | 50,348,193 |
| Repairs and maintenance | 16,219,386 | 15,570,586 | 16,711,368 |
| Contracted services (see Notes 35b and 35d) | 2,759,941 | 3,432,544 | 1,965,689 |
| Property administration | 1,947,062 | 2,189,303 | 2,270,105 |
| Purchased power and utilities (see Note 35) | 335,754 | 279,777 | 325,840 |
| Others | 5,308,870 | 11,520,183 | 10,354,598 |
| | ₱1,978,477,036 | ₱875,278,689 | ₱877,900,891 |

24. General and Administrative Expenses

The Group's general and administrative expenses from continuing operations are as follows:

| | 2013 | 2012 | 2011 |
|--|--------------|-------------|--------------|
| Personnel costs (see Notes 25 and 29) | ₱121,986,495 | ₱89,614,782 | ₱103,508,844 |
| Utilities | 58,529,586 | 55,397,498 | 50,567,741 |
| Outside services | 55,575,128 | 44,548,238 | 42,026,800 |
| Taxes and licenses | 29,585,818 | 37,126,682 | 30,822,992 |
| Depreciation and amortization (see Note 26) | 22,802,261 | 13,412,671 | 11,178,928 |
| Transportation and travel | 22,013,011 | 15,285,526 | 14,922,080 |
| Customer relations | 11,225,289 | 10,546,587 | 13,304,315 |
| Directors and executive fees and bonuses | 6,546,843 | 6,571,947 | 5,110,037 |
| Telephone, telegraph and postage | 5,898,156 | 4,345,382 | 3,235,852 |
| Representation | 2,813,998 | 978,332 | 1,428,001 |
| Provisions for impairment on: | | | |
| Trade and other receivables (see Note 8) | — | 20,000,000 | — |
| Short-term cash investments (see Note 7) | — | 3,968,330 | — |
| Deferred project costs (see Note 15) | 2,849,457 | 2,849,457 | 2,886,458 |

(Forward)



| | 2013 | 2012 | 2011 |
|------------------------------------|---------------------|---------------------|---------------------|
| Supplies | ₱2,313,423 | ₱1,256,534 | ₱1,108,284 |
| Commissions | 1,391,839 | 3,049,240 | 2,151,323 |
| Insurance | 917,236 | 877,581 | 862,315 |
| Gas and oil | 245,714 | 162,737 | 111,622 |
| Management fees | – | 53,568,600 | – |
| Bad debts written-off (see Note 8) | – | – | 2,318,787 |
| Others | 18,180,992 | 9,880,555 | 10,872,122 |
| | ₱362,875,246 | ₱373,440,679 | ₱296,416,501 |

Management fees represent AIL's payment to its stockholders, Electricity Generating Public Company Limited (EGCO) and Tomen Power (Singapore) Pte. (Tomen), for their assistance in rendering technical and operational expertise and maintenance services to AIL's customers.

25. Personnel Costs

The Group's personnel costs from continuing operations are as follows:

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|--|---------------------|-----------------------|-----------------------|
| Costs of goods sold and services (see Note 23) | ₱55,142,427 | ₱45,811,998 | ₱50,348,193 |
| General and administrative expenses (see Note 24) | 121,986,495 | 89,614,782 | 103,508,844 |
| | ₱177,128,922 | ₱135,426,780 | ₱153,857,037 |

| | 2013 | 2012 (As restated) | 2011 (As restated) |
|--------------------------------|---------------------|-----------------------|-----------------------|
| Salaries, wages and bonuses | ₱136,987,000 | ₱116,230,531 | ₱122,730,677 |
| Retirement costs (see Note 29) | 7,292,962 | 1,643,074 | 8,480,881 |
| Other employee benefits | 32,848,960 | 17,553,175 | 22,645,479 |
| | ₱177,128,922 | ₱135,426,780 | ₱153,857,037 |

26. Depletion, Depreciation and Amortization

| | 2013 | 2012 | 2011 |
|--|---------------------|---------------------|---------------------|
| Costs of goods sold and services (see Note 23) | ₱657,826,244 | ₱580,630,542 | ₱573,437,670 |
| General and administrative expenses (see Note 24) | 22,802,261 | 13,412,671 | 11,178,928 |
| Discontinued operations (Note 31) | 25,502,780 | 28,799,619 | 24,890,050 |
| | ₱706,131,285 | ₱622,842,832 | ₱609,506,648 |

| | | | |
|---|---------------------|---------------------|---------------------|
| Property, plant and equipment (see Note 12) | ₱699,085,637 | ₱618,353,329 | ₱609,506,648 |
| Amortization of software costs (see Note 15) | 3,642,114 | – | – |
| Investments in real estate (see Note 10) | 3,403,534 | 4,489,503 | – |
| | ₱706,131,285 | ₱622,842,832 | ₱609,506,648 |



27. Finance Charges

| | 2013 | 2012 | 2011 |
|--|---------------------|--------------------|--------------------|
| Interest on: | | | |
| Long-term debt (see Note 18) | ₱74,042,967 | ₱62,751,817 | ₱20,863,694 |
| Loan payable (see Note 17) | — | 365,167 | 2,188,699 |
| Accretion of discount on: | | | |
| Asset retirement obligation (see Note 20) | 5,978,542 | 4,094,618 | 2,615,041 |
| Long-term debt (see Note 18) | 2,471,199 | 1,330,420 | — |
| Customers' deposit (see Note 19) | — | 245,976 | 2,602,174 |
| Amortization of transaction costs (see Notes 17 and 18) | 36,880,089 | 15,502,662 | 2,043,786 |
| | ₱119,372,797 | ₱84,290,660 | ₱30,313,394 |

28. Other Income (Loss) - Net

| | 2013 | 2012 | 2011 |
|--|----------------------|---------------------|---------------------|
| Equity in net losses of associates (see Note 11) | (₱100,920,763) | ₱— | ₱— |
| Input VAT income | 92,511,632 | 85,133,033 | 84,848,140 |
| Foreign exchange gain (loss) – net | (46,485,190) | 13,756,787 | (7,096,263) |
| Mark-to-market loss on derivative liability (see Notes 18 and 34) | (16,377,924) | (11,632,044) | — |
| Recovery of impairment losses on real estate inventories due to sale (see Note 10) | 4,140,694 | 17,108,236 | 6,744,646 |
| Dividend income | 566,720 | 567,070 | 512,388 |
| Gain on sale of property, plant and equipment | 356,577 | 362,956 | 541,685 |
| Development fee (see Note 1) | — | 236,095,000 | — |
| Reversal of allowance for impairment loss (see Note 10) | — | 72,066,280 | — |
| Income from insurance claim (see Notes 12 and 36) | — | 4,415,689 | 200,808,425 |
| Income from reversal of estimated liquidation expenses (see Note 1) | — | 956,400 | 17,606,990 |
| Gain on recovery of bad debts (see Note 8) | — | 119,999 | 16,500 |
| Gain on dacion en pago (see Notes 10, 18 and 21) | — | — | 56,890,005 |
| Others | 17,226,305 | 4,594,743 | 11,655,683 |
| | (₱48,981,949) | ₱423,544,149 | ₱372,528,199 |



29. Retirement Plans

The Parent Company, ALC, LLI, LUC and LWC have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and AMPC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. The Group's latest actuarial valuation report is dated December 31, 2013.

Under the existing regulatory framework, Republic Act 7641, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

SPPC, WMPC and APMC's Retirement Plans

The following table summarizes the components of retirement costs of SPPC, WMPC, and AMPC:

| | Present value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect on changes in asset ceiling | Net Pension Asset |
|--|--|------------------------------|--|----------------------|
| At January 1, 2013 | ₱79,724,190 | ₱146,772,535 | (₱6,494,258) | ₱60,554,087 |
| Net benefit cost recognized in profit or loss: | | | | |
| Current service cost | 8,150,198 | - | - | (8,150,198) |
| Net interest | 3,963,945 | 6,935,254 | - | 2,971,309 |
| | 12,114,143 | 6,935,254 | - | (5,178,889) |
| Remeasurements recognized in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | - | 10,395,473 | - | 10,395,473 |
| Actuarial changes arising from changes in financial assumptions | 6,766,512 | - | - | (6,766,512) |
| Actuarial changes due to experience adjustment | 1,490,939 | - | - | (1,490,939) |
| Actuarial changes arising from changes in demographic assumptions | - | - | - | - |
| Changes in the effect of asset ceiling | - | - | (7,547,368) | (7,547,368) |
| | 8,257,451 | 10,395,473 | (7,547,368) | (5,409,346) |
| At December 31, 2013 | ₱100,095,784 | ₱164,103,262 | ₱14,041,626 | ₱49,965,852 |
| | | | | |
| | Present value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect on changes in asset ceiling | Net Pension Asset |
| At January 1, 2013, as restated | ₱59,027,554 | ₱129,478,670 | (₱1,515,863) | ₱68,935,253 |
| Net benefit cost recognized in profit or loss: | | | | |
| Current service cost | 5,646,198 | - | - | (5,646,198) |
| Net interest | 3,670,210 | 9,063,491 | - | 5,393,281 |
| | 9,316,408 | 9,063,491 | - | (252,917) |
| Benefits paid | (850,988) | (850,988) | - | - |
| Remeasurements recognized in other comprehensive income: | | | | |
| Return on plan assets (excluding amount included in net interest) | - | 8,623,843 | - | 8,623,843 |
| Actuarial changes arising from changes in financial assumptions | 15,572,406 | - | - | (15,572,406) |
| Actuarial changes due to experience adjustment | (3,341,190) | - | - | 3,341,190 |
| Actuarial changes arising from changes in demographic assumptions | - | - | - | - |
| Changes in the effect of asset ceiling | - | - | (4,978,395) | (4,978,395) |
| | 12,231,216 | 8,623,843 | (4,978,395) | (8,585,768) |
| Contributions | - | 457,519 | - | 457,519 |
| At December 31, 2013 | ₱79,724,190 | ₱146,772,535 | (₱6,494,258) | ₱60,554,087 |



SPPC, WMPC and APMC's Retirement Plans is being maintained by Banco de Oro Unibank, Inc. - Trust and Investments Group (BDO - TIG), a trustee bank. The table below presents the fair values of the plan assets of the plan by each class:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Cash and cash equivalents | ₱15,643,466 | ₱710,822 |
| Investments in unit investment trust fund (UITF) | 15,314,765 | 14,520,578 |
| Investments in stocks | 1,128,698 | 1,049,649 |
| Investments in debt and other securities | 31,276,054 | 21,856,830 |
| Investments in government securities | 98,926,574 | 106,755,428 |
| Others | 1,813,705 | 1,879,228 |
| | ₱164,103,262 | ₱146,772,535 |

The plan assets consist of the following:

- Cash and cash equivalents include regular deposit and time deposits, which bear interest ranging from 1.75% to 2.00%;
- Investments in UITF are ready-made investments that allow the pooling of funds that are managed by BDO TIG.
- Investments in stocks consist of quoted equity securities;
- Investments in debt and other securities, consisting of both short-term and long-term corporate notes and bonds, which bear interest ranging from 4.38% to 8.46% and have maturities from 2014 to 2024;
- Investments in government securities, consisting of fixed rate treasury notes and retail treasury bonds that bear interest ranging from 2.84% to 8.13% and have maturities from 2014 to 2037; and
- Other financial assets held by the Group Plan consists primarily interest and dividends receivable.

In 2009, SPPC, WMPC and APMC started funding its retirement benefits and expect a total contribution of ₱14 million for the year 2013.

ACR and other subsidiaries

The following tables summarize the components of the retirement costs (income) recognized by the Parent Company and ALC, LLI, LUC and LWC:

| | 2013 | 2012 |
|--|-------------------|-------------------|
| Balance at beginning of year, as previously reported | ₱38,238,549 | ₱23,319,673 |
| Effect of adoption of Revised PAS 19 | 261,889 | 732,309 |
| Balance at beginning of year | 38,500,438 | 24,051,982 |
| Retirement cost charged in profit or loss (see Note 25 and 31): | | |
| Current service cost | 5,224,924 | 4,081,067 |
| Interest cost | 1,966,365 | 1,823,147 |
| | 7,191,289 | 5,904,214 |

(Forward)



| | | |
|---|--------------|-------------|
| Remeasurements in other comprehensive income: | | |
| Actuarial changes arising from changes in demographic assumptions | (₱1,382,480) | ₱11,650,379 |
| Actuarial changes arising from changes in financial assumptions | 5,527,990 | 369,376 |
| Actuarial changes due to experience adjustment | (12,913) | (3,475,513) |
| | 4,132,597 | 8,544,242 |
| Disposal of a subsidiary (Note 31) | (40,335,362) | - |
| Balance at end of year | ₱9,488,962 | ₱38,500,438 |

Actuarial Assumptions

The principal assumptions used in determining retirement benefits obligation are as follows:

SPPC, WMPC and APMC

| | 2013 | 2012 |
|------------------------|-------------|-------------|
| Discount rate | 3.98%-4.68% | 4.57%-5.28% |
| Future salary increase | 5.00% | 5.00% |

ACR ALC's, LLI, LUC and LWC

| | 2013 | 2012 |
|------------------------|--------------|-------------|
| Discount rate | 5.00%-5.90% | 6.14%-6.73% |
| Future salary increase | 10.00-12.00% | 12.00% |

The Group has no specific matching strategies between the retirement plan assets and the defined benefit obligation under the retirement plans.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

| | Increase (Decrease) in Basis Points | Amount |
|----------------------|---|--------------|
| Discount rate | 100 | ₱12,005,714 |
| | (100) | (13,984,020) |
| Salary increase rate | 100 | ₱13,667,395 |
| | (100) | (11,064,831) |

Shown below is the maturity analysis of the undiscounted benefit payments:

| | 2013 | 2012 |
|-------------------------------|-------------|-------------|
| Less than 1 year | ₱16,599,152 | ₱- |
| More than 1 year to 5 years | 11,953,971 | 25,040,157 |
| More than 5 years to 10 years | 890,738,244 | 846,374,348 |



30. Income Tax

The major components of income tax expense for the years ended December 31, 2013 and 2012 are as follows:

Consolidated statements of income:

| | 2013 | 2012 |
|---------------------------------------|---------------------|---------------------|
| Continuing operations: | | |
| Current income tax | P294,235,703 | P232,099,888 |
| Deferred income | 6,673,501 | 9,054,613 |
| | 300,909,204 | 241,154,501 |
| Discontinued operations (see Note 31) | | |
| Current income tax | 10,849,428 | 15,131,375 |
| Deferred income | (679,508) | 628,977 |
| | 10,169,920 | 15,760,352 |
| Total | P311,079,124 | P256,914,853 |

Consolidated statement of comprehensive income:

| | 2013 | 2012 |
|--|------------|----------|
| Deferred tax related to items charged or credited directly to equity during the year - | | |
| Benefit from actuarial gains and losses | P1,380,343 | P704,767 |

Following is the reconciliation between the statutory tax rate on income before income tax and the effective tax rates:

| | 2013 | 2012 | 2011 |
|--|------------|--------------|--------------|
| Statutory income tax rates | 30.0% | 30.0% | 30.0% |
| Increase (decrease) in income tax rate resulting from: | | | |
| Write-off of NOLCO and MCIT | 1.0 | 1.5 | 2.1 |
| Unrecognized deferred tax assets | (0.5) | (3.3) | (0.9) |
| Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays, interest income already subjected to final tax and others | 1.4% | (9.0) | (15.0) |
| Effective income tax rates | 32% | 19.2% | 16.2% |



Deferred income tax assets (liabilities) pertain to the income tax effects of the following:

| | 2013 | 2012 |
|---|-----------------------|-----------------------|
| Net Deferred Tax Assets | | |
| Accrued vacation and sick leaves | P4,557,191 | P2,870,914 |
| Impairment losses | 4,107,203 | 3,038,193 |
| Retirement plan asset | (2,091,981) | (3,879,225) |
| Unrealized foreign exchange losses (gains) – net | 2,182,148 | (595,266) |
| Allowance for doubtful accounts | 1,518,886 | 1,518,891 |
| Unamortized past service cost | 1,022,151 | 1,120,870 |
| Translation of nonmonetary assets | 335,137 | – |
| Difference between accounting and tax depreciation | – | 1,747,088 |
| Retirement payable | – | 294,273 |
| | 11,630,735 | 6,115,738 |
| Net Deferred Tax Liabilities | | |
| Fair value adjustment on real estate inventories, net of impairment | (163,405,786) | (162,163,578) |
| Capitalized interest | (148,586,147) | (149,272,487) |
| Translation of nonmonetary assets | (68,003,304) | (67,506,807) |
| Difference between financial and tax depreciation | 49,148,595 | 64,846,890 |
| Unamortized capitalized major repairs and maintenance costs | (36,096,731) | (26,442,152) |
| Equity in undistributed net earnings of a foreign subsidiary | (30,999,341) | (24,773,593) |
| Difference between tax and financial amortization of transaction costs | (18,793,597) | (19,774,955) |
| Unrealized foreign exchange gains - net | (6,480,604) | (15,549,149) |
| Retirement plan asset | (4,090,422) | (4,612,050) |
| Capitalized asset related to decommissioning liability | (2,978,860) | (4,119,080) |
| Unamortized past service cost | 1,799,906 | 1,970,605 |
| Accrued vacation and sick leaves | 1,561,106 | 1,528,661 |
| Actuarial losses (gains) recognized in equity | 1,210,144 | 1,210,144 |
| Additional depreciation following the original useful life | – | (2,309,327) |
| Accrued retirement costs | – | 171,133 |
| | (425,715,041) | (406,795,745) |
| | (P414,084,306) | (P400,680,007) |

The deferred tax assets and liabilities are presented in the consolidated balance sheets as follows:

| | 2013 | 2012 |
|--------------------------------|-----------------------|-----------------------|
| Deferred tax assets - net | P11,630,735 | P6,115,738 |
| Deferred tax liabilities - net | (425,715,041) | (406,795,745) |
| | (P414,084,306) | (P400,680,007) |



The components of the Group's temporary differences and carryforward benefits of NOLCO and excess MCIT over RCIT for which no deferred tax assets are recognized in the consolidated financial statements because management believes that it is not probable that taxable income will be available against which the deferred tax assets can be utilized are as follows:

| | 2013 | 2012 |
|--|---------------------|---------------------|
| NOLCO | P131,032,885 | P133,864,017 |
| Impairment losses on: | | |
| Property, plant and equipment (see Note 12) | 154,190,500 | 154,190,500 |
| Real estate properties (see Note 10) | 33,163,091 | 33,163,091 |
| Inventories | 1,669,870 | 1,669,870 |
| Allowance for doubtful accounts (see Note 8) | 31,730,458 | 31,730,458 |
| MCIT | 6,782,728 | 6,544,206 |
| Unrealized foreign exchange losses | 33,117,069 | 6,183,085 |
| Others | 11,072,415 | 9,838,930 |
| | P402,759,016 | P377,184,157 |

The unrecognized deferred tax asset from the above temporary differences and carryforward benefits of NOLCO and MCIT amounted to P126 million and P118 million as at December 31, 2013 and 2012, respectively.

Movements of NOLCO and MCIT follow:

| | 2013 | | 2012 | |
|--|---------------------|-------------------|---------------------|-------------------|
| | NOLCO | MCIT | NOLCO | MCIT |
| Balance at beginning of year | P133,864,017 | P6,544,206 | P165,370,296 | P3,254,544 |
| Additions during the year | 29,456,295 | 254,067 | 66,325,070 | 5,477,920 |
| Utilization and expiration during the year | (32,287,427) | (15,545) | (97,831,349) | (2,188,258) |
| Balance at end of year | P131,032,885 | P6,782,728 | P133,864,017 | P6,544,206 |

As at December 31, 2012, NOLCO and MCIT that can be claimed as deduction from RCIT due are as follows:

| Years Incurred | Expiry Dates | NOLCO | MCIT |
|-------------------|-------------------|---------------------|-------------------|
| December 31, 2011 | December 31, 2014 | P35,251,520 | P1,050,741 |
| December 31, 2012 | December 31, 2015 | 66,325,070 | 5,477,920 |
| December 31, 2013 | December 31, 2016 | 29,456,295 | 252,678 |
| | | P131,032,885 | P6,781,339 |

31. Discontinued Operations

On October 3, 2013, ALC and ALI executed a SPA for the sale of 60% equity interest of ALC in LLI to ALI for a total consideration of P1,364 million. Gain on sale recognized as part of net income from discontinued operations attributable to equity holders of the parent amounted to P72 million, net of capital gains tax of P82 million.



Analysis of cash flows from disposal is shown below:

| | Amounts in millions |
|---|---------------------|
| Selling price | P1,364 |
| Capital gains tax | (82) |
| Retention receivable (Note 8) | (162) |
| Cash of disposal group | (168) |
| Net proceeds from disposal included in cash flows from investing activities | P952 |

The results generated from discontinued operations of LLI are as follows:

| | Years Ended December 31 | | |
|---|-------------------------|----------------------|----------------------|
| | 2013 | 2012 | 2011 |
| REVENUE | | | |
| Power sales and service income | P691,612,638 | P814,633,773 | P703,806,014 |
| Sale of real estate | 15,551,757 | 112,946,667 | 83,005,770 |
| Management fees | 36,648,872 | - | - |
| Rental income and others | 6,908,858 | 3,013,365 | 3,964,714 |
| | 750,722,125 | 930,593,805 | 790,776,498 |
| INCOME (EXPENSES) | | | |
| Cost of services | (582,120,298) | (649,229,078) | (569,757,196) |
| Cost of real estate sold | (7,525,331) | (120,254,814) | (57,035,796) |
| General and administrative expenses | (37,269,816) | (45,581,560) | (46,662,424) |
| Interest income | 1,854,986 | 3,271,966 | 3,969,121 |
| Finance charges - net of reversals | (2,532,048) | (582,859) | 266,515 |
| Equity in net losses of an associate | - | (22,850,988) | 5,153,081 |
| Other income (loss) - net | 83,335,910 | 5,821,932 | 4,123,101 |
| | (544,256,597) | (829,405,401) | (659,943,598) |
| INCOME FROM DISCONTINUED OPERATIONS BEFORE INCOME TAX | 206,465,528 | 101,188,404 | 130,832,900 |
| PROVISION FOR (BENEFIT FROM) INCOME TAX | | | |
| Current | 10,849,428 | 15,131,375 | 9,002,091 |
| Deferred | (679,508) | 628,977 | (1,186,957) |
| | 10,169,920 | 15,760,352 | 7,815,134 |
| INCOME FROM DISCONTINUED OPERATIONS | 196,295,608 | 85,428,052 | 123,017,766 |
| OTHER COMPREHENSIVE INCOME | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Remeasurement gain (loss) on defined benefit obligation | (5,541,956) | (6,420,320) | (3,998,430) |
| | (5,541,956) | (6,420,320) | (3,998,430) |
| TOTAL COMPREHENSIVE INCOME | P190,753,652 | P79,007,732 | P119,019,336 |
| | | | |
| Income from discontinued operations attributable to: | | | |
| Equity holders of the parent | P146,348,389 | P51,197,032 | P73,724,547 |
| Non-controlling interests | 49,947,219 | 34,231,020 | 49,293,219 |
| | P196,295,608 | P85,428,052 | P123,017,766 |
| | | | |
| Total comprehensive income attributable to: | | | |
| Equity holders of the parent | P143,027,095 | P47,349,334 | P71,352,092 |
| Non-controlling interests | 47,726,557 | 31,658,398 | 47,667,244 |
| | P190,753,652 | P79,007,732 | P119,019,336 |



The net cash flows incurred by LLI and subsidiaries are as follows:

| | 2013 | 2012 | 2011 |
|----------------------|---------------|---------------|---------------|
| Operating activities | ₱359,431,067 | ₱192,818,667 | ₱56,216,318 |
| Investing activities | (57,036,229) | 16,867,277 | 30,889,546 |
| Financing activities | (218,061,078) | (194,156,855) | (177,789,266) |

Cost of service consists of the following:

| | 2013 | 2012 | 2011 |
|--|--------------|--------------|--------------|
| Purchased power and utilities | ₱514,105,215 | ₱554,767,488 | ₱486,677,382 |
| Depletion, depreciation and amortization | 22,394,994 | 24,816,450 | 23,991,382 |
| Personnel costs | 11,796,250 | 14,839,407 | 13,282,631 |
| Taxes and licenses | 10,835,099 | 23,897,483 | 15,874,021 |
| Repairs and maintenance | 4,228,571 | 6,076,132 | 5,241,548 |
| Utilities | 545,046 | 766,254 | 963,431 |
| Representation | 518,625 | 1,382,821 | 1,028,519 |
| Contracted services | 176,120 | 12,182,829 | 11,516,293 |
| Property administration | 173,250 | 237,175 | 231,665 |
| Others | 17,347,128 | 10,263,039 | 10,950,324 |
| | ₱582,120,298 | ₱649,229,078 | ₱569,757,196 |

General and administrative expense consists of the following:

| | 2013 | 2012 | 2011 |
|--|-------------|-------------|-------------|
| Personnel costs | ₱14,949,525 | ₱18,403,780 | ₱16,887,609 |
| Rent and utilities | 11,617,966 | 13,806,597 | 17,327,367 |
| Outside services | 3,430,976 | 3,901,079 | 4,633,965 |
| Depreciation and amortization | 3,107,786 | 3,983,169 | 898,668 |
| Transportation and travel | 1,306,045 | 1,507,284 | 528,029 |
| Representation | 1,127,551 | 2,426,088 | 2,589,404 |
| Taxes and licenses | 890,865 | 576,120 | 696,490 |
| Supplies | 433,185 | 463,748 | 621,797 |
| Commissions | 320,370 | 346,600 | 256,530 |
| Insurance | 45,547 | 167,095 | 1,683,269 |
| Provisions for impairment on receivables | — | — | 539,296 |
| Others | 40,000 | — | — |
| | ₱37,269,816 | ₱45,581,560 | ₱46,662,424 |

Earnings Per Share Attributable to Equity Holders of the Parent Company from Discontinued Operations

| | 2013 | 2012 | 2011 |
|--|---------------|---------------|---------------|
| Net income from discontinued operations | ₱146,348,389 | ₱48,003,791 | ₱71,352,092 |
| Divided by the average number of shares outstanding for the year | 6,291,500,000 | 6,291,500,000 | 6,291,500,000 |
| Basic/Diluted EPS | ₱0.031 | ₱0.014 | ₱0.020 |



32. Lease Commitments

Operating Lease Payments

SPPC has a contract for the lease of land owned by Sarangani Agricultural Co., Inc. until May 2016. The lease contract provides for annual rental of ₱1.0 million and provides for escalation of rent at a rate of 5% every other year. The lease contract was accounted for on a straight-line method over the term of the lease contract.

As at December 31, 2013, the future minimum rental payable under an operating lease contract follows:

| | |
|---|-------------------|
| Within one year | ₱1,314,536 |
| After one year but not more than five years | 2,532,735 |
| | <u>₱3,847,271</u> |

In 2013, 2012 and 2011, rent expense under this lease contract amounted to ₱1 million.

Operating Lease Receipts

LLI entered into lease contracts with various third-party lessees for the office spaces they owned. The lease term ranges from one to three years. The lease contracts were accounted for on a straight-line method over the term of the lease contract. Total rental income from these lease agreements amounted to ₱7 million in 2013 and ₱14 million in 2012 and 2011.

Future minimum lease receipts as at December 31, 2012 are as follows:

| | |
|---|-------------------|
| Within one year | ₱1,722,398 |
| After one year but not more than five years | 5,492,526 |
| | <u>₱7,214,924</u> |

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash and cash equivalents, short-term cash investments, AFS financial assets, refundable deposits, loans payable, customers' deposits, derivative liability and long-term debt. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables (including noncurrent portion of installment receivables) and accounts payable and other current liabilities which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk (interest rate risk, equity price risk and foreign currency risk).

The management reviews and BOD approves policies for managing each of these risks and they are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or a customer contract, leading to a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that 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.



In the Group's real estate business, transfer of the property is executed only upon full payment of the purchase price. There is also a provision in the sales contract which allows forfeiture of the installment/deposits made by the customer in favor of the Group in case of default. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments.

In the Group's power generation business, credit risk is significantly concentrated on NPC, the sole customer of SPPC and WMPC. It is the policy of the Group that all provisions in the ECA are complied with.

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, short-term cash investments, and trade and other receivables, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The table below shows the gross maximum exposure to credit risk of the Group as at December 31, 2013 and 2012, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

| | 2013 | 2012 |
|------------------------------|-----------------------|-----------------------|
| Loans and receivables | | |
| Cash and cash equivalents* | ₱1,421,878,289 | 273,643,293 |
| Short-term cash investments | 8,802,310 | 1,068,264,481 |
| Trade and other receivables | | |
| Trade receivables | | |
| Power | 582,081,593 | 441,781,947 |
| Real estate** | 235,390,647 | 360,707,062 |
| Due from related parties | 3,208,014,388 | 2,010,087,545 |
| Accrued interest | 265,258 | 1,393,058 |
| Other receivables | 303,954,482 | 124,084,197 |
| Refundable deposits*** | - | 7,468,728 |
| | ₱5,760,386,967 | ₱4,287,430,311 |

*Excludes cash on hand

**Includes noncurrent portion of installment receivables

***Included under "Other noncurrent assets" account in the consolidated balance sheet

The table below shows the Group's aging analysis of financial assets:

| | 2013 | | | | | | |
|---------------------------------|-------------------------------------|---------------------------|-----------------------|-----------------------|--------------------|-----------------------|-------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | Subtotal | Impaired | Total |
| | | 1-6 Months | 6 Months | Over | | | |
| Cash and cash equivalents | ₱1,422,362,785 | P- | P- | P- | P- | ₱1,422,362,785 | |
| Short-term cash investments | 8,802,310 | - | - | - | - | 8,802,310 | |
| Trade and other receivables: | | | | | | | |
| Trade receivables | | | | | | | |
| Power | 439,671,782 | 99,851,343 | 42,558,468 | 142,409,811 | 28,343,011 | 610,424,604 | |
| Real estate* | 20,595,498 | 5,238,712 | 209,556,437 | 214,795,149 | 31,561,222 | 266,951,869 | |
| Product distribution and others | - | - | - | - | 31,730,458 | 31,730,458 | |
| Due from related parties | 1,008,799,435 | 7,738,332 | 2,191,476,621 | 2,199,214,953 | - | 3,208,014,388 | |
| Accrued interest | 265,258 | - | - | - | - | 265,258 | |
| Others | 11,087,106 | 242,916,690 | 49,950,686 | 292,867,376 | 6,664,472 | 310,618,954 | |
| | ₱2,911,584,174 | ₱355,745,077 | ₱2,493,542,212 | ₱2,849,552,547 | ₱98,299,163 | ₱5,859,170,626 | |

* Includes noncurrent portion of installment receivables



| | 2012 | | | | | |
|---------------------------------|-------------------------------------|---------------------------|----------------|------------------|--------------|----------------|
| | Neither Past Due nor Impaired | Past Due but not Impaired | | | Impaired | Total |
| | | 1-6 Months | 6 Months | Over Subtotal | | |
| Cash and cash equivalents | P277,436,876 | P- | P- | P- | P- | P277,436,876 |
| Short-term cash investments | 1,068,264,481 | - | - | - | 3,968,330 | 1,072,232,811 |
| Trade and other receivables: | | | | | | |
| Trade receivables | | | | | | |
| Power | 190,034,489 | 177,180,051 | 74,567,407 | 251,747,458 | 28,344,943 | 470,126,890 |
| Real estate* | 151,734,279 | 6,787,258 | 202,185,525 | 208,972,783 | 31,561,222 | 392,268,284 |
| Product distribution and others | - | - | - | - | 31,730,458 | 31,730,458 |
| Due from related parties | 688,980,384 | 137,449,325 | 1,183,657,836 | 1,321,107,161 | - | 2,010,087,545 |
| Accrued interest | 1,393,058 | - | - | - | - | 1,393,058 |
| Others | 28,501,559 | 15,405,055 | 80,177,583 | 95,582,638 | 6,664,812 | 130,749,009 |
| Refundable deposits | 7,468,728 | - | - | - | - | 7,468,728 |
| | P2,413,813,854 | P336,821,689 | P1,540,588,351 | P1,877,410,040 | P102,269,765 | P4,393,493,659 |

* Includes noncurrent portion of installment receivables

The table below shows the credit quality of the Group's financial assets that are neither past due nor impaired based on historical experience with the corresponding third parties.

| | 2013 | | | |
|------------------------------|----------------|-------------|------------|----------------|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | P1,422,362,785 | P- | P- | P1,422,362,785 |
| Short-term cash investments | 8,802,310 | - | - | 8,802,310 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 439,671,782 | - | - | 439,671,782 |
| Real estate* | 20,595,498 | - | - | 20,595,498 |
| Due from related parties | - | 992,296,993 | 16,502,442 | 1,008,799,435 |
| Accrued interest | 265,258 | - | - | 265,258 |
| Other receivables | 11,087,106 | - | - | 11,087,106 |
| | 1,902,784,739 | 992,296,993 | 16,502,442 | 2,911,584,174 |

* Includes noncurrent portion of installment receivables

| | 2012 | | | |
|------------------------------|----------------|--------------|------------|----------------|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | P277,436,876 | P- | P- | P277,436,876 |
| Short-term cash investments | 1,068,264,481 | - | - | 1,068,264,481 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 190,034,489 | - | - | 190,034,489 |
| Real estate* | 151,734,279 | - | - | 151,734,279 |
| Due from related parties | - | 688,980,384 | - | 688,980,384 |
| Accrued interest | 1,393,058 | - | - | 1,393,058 |
| Other receivables | 28,501,559 | - | - | 28,501,559 |
| Refundable deposits** | - | - | 7,468,728 | 7,468,728 |
| | P1,717,364,742 | P688,980,384 | P7,468,728 | P2,413,813,854 |

* Includes noncurrent portion of installment receivables

** Included under "Other noncurrent assets" account in the consolidated balance sheet

Grade A financial assets pertain to those investments to counterparties with good credit standing or loans and receivables that are consistently paid before the maturity date. Grade B includes receivables that are collected on their due dates even without an effort from the Group to follow them up while other receivables and deposits which are collectible provided that the Group makes a persistent effort to collect them are included under Grade C. Past due receivables and advances include those that are past due but are still collectible.



Cash and cash equivalents and short-term cash investments are deposited in top ten banks in the Philippines, hence, considered Grade A.

Liquidity Risk

Liquidity risk arises from the possibility that the Group encounter difficulties in raising funds to meet or settle its obligations at a reasonable price. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

The table below summarizes the maturity profile of the Group's financial assets (held for liquidity purposes) and financial liabilities based on contractual undiscounted payments:

| | 2013 | | | | Total |
|------------------------------|-----------------------|---------------------|-------------------|-----------|-----------------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | |
| Cash and cash equivalents | P1,422,362,785 | P- | P- | P- | P1,422,362,785 |
| Short-term cash investments* | - | 9,114,792 | - | - | 9,114,792 |
| Trade receivables | - | 807,715,341 | 9,756,899 | - | 817,472,240 |
| AFS financial assets | 55,862,692 | - | - | - | 55,862,692 |
| | P1,478,225,477 | P816,830,133 | P9,756,899 | P- | P2,304,812,509 |

*Including interest income computed using prevailing rate as at December 31, 2013

| | 2012 | | | | Total |
|------------------------------|---------------------|-----------------------|--------------------|-----------|-----------------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | |
| Cash and cash equivalents | P277,436,876 | P- | P- | P- | P277,436,876 |
| Short-term cash investments* | - | 1,105,440,085 | - | - | 1,105,440,085 |
| Trade receivables | - | 791,080,034 | 11,408,975 | - | 802,489,009 |
| AFS financial assets | 64,394,470 | - | - | - | 64,394,470 |
| | P341,831,346 | P1,896,520,119 | P11,408,975 | P- | P2,249,760,440 |

*Including interest income computed using prevailing rate as at December 31, 2012

| | 2013 | | | | Total |
|---|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | |
| Accounts payable and other current liabilities* | P341,133,672 | P351,874,548 | P- | P- | P693,008,220 |
| Loans payable | - | 798,769,980 | - | - | 798,769,980 |
| Long-term debt** | - | 917,772,118 | 2,517,490,792 | 3,705,353,980 | 7,140,616,890 |
| | P341,133,672 | P2,068,416,646 | P2,517,490,792 | P3,705,353,980 | P8,632,395,090 |

* Excluding statutory payables and other payable to government agencies

** Including interest payable computed using prevailing rate as at December 31, 2013

| | 2012 | | | | Total |
|---|---------------------|---------------------|---------------------|---------------------|-----------------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | |
| Accounts payable and other current liabilities* | P213,215,336 | P81,553,765 | P- | P- | P294,769,101 |
| Long-term debt** | - | 507,877,720 | 792,983,838 | 512,875,923 | 1,813,737,481 |
| Customers' deposits** | - | - | 35,025,142 | 35,579,254 | 70,604,396 |
| Payable to non-controlling shareholders of a dissolved subsidiary | - | 28,533,322 | - | - | 28,533,321 |
| | P213,215,336 | P617,964,807 | P828,008,980 | P548,455,177 | P2,207,644,299 |

* Excluding statutory payables and other payable to government agencies

** Including interest payable computed using prevailing rate as at December 31, 2011



Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing loan obligations with floating interest rate as it can cause a change in the amount of interest payments. The Group's policy is to manage its interest cost using a mix of fixed and variable debt rates. The Group's ratio of fixed to floating rate debt stood at 34:66 and 45:55 as at December 31, 2013 and 2012, respectively.

The following tables set out the carrying amounts, by maturity, of the Group's interest-bearing financial obligations with floating interest rate:

| 2013 | | | | | | |
|-----------------------------------|-----------------------|--------------------|--------------|--------------|-------------|--------------|
| | Interest Terms (p.a.) | Rate Fixing Period | <1 Year | 1-3 Years | >3 Years | Total |
| Long-term debt | | | | | | |
| U.S. dollar-denominated borrowing | LIBOR +2.25% | Quarterly | P314,993,095 | P373,657,917 | P- | P688,651,012 |
| 2012 | | | | | | |
| | Interest Terms (p.a.) | Rate Fixing Period | <1 Year | 1-3 Years | >3 Years | Total |
| Long-term debt | | | | | | |
| U.S. dollar-denominated borrowing | LIBOR +2.25% | Quarterly | P291,259,520 | P576,654,760 | P60,108,940 | P928,023,220 |
| Peso-denominated borrowings | 90 T-bill +3% | Quarterly | 84,000,000 | 97,304,800 | - | 181,304,800 |

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated income before income tax, through the impact of floating rate financial liabilities. Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs. The assumed movement in basis points for interest rate sensitivity analysis was based on forecasted interest rate change using historical data during the year being reported. The methods and assumptions used in the analysis remained unchanged over the reporting periods being presented. There is no other impact on the Group's equity other than those already affecting the consolidated statement of income.

| | 2013 | | 2012 | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | Increase in Basis Points | Decrease in Basis Points | Increase in Basis Points | Decrease in Basis Points |
| Change in basis points | +100 | -100 | +100 | -100 |
| Increase (decrease) on income before income tax | (P15,886,510) | P15,886,510 | (P11,093,280) | P11,093,280 |

Sensitivity of Option Value to Interest Rate Changes. The option value under ACR-APHC loan facility is sensitive to a US-dollar and Peso interest rate changes. The table below demonstrates the sensitivity to a reasonably possible change in US-dollar and Peso interest rates, with all other variables held constant, of the Group's consolidated income before income tax.



| | 2013 | | | |
|---|------------|----------|------------|--------------|
| | USD Swap | | PDST-R2 | |
| | Increase | Decrease | Increase | Decrease |
| Percentage change | +53.06% | -53.06% | +78.50% | -78.50% |
| Increase (decrease) on income before income tax | (₱325,168) | ₱325,168 | ₱1,694,235 | (₱1,436,707) |

| | 2012 | | | |
|---|--------------|------------|------------|----------|
| | USD Swap | | PDST-R2 | |
| | Increase | Decrease | Increase | Decrease |
| Percentage change | +46.44% | -46.44% | +29.85% | -29.85% |
| Increase (decrease) on income before income tax | (₱1,225,575) | ₱1,241,455 | (₱552,221) | ₱233,615 |

Equity Price Risk

Equity price risk is the risk that the fair value of quoted AFS investment decreases as the result of changes in the value of individual stocks. The Group's exposure to equity price risk relates primarily to the Group's quoted AFS investments. The Group intends to hold these investments indefinitely in response to liquidity requirements or changes in market conditions.

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's consolidated equity. The reasonably possible change in equity price was based on the year to year change of stock market indices. In quantifying the effect of reasonably possible change in equity price, the expected return on the AFS investment is correlated to the return of the financial market as a whole through the use of beta coefficients. The methods and assumptions used in the analysis remained unchanged over the reporting periods. The table below summarizes the impact of changes in equity price on the consolidated equity. However, significant decrease in equity price may affect consolidated income before income tax.

Equity price risk of those AFS financial asset listed in the Philippine Stock Exchange is as follows:

| | 2013 | | 2012 | |
|-------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Increase in Equity Price | Decrease in Equity Price | Increase in Equity Price | Decrease in Equity Price |
| Change in equity price | +1% | -1% | +4% | -4% |
| Increase (decrease) on equity | ₱497,128 | (₱497,128) | ₱61,372,397 | (₱61,372,397) |

Sensitivity of Option Value to Changes in ACR Share Price. The conversion option value under APHC-ACR loan facility is greatly affected by changes in the current ACR share price. In quantifying the effect of reasonably possible change in ACR share price, the Beta of ACR share prices was multiplied to the 1-year volatility of the Philippine Stock Exchange Index (PSEI). Beta is the sensitivity of the return on ACR share prices to the return of the PSEI. The table below summarizes the impact of changes in current ACR share price on the consolidated income before income tax.

| | 2013 | |
|---|----------------|------------|
| | Increase | Decrease |
| Change in ACR Share Price | +90.7% | -90.7% |
| Increase (decrease) on income before income tax | (₱235,964,630) | ₱8,525,725 |



| | 2012 | |
|---|---------------|------------|
| | Increase | Decrease |
| Change in ACR Share Price | +54.4% | -54.4% |
| Increase (decrease) on income before income tax | (₱72,788,267) | ₱1,604,027 |

Foreign Currency Risk

The Group's exposure to foreign currency risk is limited to monetary assets and liabilities denominated in currencies other than its functional currency. Substantial portion of the U.S. dollar-denominated assets and liabilities is attributable to the Group's power segment in which the functional currency is the U.S. dollar.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱43.84 to US\$1.0 and ₱41.05 to US\$1.0 for December 31, 2013 and 2012, respectively.

The table below summarizes the Group's exposure to foreign currency risk. Included in the table are the Group's financial assets and liabilities at their carrying amounts.

| | 2013 | | 2012 | |
|---------------------------|----------------|--------------------|----------------|--------------------|
| | In U.S. Dollar | In Philippine Peso | In U.S. Dollar | In Philippine Peso |
| Financial assets - | | | | |
| Cash and cash equivalents | \$5,007,955 | ₱222,328,109 | \$1,782,641 | ₱73,176,921 |
| Financial liabilities - | | | | |
| Long-term debt | (41,882,035) | (1,859,352,955) | (28,704,720) | (1,178,328,738) |
| | (\$36,874,080) | (₱1,637,024,846) | (\$26,922,079) | (₱1,105,151,817) |

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's consolidated equity as at December 31, 2013 and 2012, respectively. The reasonably possible change in exchange rate was based on forecasted exchange rate change using historical data within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented. The impact on the Group's consolidated equity already excludes the impact on transactions affecting the consolidated income before income tax.

| | 2013 | | 2012 | |
|---|-----------------|-------------|-----------------|------------|
| | Philippine Peso | | Philippine Peso | |
| | Increase | Decrease | Increase | Decrease |
| Change in foreign exchange rate | +1.0 | -1.0 | +1.0 | -1.0 |
| Increase (decrease) on income before income tax | (₱36,874,016) | ₱36,874,144 | (26,922,079) | 26,922,079 |

The increase in ₱ against US\$1 means stronger U.S. dollar against peso while the decrease into ₱ against US\$1 means stronger peso against U.S. dollar.



Sensitivity of Option Value to Changes in US\$/Php Exchange Rate. The conversion option value under APHC-ACR loan facility is greatly affected by changes between US\$/Php currency exchange rate. The table below summarizes the impact of changes in US\$/Php exchange rate on the consolidated income before income tax.

| | Increase | Decrease |
|---|------------|----------|
| Php/US\$ Exchange Rate | ₱43/\$1 | ₱39/1 |
| Increase (decrease) on income before income tax | (₱835,469) | ₱878,203 |

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 businesses and maximize shareholder's value.

The Group monitors its capital based on debt to equity ratio. The Group includes within debt interest bearing loans and borrowings. Capital includes equity attributable to the equity holders of the parent less (add) the net unrealized gain (loss) reserve and cumulative translation adjustment.

The Group's current ratio and debt-to-equity ratio as at December 31, 2013 and 2012 follow:

Current Ratio

| | 2013 | 2012 |
|---------------------|----------------|----------------|
| Current assets | ₱6,841,108,393 | ₱5,481,953,525 |
| Current liabilities | 2,264,922,428 | 1,049,388,657 |
| | 3.0:1 | 5.2:1 |

Debt-to-Equity Ratio

| | 2013 | 2012 |
|---|-----------------|-----------------|
| Long-term debt (net of unamortized transaction costs) | ₱5,190,495,041 | ₱1,681,776,549 |
| Loans payable | 794,366,639 | - |
| Total debt | 5,984,861,680 | 1,681,776,549 |
| Equity | 10,066,497,411 | 9,070,586,398 |
| Other reserves | (175,793,653) | (31,679,317) |
| Cumulative translation adjustment | (1,575,034,794) | (1,093,631,739) |
| Adjusted equity | ₱8,315,668,964 | ₱7,945,275,342 |
| | 0.72:1 | 0.21:1 |



34. Financial Instruments

As at December 31, 2013 and 2012, the Group held the following financial instruments carried at fair value:

| | December 31, 2013 | Level 1 | Level 2 | Level 3 |
|----------------------------|----------------------|-------------|---------|----------------|
| Financial Asset | | | | |
| Available-for-sale (AFS) | P64,394,470 | P55,862,692 | P- | P- |
| Financial Liability | | | | |
| Long-term debt | P5,300,628,147 | - | - | P5,300,628,147 |
| Loans payable | 799,872,702 | - | - | 799,872,702 |
| Derivative liability | 37,923,780 | - | - | 37,923,780 |
| | P6,138,424,629 | P- | P- | P6,138,424,629 |

| | December 31, 2012 | Level 1 | Level 2 | Level 3 |
|----------------------------|----------------------|-------------|---------|----------------|
| Financial Asset | | | | |
| Available-for-sale (AFS) | P64,394,470 | P64,394,470 | P- | P- |
| Financial Liability | | | | |
| Long-term debt | P1,686,908,688 | P- | P- | P1,686,908,688 |
| Derivative liability | 21,545,856 | - | - | 21,545,856 |
| Customer's deposits | 57,994,573 | - | - | 57,994,573 |
| | P1,766,449,117 | P- | P- | P1,766,449,117 |

During the years ended December 31, 2013 and 2012, there were no transfers between level 1 and 2 fair value measurements, and no transfers into and out of level 3 measurements.

The financial instrument classified under Level 3 pertains to the embedded derivatives bifurcated from the loan (host loan) that was obtained by the Parent Company from APHC (see Note 18). The value of the embedded derivatives was determined using binomial option pricing model which uses unobservable data as inputs including credit spread, stock price and stock price volatility of Sarangani, an unlisted entity. These inputs were assessed by the Parent Company to have significant impact on the value of the derivatives.

| Significant unobservable inputs to valuation | Range |
|--|-------|
| Credit spread | 4.34% |
| Share price of ACR | 1.34 |
| Stock price volatility of Sarangani | 8% |

The movements in the fair value of the derivative liability are summarized below:

| | 2013 |
|---|-------------|
| Derivative liability at beginning of year | P21,545,856 |
| Net change in fair value | 16,377,924 |
| Derivative liability at end of year | P37,923,780 |

The fair value change during the year was recognized as "Mark-to-market loss" under "Other income - net" account in the 2013 and 2012 consolidated statement of income (see Notes 18 and 28).



To assess the impact of those nonmarket inputs, the Parent Company performed the following sensitivity analysis:

Credit Spread

| | Increase (Decrease) in Credit Spread | Effect on Income before Income Tax |
|------|---|---------------------------------------|
| 2013 | 100 bps (100 bps) | (P3,435,287) 3,506,018 |
| 2012 | 100 bps (100 bps) | (P6,061,134) 6,331,010 |

Underlying Unquoted Share Price

| | Increase (Decrease) in Underlying Share Price | Effect on Income before Income Tax |
|------|--|---------------------------------------|
| 2013 | 1% (1%) | (P566,784) P492,249 |
| 2012 | 1% (1%) | (P681,346) P351,542 |

Volatility of the Underlying Unquoted Share

| | Increase (Decrease) in Volatility of the Underlying Unquoted Share | Effect on Income before Income Tax |
|------|---|---------------------------------------|
| 2013 | 100 bps (100 bps) | (P23,865) 44,548 |
| 2012 | 100 bps (100 bps) | (P423,882) 407,893 |

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and Cash Equivalents, Short-term Cash Investments, Trade and Other Receivables, and Advances to NPC. The carrying amounts of these financial assets approximate their fair values due to the short term maturity of those instruments.

Noncurrent Portion of Installment Receivables. The fair values of these financial instruments are determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments. The discount rates used ranged from 4.00% to 6.68% and 4.50% to 5.25% as at December 31, 2013 and 2012, respectively.



AFS Financial Assets. The fair value of AFS financial assets is determined based on the closing market rate in PSE as at balance sheet dates.

Accounts Payable and Other Current Liabilities and Loans Payable. The carrying amounts of these financial liabilities approximate fair value because of the short-term maturity of these instruments.

Derivative Liability. As at December 31, 2012, the embedded options were valued using the binominal option model. This valuation method compares the fair value of the option-free loan against the fair value of the loan. This valuation technique considers the probability of Parent Company's and Sarangani's share prices to move up or down depending on the volatility, risk-free rate and exercise price.

Customers' Deposits. The fair value of customers' deposits is determined by discounting the estimated future cash flows using the discount rates ranging from 6.00% to 7.55% in 2012.

Long-term Debt. The fair value of long-term debt with variable interest rates approximates its carrying amounts due to quarterly repricing of interest. The fair value of long-term debt with fixed interest rate is determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments. For the year ended December 31, 2013, rates used ranged from 0.25% to 3.03% and for the year ended 2012, rates used ranged from 1.32% to 5.08%.

The net gains (losses) per category of financial instruments are as follows:

| | 2013 | 2012 | 2011 |
|---|----------------------|----------------------|---------------------|
| Loans and Receivables | | | |
| Interest income from short-term cash investments and others (see Note 7 and 31) | ₱27,041,508 | ₱49,715,083 | ₱69,138,738 |
| Provision for doubtful accounts (see Notes 8, 24 and 31) | - | (23,968,330) | (539,296) |
| Bad debts written-off (see Notes 8, 24 and 31) | - | - | (2,318,787) |
| | <u>27,041,508</u> | <u>25,746,753</u> | <u>66,280,655</u> |
| AFS Financial Assets | | | |
| Gain on fair valuation of AFS taken to statement comprehensive income (see Note 13) | (6,741,009) | 18,019,708 | 3,813,882 |
| | <u>(6,741,009)</u> | <u>18,019,708</u> | <u>3,813,882</u> |
| Other Financial Liabilities | | | |
| Interest on loan and long-term debt (see Notes 17, 18, 27 and 31) | (₱82,578,427) | (₱63,699,843) | (₱22,785,878) |
| Amortization of transaction costs (see Notes 18 and 27) | (33,347,876) | (15,502,662) | (2,043,786) |
| Accretion of customers' deposit (see Notes 19 and 27) | - | (245,976) | (2,602,174) |
| Amortization of discount (see Notes 18 and 27) | (2,471,198) | (1,330,420) | - |
| | <u>(118,397,501)</u> | <u>(80,778,901)</u> | <u>(27,431,838)</u> |
| | <u>(₱98,097,002)</u> | <u>(₱37,012,440)</u> | <u>₱42,662,699</u> |



35. Significant Agreements and Commitments

a. Energy Conversion Agreements (ECAs)

SPPC and WMPC, each under separate ECAs with NPC, have constructed a 55-megawatt and a 100-megawatt bunker C-fired diesel generator power plants in General Santos City and Sangali, Zamboanga City, respectively, under a Build-Operate-Own scheme. NPC supplies all fuel necessary to generate electricity, with all electricity generated purchased by NPC at a price calculated based on the formula provided in the ECAs. SPPC and WMPC shall, directly or indirectly, own the power plants and shall operate and manage the power plants and provide all power generated to NPC for a period of 18 years up to May 2016 and December 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC.

The covering agreements also contain certain provisions with respect to NPC's payment to SPPC and WMPC (subject to certain conditions) of the total remaining amounts of the capacity fees until the end of the cooperation period, in the event of amendment, modification or repeal of any Philippine laws or any government regulations that will materially reduce, prejudice or otherwise adversely affect the companies' interest in the project or the power plant/station, and/or the companies' economic return on their investments.

The ECAs qualify as operating leases as SPPC and WMPC sell all their outputs to NPC. Future minimum receivable from fixed capacity and infrastructure fees as at December 31, 2013 are as follows:

| | In U.S. Dollars <i>(In Millions)</i> |
|---|---|
| Within one year | 28 |
| After one year but not more than five years | 31 |

Energy fees earned on the ECAs amounted to ₱2,075 million (\$49 million) in 2013, ₱2,069 million (\$49 million) in 2012 and ₱2,060 million (\$47 million) in 2011.

b. Operations and Maintenance (O&M) Service Agreements

AIL provides operations and maintenance services under an Advisory Service Agreement (ASA) to PT Makassar Power (PTMP), an IPP based in Indonesia. Under the ASA, AIL provides technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for a monthly fee of \$35,000 effective May 1, 2008 to April 2010, \$38,800 effective May 2010 to July 2011, \$44,600 from August 2011 to April 2012, and \$46,600 from May 2012 to December 2012. As at December 31, 2012, AIL continues to provide technical advisory services under the same terms of the ASA.

Total billings to PTMP amounted to ₱24 million (\$0.56 million) in 2013, ₱23 million (\$0.55 million) in 2012 and ₱21 million (\$0.49 million) in 2011.

In March 2013, SRPI entered into O&M Agreement with ACES for the operations and maintenance of the 105 MW coal-fired power plant. The Agreement is subject to termination by SRPI after the fourth operating year of the power plant and every year thereafter, upon at least one year notice prior to the intended termination date. Under the O&M, SRPI should pay mobilization fee amounting to US\$2.33 million and annual operation fee of US\$1.95 million. As at March 28, 2014, SRPI has not started commercial operations.



c. Power Supply Agreements (PSAs)

SRPI, Sarangani, and MPC entered into PSAs with various distribution utilities and electric cooperatives for a period of 25 years for SRPI and Sarangani and 3 years for MPC from start of their commercial operations. Contracted capacities are shown below:

Sarangani

| <u>Contracting Party</u> | <u>Contracted Capacity (in Mega Watts)</u> |
|---|--|
| South Cotabato II Electric Cooperative Inc. | 70 |
| Davao del Norte Electric Cooperative Inc. | 15 |
| Agusan del Norte Electric Cooperative Inc. | 10 |
| Agusan del Sur Electric Cooperative Inc. | 10 |

SRPI

| <u>Contracting Party</u> | <u>Contracted Capacity (in Mega Watts)</u> |
|--|--|
| Zamboanga City Electric Cooperative, Inc. | 85 |
| Zamboanga del Sur I Electric Cooperative, Inc. | 10 |

MPC

| <u>Contracting Party</u> | <u>Contracted Capacity (in Mega Watts)</u> |
|--|--|
| South Cotabato II Electric Cooperative Inc. | 30 |
| Zamboanga City Electric Cooperative, Inc. | 18 |
| Agusan del Norte Electric Cooperative Inc. | 15 |
| Holcim Philippines, Inc. | 10 |
| Iligan Light and Power, Inc. | 10 |
| Agusan del Sur Electric Cooperative Inc. | 10 |
| Zamboanga del Sur I Electric Cooperative, Inc. | 5 |
| Zamboanga del Norte Electric Cooperative, Inc. | 5 |

d. Agreement on Assignment of Participating Interest in SC 14

The Parent Company acquired from Philodrill Corporation (Philodrill) the latter's undivided participating interest of 1% in the rights and obligations in Block "C" of SC 14, which Alcorn (Production) Philippines, Inc. had previously agreed to assign to Philodrill.

The assignment agreement grants Philodrill the priority right to reacquire the subject 1% participating interest in the event the Parent Company decides to sell or assign the same, in whole or in part, to any third party.

The Parent Company is also a participant to several GSECs entered into with the Philippine Government, through the Department of Energy, to conduct exploration, exploitation and development activities in the contract areas designated in the GSECs.

The aforementioned SC and GSECs provide for certain minimum work expenditure obligations and the drilling of a specified number of wells, and are covered by operating agreements which set forth the participating interests, rights and obligations of the contractors.



e. Consultancy and Management Agreement

The Parent Company has a consultancy agreement with Comexco, Incorporated (Comexco). Under this agreement, Comexco will be the Group's technical consultant in identifying oil and mineral prospects and will provide assistance in applying for and acquiring rights thereto.

f. Joint Venture Agreements

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sale of real estate" and "Costs of real estate sold" accounts, respectively, in the consolidated statement of income. ALC's share in the unsold lots and golf shares is included under "Real estate inventories" account in the consolidated balance sheet. The Group recorded sales from Eagle Ridge amounting to ₱5 million in 2013, ₱2 million in 2012, and ₱9 million in 2011.

In 2006, ALC entered a joint venture agreement with SRDI, the developer, for the development of ALC's parcels of land in Batangas into residential house and lots called Campo Verde Subdivision. The entire development costs shall be shouldered by the developer. In return for their respective contributions to the project, the parties have agreed to assign number of units of residential house and lots proportionate to their respective contributions computed as specified in the MOA. SRDI shall be assigned as the exclusive marketing agent and shall receive 10% of the total contract price, net of VAT and discounts, as marketing fee. ALC's share in the proceeds and in the cost of the lots sold is shown as part of "Sale of real estate" and "Costs of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots is included under "Real estate inventories" account in the consolidated balance sheets. The Group reported sales from Campo Verde subdivision amounting to ₱13 million in 2013, ₱29 million in 2012, and ₱12 million in 2011.

In March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana Development Corporation (ADC). On September 17, 2013, the ADC was incorporated as JVC. ACR has subscribed 296 preferred shares and 32 common shares for 34% ownership in ADC. As of December 31, 2013, ADC has not started operations.

g. Marketing Agreements

ALC and SLRDI have a Marketing Agreement with Fil-Estate Group of Companies (FEGC) for the latter to market and sell the individual lots at Eagle Ridge. FEGC is entitled to a marketing commission of 12% of the sales contract price.

h. Engineering, Procurement and Construction Contract (EPC)

On March 30, 2011, Sarangani entered into EPC contract with the consortium of Daelim Industrial Co. Ltd, a company incorporated in Korea, and Daelim Philippines Incorporated, a company incorporated in the Philippines ("Contractor"). Under the terms of the contract, the



Contractor shall perform any and all services and provide any and all equipment and construction equipment necessary to perform the work in accordance with the EPC contract on a fixed-price, turnkey basis and shall deliver a fully operational power plant facility (SM 200).

On December 29, 2011 and May 24, 2012, Amendments 1 and 2 to the EPC, respectively, were signed, revising certain portions of the EPC. Construction of Phase 1 of the SM200 commenced in July 2012 and is expected to be completed in August 15, 2015.

On December 27, 2012, SRPI entered 3-year Construction Contract also with Daelim Philippines, Incorporated (“Daelim”) for a ₱2.38 billion fixed-price, date certain and turnkey basis. Under the Construction Contract, Daelim shall provide the design, engineering, procurement, supply, construction, start-up, testing and commissioning of the 100 MW coal-fired power station or the ZAM100 project.

- i. Registration with Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) and Kamanga Agro-Industrial Economic Zone

On November 20, 2012, SRPI obtained the certificate of registration and tax exemption issued by the ZAMBOECOZONE. As a registered ZAMBOECOZONE enterprise, the Company shall enjoy incentives and benefits provided for in Republic Act (R.A.) 7903 Sections 4(e) and 4(f) and Sections 43-44, 57-59 and 62 of R.A. 7903 throughout the Lease Agreement with ZAMBOECOZONE (see 15.c).

On June 7, 2011, Philippine Economic Zone Authority (PEZA) approved Sarangani’s registration as an Ecozone Utilities Enterprise inside Kamanga Agro-Industrial Economic Zone located at Barangay Kamanga, Maasim, Sarangani Province.

As a power generation registered economic zone enterprises SRPI and Sarangani are entitled to the following incentives:

- (a) Exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5% on gross income; and
- (b) Tax and duty free importation of capital equipment, machineries and spare parts.
- (c) VAT-zero rating on local purchases subject to compliance with BIR and PEZA regulations/requirements.

- j. Land Lease Agreement with ZAMBOECOZONE

On January 27, 2013, SRPI entered into a Land Lease Agreement with ZAMBOECOZONE for a period of thirty-one (31) years from execution of the lease Agreement. The leased properties consist of: (a) 300,000 sq.m for the Main Power Plant Area; and (b) 37,000 sq.m. for the Port Facility Area. Payment of monthly rental will commence on October 1, 2013 and subject to fee escalation.



36. Contingencies

There are contingent liabilities that arise in the normal course of the operations of the Group, which are not reflected in the accompanying consolidated financial statements as management believes that it is not probable that the contingent liabilities will affect the Group's operations.

WMPC has contingent asset amounting to ₱239 million as at December 31, 2010 pertaining to uncollected amount on the Company's reimbursement of restoration costs of its main engine (see Note 12). In 2011, WMPC's outstanding claim for reimbursement of revenue losses was collected in full. WMPC also collected an additional ₱201 million reimbursement for restoration costs in 2011 which was recognized as income under "Income from insurance claims" account in 2011 (see Note 28).

37. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

RA No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market within one year; and
- iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of management, the operating subsidiaries have complied, with the applicable provisions of the EPIRA and its IRR.

b. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and on the Group in particular, that needs to be complied with. Based on the assessment made on the power plant's existing facilities, management believes that the operating subsidiaries comply with the applicable provisions of the Clean Air Act and the related IRR.



38. Notes to Consolidated Statements of Cash Flows

The principal noncash investing transaction in 2013 pertain to transfer of deferred project costs to property, plant and equipment (see Note 12), while noncash financing and investing transactions in 2011 pertain to the settlement of long-term debt through dacion en pago arrangement and acquisition of investment through offsetting of advances, respectively (see Notes 10 and 18). Details of these transactions are shown below:

| | <u>2013</u> | <u>2011</u> |
|--|----------------|-----------------|
| Investing activity - | | |
| Transfer of deferred project costs to property, plant and equipment | (P644,480,157) | - |
| Acquisition of investment through offsetting of advances to an affiliate | - | (1,226,174,500) |
| Financing activities: | | |
| Liabilities settled and restructured | - | (206,380,576) |
| Cost of dacioned property | - | 149,490,571 |
| Gain on dacion | - | (56,890,005) |



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE
STANDARDS AND INTERPRETATIONS

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|--|-------------------|--------------------|-----------------------|
| Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics | | 4 | | |
| PFRSs Practice Statement Management Commentary | | 4 | | |
| Philippine Financial Reporting Standards | | | | |
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards | | | 4 |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | 4 |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | 4 |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | 4 |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | 4 |
| | Amendments to PFRS 1: Government Loans | | | 4 |
| | Amendment to PFRS 1: Meaning of Effective PFRSs* | Not Early Adopted | | |
| PFRS 2 | Share-based Payment | | | 4 |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | 4 |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | 4 |
| | Amendment to PFRS 2: Definition of Vesting Condition* | Not Early Adopted | | |
| PFRS 3 (Revised) | Business Combinations | 4 | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination* | Not Early Adopted | | |
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements* | Not Early Adopted | | |
| PFRS 4 | Insurance Contracts | | | 4 |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | 4 |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | 4 | | |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | 4 |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|--|--|-------------------|--------------------|-----------------------|
| PFRS 7 | Financial Instruments: Disclosures | 4 | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | 4 | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | 4 | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | 4 | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | 4 | | |
| | Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities | 4 | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | 4 | | |
| PFRS 8 | Operating Segments | 4 | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* | Not Early Adopted | | |
| PFRS 9 | Financial Instruments* | Not Early Adopted | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | Not Early Adopted | | |
| PFRS 10 | Consolidated Financial Statements | 4 | | |
| | Amendments to PFRS 10: Investment Entities* | Not Early Adopted | | |
| PFRS 11 | Joint Arrangements | 4 | | |
| PFRS 12 | Disclosure of Interests in Other Entities | 4 | | |
| | Amendments to PFRS 12: Investment Entities* | Not Early Adopted | | |
| PFRS 13 | Fair Value Measurement | 4 | | |
| | Amendment to PFRS 13: Short-term Receivables and Payables* | Not Early Adopted | | |
| | Amendment to PFRS 13: Portfolio Exception* | Not Early Adopted | | |
| Philippine Accounting Standards | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | 4 | | |
| | Amendment to PAS 1: Capital Disclosures | 4 | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | 4 |
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | 4 | | |
| PAS 2 | Inventories | 4 | | |
| PAS 7 | Statement of Cash Flows | 4 | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|--|--|-------------------|--------------------|-----------------------|
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | 4 | | |
| PAS 10 | Events after the Reporting Period | 4 | | |
| PAS 11 | Construction Contracts | | | 4 |
| PAS 12 | Income Taxes | 4 | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | 4 | | |
| PAS 16 | Property, Plant and Equipment | 4 | | |
| | Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation* | Not Early Adopted | | |
| PAS 17 | Leases | 4 | | |
| PAS 18 | Revenue | 4 | | |
| PAS 19 | Employee Benefits | 4 | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | Not Early Adopted | | |
| PAS 19 (Amended) | Employee Benefits | 4 | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution* | Not Early Adopted | | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | 4 | | |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | 4 | | |
| | Amendment: Net Investment in a Foreign Operation | | | 4 |
| PAS 23 (Revised) | Borrowing Costs | 4 | | |
| PAS 24 (Revised) | Related Party Disclosures | 4 | | |
| | Amendments to PAS 24: Key Management Personnel* | Not Early Adopted | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | 4 |
| PAS 27 | Consolidated and Separate Financial Statements | 4 | | |
| PAS 27 (Amended) | Separate Financial Statements | 4 | | |
| | Amendments to PAS 27: Investment Entities* | Not Early Adopted | | |
| PAS 28 | Investments in Associates | 4 | | |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | 4 | | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | 4 |
| PAS 31 | Interests in Joint Ventures | 4 | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|--|--|-------------------|--------------------|-----------------------|
| PAS 32 | Financial Instruments: Disclosure and Presentation | 4 | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | 4 |
| | Amendment to PAS 32: Classification of Rights Issues | | | 4 |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | 4 | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* | Not Early Adopted | | |
| PAS 33 | Earnings per Share | 4 | | |
| PAS 34 | Interim Financial Reporting | 4 | | |
| PAS 36 | Impairment of Assets | 4 | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets* | Not Early Adopted | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | 4 | | |
| PAS 38 | Intangible Assets | 4 | | |
| | Amendments to PAS 38: Revaluation Method – Proportionate Restatement of Accumulated Amortization* | Not Early Adopted | | |
| PAS 39 | Financial Instruments: Recognition and Measurement | 4 | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | | | 4 |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | 4 |
| | Amendments to PAS 39: The Fair Value Option | | | 4 |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | 4 |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | 4 | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | 4 | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | 4 | | |
| | Amendment to PAS 39: Eligible Hedged Items | | | 4 |
| Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* | Not Early Adopted | | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|---|-------------------|-------------|----------------|
| PAS 40 | Investment Property | 4 | | |
| | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property* | Not Early Adopted | | |
| PAS 41 | Agriculture | | | 4 |
| Philippine Interpretations | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | 4 | | |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | 4 |
| IFRIC 4 | <i>Determining Whether an Arrangement Contains a Lease</i> | 4 | | |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | 4 | | |
| IFRIC 6 | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i> | 4 | | |
| IFRIC 7 | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i> | | | 4 |
| IFRIC 8 | <i>Scope of PFRS 2</i> | | | 4 |
| IFRIC 9 | Reassessment of Embedded Derivatives | 4 | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | 4 | | |
| IFRIC 10 | <i>Interim Financial Reporting and Impairment</i> | 4 | | |
| IFRIC 11 | PFRS 2- Group and Treasury Share Transactions | | | 4 |
| IFRIC 12 | Service Concession Arrangements | | | 4 |
| IFRIC 13 | Customer Loyalty Programmes | | | 4 |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | 4 | | |
| | Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement | 4 | | |
| IFRIC 15 | Agreements for the Construction of Real Estate* | Not Early Adopted | | |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | 4 |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | 4 | | |
| IFRIC 18 | Transfers of Assets from Customers | 4 | | |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 4 | | |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine* | Not Early Adopted | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2013 | | Adopted | Not Adopted | Not Applicable |
|---|--|-------------------|-------------|----------------|
| IFRIC 21 | Levies (IFRIC 21)* | Not Early Adopted | | |
| SIC-7 | Introduction of the Euro | | | 4 |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | 4 |
| SIC-12 | Consolidation - Special Purpose Entities | 4 | | |
| | Amendment to SIC - 12: Scope of SIC 12 | | | 4 |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | 4 | | |
| SIC-15 | Operating Leases -- Incentives | | | 4 |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | 4 | | |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | 4 | | |
| SIC-29 | Service Concession Arrangements: Disclosures | | | 4 |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services | | | 4 |
| SIC-32 | Intangible Assets - Web Site Costs | 4 | | |

* Standards and interpretations which will become effective subsequent to December 31, 2013.

Note: Standards and interpretations tagged as "not applicable" are those standards which were adopted but the entity has no significant covered transaction as at and for the year ended December 31, 2013

Alsons Consolidated Resources, Inc. and Subsidiaries
 Schedule of Financial Soundness

| Financial KPI | Definition | Years Ended | |
|-------------------------------------|--|-------------|-----------|
| | | 2013 | 2012 |
| Liquidity | | | |
| Current Ratio / Liquidity Ratio | Current Assets Current Liabilities | 3.02:1 | 5.22.17:1 |
| Solvency | | | |
| Debt to Equity Ratio/Solvency Ratio | Long-term debt (net of unamortized transaction costs)+Loans Payable+Derivative Liability (Capital Stock+Other Reserves+Cumulative Translation Adjustments+RE) | 0.60:1 | 0.19:1 |
| Interest Rate Coverage Ratio | | | |
| Interest Rate Coverage Ratio | Earnings Before Interest and Taxes Interest Expense | 10.32:1 | 16.10:1 |
| Profitability Ratio | | | |
| Return on Equity | Net Income Total Average Stockholders' Equity | 8% | 9% |
| Asset-to-Equity Ratio | | | |
| Asset-to-Equity Ratio | Total Assets Total Equity | 1.72:1 | 1.25.:1 |

ALSONS CONSOLIDATED RESOURCES, INC.

2286 Pasong Tamo Extension, Makati City

Schedule of Retained Earning Available for Dividend Declaration

December 31,2013

*Figures based on
Parent Company
Audited Financial
Statements)*

| | | |
|--|------------------|--------------------------------|
| Unappropriated Retained Earning beginning | | Php1,189,733,596 |
| Less: Cumulative non-actual/unrealized income net of tax in prior years | | |
| Unrealized foreign exchange gain, excluding those attributable to cash and cash equivalents in 2012 | (7,429,237) | |
| Add: Mark-to-market loss in 2012 | 1,632,044 | |
| | | <u>4,202,807</u> |
| Retained Earning beginning, <i>as adjusted to available for dividend distribution</i> | | <u>1,193,936,403</u> |
| Net income during the year | 358,383,635 | |
| Add: Non-actual losses | | |
| Mark-to-market loss in 2013 | 16,377,924 | |
| Unrealized foreign exchange gain in 2012 realized in 2013, excluding those attributable to cash and cash equivalents in 2012 | <u>7,429,237</u> | |
| Net income actually earned during the period | | 382,190,796 |
| Dividend declared during the year | | (104,697,336) |
| Retained Earnings end, as adjusted available for dividend distribution | | <u><u>Php1,471,429,863</u></u> |

