# COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | 5 | 9 | 3 | 6 | 6 |

Company Name

A L S O N S  C O N S O L I D A T E D  R E S O U R C E S ,
I N C .

Principal Office (No./Street/Barangay/City/Town/Province)

A l s o n s  B u i l D i n g ,  2 2 8 6  C h i n o
R o c e s  A v e n u E ,  M a k a t i  C i t y ,
M e t r o  M a n i l A ,  P h i l i p p i n e s

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-A | SEC | |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| legal@alcantaragroup.com | 982 - 3000 | |

| No. of Stockholders | Annual Meeting Month/Day | Fiscal Year Month/Day |
|---|---|---|
| 470 | Any day of May | December 31 |

## CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Luis R. Ymson, Jr. | lry@alcantaragroup.com | 982-3000 | |

Contact Person's Address

Alsons Building, 2286 Chino Roces Avenue, Makati City

**Note:** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

**SECURITIES AND EXCHANGE COMMISSION**
**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **31 December 2014**

2. SEC Identification Number **59366** 3. BIR Tax Identification No. **001-748-412**

4. **ALSONS CONSOLIDATED RESOURCES, INC.**
Exact name of registrant as specified in its charter

5. **Philippines** 6. (SEC Use Only)
Province, country or other jurisdiction of incorporation
Industry Classification Code:

7. **Alsons Building., 2286 Don Chino Roces Avenue, Makati City, Philippines** **1231**
Address of principal office Postal Code

8. **(632) 982-3000**
Registrant's telephone number, including area code

9. **(Not applicable)**
Former name or former address, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Stock ₱1.00 par value** | **6,291,500,000 Shares** |

11. Are any or all of these securities listed on the Philippine Stock Exchange ?
Yes [X] No [ ]

12. Check whether the registrant:
(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 there under or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):
Yes [X] No [ ]
(b) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

13. Aggregate market value of the voting stock held by non-affiliates of the registrant:
₱ 2,557,499,348.92
Assumption: Based on Closing Price of ₱ 2.03 as of 29 December 2014 and on 1,259,851,896 shares.

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# PART I - BUSINESS AND GENERAL INFORMATION

## Item 1. BUSINESS

Alsons Consolidated Resources, Inc. ("ACR" or the "Company") was incorporated 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. (Tegre) in March 1995.

In 1994, the Alcantara Group, through Alsons Power Holdings Corporation (APHC), acquired a 55.80% interest in Tegre through a swap of APHC's 50.78% stake in Northern Mindanao Power Corporation (NMPC). The Securities and Exchange Commission (SEC) formally approved the stock swap on March 4, 1995 together with the increase in the Company's authorized capital stock from ₱1 billion to ₱3 billion.

The corporate name was changed to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. The Company's primary purpose was subsequently changed to that of an investment holding company, and oil exploration was relegated to a secondary purpose.

On October 10, 1996, the Company completed its reorganization through a series of stock swaps. As a result of this reorganization, some of the Alcantara Group's established businesses became majority or minority owned subsidiaries of ACR and the Company's authorized capital was further increased from ₱3 billion to ₱12 billion.

ACR's core businesses, conducted through its various subsidiaries and associates, can be grouped into the following main categories: a) Energy and Power, b) Property Development, and c) Other Investments. A description of the general nature and scope of these businesses is presented below:

### Energy And Power

ACR's investment in the Energy and Power business is through two holding firms namely, Conal Holdings Corporation (Conal or CHC) and Alsing Power Holdings, Inc. (Alsing). On August 1, 2013, ACR re-acquired the 40% ownership by Electricity Generating Public Co. Ltd. (EGCO) of Thailand in Conal. With this acquisition, Conal became a wholly owned subsidiary of ACR. Conal owns all of ACR's operating Philippine power generation businesses, namely: (1) Alsing Power Holdings, Inc. at 80%, (2) Alto Power Management Corporation at 60% and (3) Mapalad Power Corporation 100%. Alsing, in turn, owns 55% of: (a) Western Mindanao Power Corporation; and, (b) Southern Philippines Power Corporation. Further, ACR directly owns 20% of Alsing.

ACR also has a wholly owned subsidiary, Alsons Power International Limited (APIL), which handles the development of the power plant projects of ACR outside the country.

The three (3) operating power generation subsidiaries, Western Mindanao Power Corporation (WMPC) and Southern Philippines Power Corporation (SPPC) and Mapalad Power Corporation (MPC) are all located in Mindanao.

WMPC operates a 100-megawatt (MW) diesel-fired electricity generating facility in Zamboanga City under an 18-year "Build-Operate-Own (BOO)" arrangement with National Power Corporation (NPC) until December 2015. SPPC, on the other hand, operates a 55 MW diesel-fired electricity generating facility located in Alabel, Sarangani Province, 15 kilometers east of the city proper of General Santos, also under a BOO arrangement with NPC for 18 years until May 2016.

MPC rehabilitated and started operating 98 MW of the 103MW Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II, which Conal acquired from the Iligan City Government on February 27, 2013. The Company entered into Power Sales Agreement (PSA) with various distribution utilities and electric cooperatives, namely Holcim Philippines, Inc. (10MW); Iligan Light and Power, Inc. (10MW); South Cotabato II Electric Cooperative, Inc. (30 MW); Zamboanga City Electric Cooperative, Inc. (18 MW); Agusan del Norte Electric Cooperative (15 MW); Agusan del Sur Electric Cooperative (10MW); Zamboanga del Sur I Electric Cooperative, Inc. (5MW) and Zamboanga del Norte Electric Cooperative (5MW).

The Mindanao Grid, where the three power plants of ACR's Energy and Power business operate, is dominated by power generated by the Agus Hydroelectric System. However, when the water of Lake Lanao is at a critical level, the Agus System cannot service the full demand of the Mindanao Grid. The SPPC and WMPC plants are therefore called for dispatch to supply this deficit. As the demand for power in Mindanao is expected to grow rapidly over the next few years, these power plants will play an important role in providing adequate and stable power for Mindanao.

Expected to play a prominent role in assuring adequate and economic power supply to the Mindanao Grid is the 210MW Coal-Fired Power Station Project (SM200) in Maasim, Sarangani, which ACR is presently constructing the first 105MW through its subsidiary, Sarangani Energy Corporation (SEC). On December 10, 2012, ACR entered into a Shareholders Agreement with Toyota Tsusho Corporation (TTC) of Japan, wherein TTC agreed to subscribe 25% of the total equity of SEC. The construction is currently undertaken by Daelim Industrial Co., Ltd. of Korea and Daelim Phils., Inc. Commercial operations are expected to commence in 2015. The SM200-Phase 2 will follow a year later. In addition, ACR is also developing through a subsidiary, San Ramon Power Corporation (SRPI), a 105MW Coal-Fired Power Station Project (ZAM100) in Zamboanga City. ZAM100 will supply power to Zamboanga City and other parts of the Zamboanga Peninsula. SRPI obtained its Environmental Compliance Certificate (ECC) on March 20, 2012.

ACR, through subsidiaries, is likewise conducting feasibility studies on renewable energy projects. Currently under development are the Siguil 17MW Hydro Power Project in Maasim Sarangani and the Bago 40MW in Negros Oriental. These projects are expected to augment power supply in the cities of General Santos and Bacolod, respectively, once they are completed.

**Property Development**

ACR is also engaged in the Property Development business through its subsidiary, Alsons Land Corporation or ALC. Established on November 25, 1994, ALC was primarily involved in two major enterprises, a 72-hole golf course development with a residential component called the "Eagle Ridge Golf & Residential Estate" in General Trias, Cavite and is a 440-hectare industrial estate owned by LLI, otherwise known as the "LiMA Technology Center" in Malvar and Lipa City, Batangas. In October 2013, ACR through ALC disposed its 60% share in Lima Land Inc.

The Eagle Ridge Golf & Residential Estate (Eagle Ridge) is a joint venture between ALC and Sta. Lucia Realty Development, Inc. The Fil-Estate Group of Companies primarily handles the sale of its golf shares and residential lots. Eagle Ridge is a 700-hectare project located in Gen. Trias, Cavite. The only Golf Club in the Philippines with four completed signature golf courses and three fully operational clubhouses, Eagle Ridge has superior facilities that cater not only to golfers but also to their families and guests.

To maximize the use of its remaining land holdings, ALC is also engaged in the development of other types of housing products. Re-packaging its properties to better suit emerging market niches in the property sector, ALC launched "Campo Verde", a joint venture project with Sunfields Realty Development, Inc. The 11-hectare property is located inside LTC and an hour away from Makati via the South Luzon Expressway and the Southern Tagalog Arterial Road Tollway. Campo Verde offers three (3) distinct Spanish themed homes that are ideal for young to growing families. The model house choices range from: Condesa with a lot area of 90 square meters and floor area of 36 square meters; Duquesa with a lot size of 100 square meters and a floor area of 50 square meters; and, Reina with 120 square meter-lot and a floor area of 80 square meters.

Through subsidiary Kamanga Agro-Industrial Economic Development Corporation, ACR is also developing the Kamanga Agro-Industrial Economic Zone, which will host SM200 in the Municipality of Maasim, Province of Sarangani, and be accredited with the PEZA as an agricultural and light-industry zone. Enterprises will be encouraged to set up their businesses in, or relocate to, this "Ecozone" to enjoy incentives prescribed by law through the PEZA.

**Other Investments**

To pursue projects in the mining sector, ACR organized ACR Mining Corporation (ACRMC), formerly known as ACR Management Corporation. Its initial activity involved the acquisition of Alsons Development & Investment Corporation's interest in a mining claim, referred to as the Manat Mining Claims. Covered by Mineral Production Sharing Agreement (MPSA) Serial No. 094-97-XL for 25 years up to year 2022, the mining claim has a total area of 1,547.32 hectares. It is located in the Municipality of Nabunturan, Province of Compostela Valley and in the Municipality of Maco, Province of Davao del Norte. Previous exploration work at the project area identified three sub-parallel NW trending mineralized structures: Pagtulian, Katungbuan/Taglayag, and Magas. Detailed work on the Magas Vein Zone (MVZ) so far revealed an estimated inferred resource of 2.7 million tons containing: 2.8 g/t gold, 26 g/t silver, 0.09% copper, 0.85% lead, and 1.58% zinc.

ACR also has investments in RCP Holdings, Inc. and in Market Developers, Inc. (MADE), which handles the Company's Product Distribution business. RCP Holdings, Inc. owns 31.24% of Refractories Corporation of the Philippines (RCP), a company engaged in the manufacture of refractories and monolithic. RCP is under rehabilitation, and the Company's product distribution activities had been substantially scaled down until better opportunities can justify resumption of its trading operations.

To further expand its interest in the energy sector, the Company is presently considering several investment opportunities also in Mindanao.

**Status of publicly-announced new projects**

1. In March 2013, the Alcantara Group (AG) entered into a joint venture agreement with Ayala Land, Inc. (ALI) where ALI shall own 60% and AG 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 and ACR subscribed 34% ownership in ADC. As of December 31, 2014, ADC is not yet in operations.

2. The construction of the first 105MW phase 1 of the 210 MW Sarangani Energy Corporation is already 90% complete as of end 2014 and is expected to commence commercial operations in October 2015. SEC plant is expected to reach its full 210 MW capacity within the fourth quarter of 2016. SEC's 210MW plant is one of the first new baseload power plants that will

be operating in 2015 to help provide a sustainable and lasting solution to the power shortage in Minadanao.

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.

3. The 105MW San Ramon Power Inc. (SRPI) plant in Zamboanga City has received its environmental compliance certificate from the Department of Environment and Natural Resources in March 2012. Daelim Industrial Co., Ltd. of South Korea is also its EPC contractor. The SRPI expected construction of the plant that was previously forecasted to commence in the later part of 2013 has been deferred at later time. The total project cost is estimated at ₱13.5 billion. The Company is still in the process of negotiation with various banks to finance the project. SRPI coal plant will service Zamboanga City and other nearby areas is scheduled to begin operating before the end of 2018.

**The Company has no existing patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements.**

**(i) Business segments contribution to revenues**

**Table I** - The contribution of each segment of the business to the consolidated revenues of the Company are as follows:

| | *(Amounts in Thousand PhP)* | | | % to Total | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013* | 2012 | 2014 | 2013 | 2012 |
| Energy and Power | ₱5,159,454 | ₱3,316,193 | ₱2,100,706 | 100% | 99% | 98% |
| Property Development | 20,617 | 27,343 | 41,750 | 0% | 1% | 2% |
| | ₱5,180,071 | ₱3,343,536 | ₱2,142,456 | 100% | 100% | 100% |

**Figures have been restated to reflect the overstatement of fees charges to customers.*

Income from foreign sources amounting to ₱25 million in 2014, ₱27 million in 2013 and ₱32 million in 2012 represents fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia.

**(ii) Competition**

Aside from the numerous housing developments competing in Batangas, Cavite and Laguna areas, a shift in the market forces has prompted a slowdown in sales for the Eagle Ridge Golf and Residential Estates. Economic and affordable housing developments of Filinvest, Camella Homes, and Amaia have gained a foothold in the region.

While several generation companies have either commenced construction of coal-fired power stations or announced plans to build them, Sarangani Energy Corporation (SEC) has secured its position in the market by entering into Power Sales Agreements (PSAs) with various distribution utilities. Having secured the approval of the Energy Regulatory Commission of these PSAs, SEC is assured of the market for its capacity.

The diesel power stations of WMPC, SPPC, and MPC are presently fully contracted. Smaller embedded power stations have started operation in the franchise areas of some electric cooperatives but because the output of WMPC, SPPC, and MPC are competitively priced and their performance proven over years of reliable operation, these power companies continue to be the preferred supplier of most distribution utilities.

**(iii) Sources and Availability of Raw Materials and Supplies**

Materials and supplies used by SPPC and WMPC for power generation include fuel and lubricating oils. The National Power Corporation (NPC) provides the fuel oil while Pilipinas Shell Petroleum Corporation directly supplies the lubricating oil requirements of the plants. Wartsila Corporation of Finland supplies the engine parts and major maintenance services needed by the plants.

Meanwhile, MPC signed a Fuel Supply Agreement with Petron Corporation for the supply of approximately 6 million liters of fuel. The agreement is valid until December 31, 2015. Similar to WMPC and SPPC, MPC has also agreements with Pilipinas Shell Petroleum Corporation for the supply of its lubricating oils and with Wartsila Corporation for the supply of its engines.

**(iv) Dependence on a Single or a Few Customers**

The SPPC and WMPC companies' sole customer is NPC through BOO arrangements. Alto Power Management Corp. (APMC), a subsidiary of ACR, provides the plant and operation management services to SPPC, WMPC and MPC. Also, APMC International Ltd., a wholly owned subsidiary of APMC, provides Operations and Maintenance management services to PT Makassar Power Indonesia.

MPC has fully contracted for 3 years its 103MW capacity to several electric cooperatives in Mindanao and Holcim. MPC increased its operating capacity by 5MW in March 2014 upon the completion of the rehabilitation of the 12th unit. The additional capacity has already been contracted with ZANECO with the same terms as other electric cooperatives.

The Property Development and other businesses of ACR are not dependent on a single or few customers and the loss of one or a few customers will have no material adverse effect on the Company and its subsidiaries.

**(v) Effect of Existing or Probable Governmental Regulations on the Business**

Republic Act No. 9136, the Electric Power Reform Act (EPIRA), and its Implementing Rules and Regulations (IRR), provide for significant changes in the Power Sector which includes among others:

a. The unbundling of the generation, transmission, distribution and supply of power and other disposal assets, including its contract with IPP and electricity rates;
b. Creation of a Wholesale Electricity Spot Market (WESM) within one year; and,
c. Open and nondiscriminatory 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: (i) cross ownership restrictions between transmission and generation companies and between transmission and distribution companies; and, (ii) a cap of 50% on the demand of a distribution utility sourced from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA; and (iii) specifically relating to generation companies, 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.

**(vi) Research and Development**

ACR and its subsidiaries do not allocate specific amounts or a fixed percentage for research and development. All research, if any, are done by its subsidiaries and affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

**(vii) Employees**

As of December 31, 2014, ACR and its 50% or more directly or indirectly-owned subsidiaries had a manpower complement of 373 employees, broken down as follows: 5 executives, 20 managers, 78 supervisors and 270 associates. The Company believes that changes in manpower complement will be minimal for the next twelve months. The employees of the Company and its subsidiaries are not unionized.

**(viii) Bankruptcy Proceedings**

The Company has not contemplated any plan for bankruptcy, receivership or similar proceedings. Neither is there any material reclassification, merger, consolidation nor sale of any significant amount of assets in the ordinary course of business.

**(ix) Cost and Effect of Compliance with Environmental Laws**

As a holding company, ACR engages only in projects and activities that comply with environmental laws. Its power subsidiaries follow the regulations embodied in the EPIRA. All its plants meet the exhaust emission standards set by DENR. Compliance with existing environmental laws has corresponding costs, which include expenditures for the following: 1) renewal fees for the DENR permit/license to operate; 2) exhaust emission tests and monitoring (costs covered by the environmental guarantee fund), 3) environmental monitoring fund (SPPC ₱500,000 and WMPC ₱ 586,000), and 4) environmental guaranty fund (SPPC ₱500,000 and WMPC ₱598,000). WMPC and SPPC have spent for desulfurization facilities amounting to ₱22,245 and ₱156,274, respectively. The Company meets all governmental, environment, health and safety requirements. The Company's operating units are regularly inspected and have not experienced significant governmental, environment, health or safety problems. For the past three years, the total amounts spent in complying with environmental laws by the subsidiaries are as follows: (1) ₱6,721,230 in 2014; (2) ₱ 3,270,768 in 2013; and, (3) ₱2,021,131 in 2012.

**(x) Investment Acquisition**

On July 2, 2013, the Company acquired from EGCO International Limited (EGCO) the latter's 40% interest in CHC, valued at US$13 million, increasing the Company's ownership in CHC to 100%.

On February 27, 2013, CHC acquired from the Iligan City Government, the 98 MW Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II valued at ₱387million. MPC rehabilitated the two plants at total cost of ₱800 million, the capacity has now increased to 103MW

On December 23, 2010, ACR purchased 29,140,000 shares of Indophil Resources, NL (Indophil) in the amount of ₱1,316 million. ACR previously accounted its investment in Indophil as available-for-sale financial statements and it recognized an unrealized gain on change in fair value of ₱45 million (net of tax of ₱19 million) recorded under "Other comprehensive income.

Alsons Power Holdings Corporation (APHC), also a company under the Alcantara Group, entered into a placement agreement (the Agreement) with Indophil to purchase the 207,708,334 shares in two (2) tranches. On December 26, 2011, APHC incorporated Alsons Prime Investments Corporation

(APIC) as a wholly owned subsidiary primarily to hold the Indophil investment. The Agreement was concluded on February 6, 2012, with APIC owning 17.26% of Indophil's total outstanding shares.

Subsequently, on September 23, 2014, APIC offered to acquire all of Indophil's issued shares not already owned by APIC under a Scheme of Arrangement. Under the Scheme, APIC offered Indophil shareholders A$0.30 cash for each share that they owned. With the consent of Indophil's shareholders of the Scheme during the December 18, 2014 shareholders' meeting and the final approval by the Australia Supreme Court on January 13, 2015, payment to all shareholders on the share register as at the Record Date of January 20, 2015 except for shares already owned by APIC's affiliates, ACR and Alsons Corporation (AlCorp), was completed on January 28, 2015. As such, APIC's ownership increased from 17.26% to 97.27%.

Meanwhile, APIC, AC and ACR entered into an agreement on January 30, 2011 that defined the basic principles, policies, terms and conditions, which shall govern their conduct and relationship as shareholders of Indophil. With this agreement, the Group's equity share in Indophil was consolidated and initially reached 19.99% of the latter's outstanding shares in 2012 and finally to 100.0% with the completion of the Scheme in January 2015.

Mr. Nicasio I. Alcantara, Chairman of APIC and a Director of AlCorp and Alsons Development & Investment Corporation (parent of APHC), has been Indophil's non-executive Director since December 2011.

**Item 2. PROPERTIES**

**DESCRIPTION OF PROPERTIES**

The Company's energy and power operations are located in three different sites. WMPC's own power plant is in a 9-hectare property in Sitio Malasugat, Sangali, Zamboanga City. SPPC's operations are situated in a 16-hectare property located in Alabel, Sarangani Province, and 13 kilometers east of the city proper of General Santos. CHC's Plants 1 and 2 which are operated by MPC, are in an 8-hectare property in the municipality of Lugait, Misamis Oriental and in the City of Iligan. The WMPC and SPPC properties are fully owned by the above-mentioned subsidiaries of ACR. On the other hand, the power plants in Lugait, Misamis Oriental and City of Iligan were acquired by virtue of a Deed of Sale between the City of Iligan and CHC dated February 27, 2013. The lots on which the power plants of CHC are located were acquired by MPC from Alsons Development and Investment Corporation by virtue of the deed of sale dated November 21, 2013. The power plants of WMPC and SPPC were used as collaterals for the loans obtained to finance the construction of the said plants. The power plant of CHC and the lots of MPC were used as collateral for the rehabilitation of the CHC power plants. The Plant of SEC which is currently under construction is located in Maasim Saragani Province.

ALC, the Company's property development company, used to own a 700-hectare property in General Trias, Cavite. ALC also has properties in Batangas, Cabuyao in Laguna, and along Don Chino Roces Avenue (formerly Pasong Tamo Extension), Makati City. Its Batangas property currently has residential developments.

The Company maintains its corporate headquarters at the Alsons Building, Makati City, which is owned by ALC.

All of these properties are in good condition.

**Table II – Property, Plant and Equipment (consolidated)**

| *(Amounts in Thousand Pesos)* | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Main Engine of Power Plant Structures and Others | ₱7,923,546 | ₱7,922,079 |
| Land, Buildings and Leasehold Improvements | 818,286 | 503,667 |
| Plant Mechanical, Switchyard and Desulfurization Equipment | 4,417,171 | 4,416,461 |
| Machinery and Other equipment | 337,278 | 313,685 |
| Construction in Progress | 10,907,983 | 3,840,005 |
| Cumulative Translation Adjustments | (2,446,672) | (2,434,438) |
| Total | 21,957,592 | 14,561,459 |
| Less: Accumulated Depreciation and Amortization | (8,547,049) | (7,887,695) |
| Net Book Value | ₱13,410,543 | ₱6,673,764 |

## Item 3. RISKS

Through prudent management and cautious investment decisions, ACR constantly strives to minimize risks that can weaken its financial position. However, certain risks are inherent to specific industries and are not within the direct control of the Company.

Some of the risks that the company and its subsidiaries may be exposed to are the following:

### (a) Foreign Exchange Rate Fluctuations

The Company's exposure is primarily associated with fluctuations in the value of the Peso against the U.S. Dollar and other foreign currencies. The loan obligations of its power companies are dominantly denominated in U.S. Dollars and their operating costs include spare parts and insurance, which are likewise denominated in foreign currency. However, the power companies have a natural hedge against foreign exchange fluctuations since their revenues are also denominated in US Dollars. Likewise, the Company keeps a portion of its short-term investments in foreign currency.

### (b) Interest Rate Risks

The Company's interest rate risk management policy centers on reducing overall interest expense and on minimizing other costs of borrowing. Changes in market interest rates would have material impact on the Company's interest-bearing obligations, specifically on those with floating interest rates.

ACR and its subsidiaries manage their interest rate risks by leveraging its debt portfolio and by optimizing a mix of fixed and variable interest rates. Other measures, are employed to avert risk include pre-payment of debts and re-financing of loans. Moreover, utilization of existing credit facilities has been kept to a minimum.

### d) Liquidity Risks

The Company and its subsidiaries carefully manage their liquidity position to be able to finance their working capital, debt service and capital expenditure requirements. Sufficient levels of cash and short-term money market placements are maintained to meet maturing obligations. Management regularly monitors and forecasts its cash commitments, matches debt payments with cash generated from the assets being financed, and negotiates with creditors on possible restructuring or re-financing of existing loans to avail of better terms and conditions.

e) **Credit Risks**

ACR and subsidiaries transact only with companies and institutions that are in a sound financial position and have demonstrated good credit standing. The power companies' receivables are largely from the National Power Corporation, and the collection of which has been current and up to-date. On the other hand, receivables of the property companies come from installment sales of industrial/residential lots and housing units. Receivable balances are monitored regularly and allowance provisions are reviewed to ensure limited exposure to bad debts.

Further discussion on the Company's financial risk management objectives and policies is contained in Note 32 of the Consolidated Financial Statements.

## Item 4. LEGAL PROCEEDINGS

Some of the subsidiaries or affiliates of the Company are from time to time involved in routine litigation as well as various legal actions incidental to their respective operations. However, in the opinion of the Company's management, none of these legal matters, in which its subsidiaries or affiliates are involved, will be material to the Company's financial condition and results of operations. Refer to Note 35 of the Consolidated Notes to Financial Statements attached to this report for detailed description.

## Item 5. SUBMISSION of MATTERS to a VOTE of SECURITY HOLDERS

During the calendar year covered by this report, no business matter was submitted to a vote of security holders through solicitation of proxies or otherwise.

# PART II - OPERATIONAL AND FINANCIAL INFORMATION

## Item 6. MARKET FOR REGISTRANT'S COMMON EQUITY and RELATED STOCKHOLDER MATTERS

*(1) Market Information*

All the common shares of the company are listed in the Philippine Stock Exchange.

The following are the high and low market prices of the Company's shares for the past three years:

**Table III – Market Price of ACR Shares**

| | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|---|
| 2015 | High | ₱2.36 | | | |
| | Low | 1.94 | | | |
| 2014 | High | 1.50 | ₱2.30 | ₱2.20 | ₱2.12 |
| | Low | 1.27 | 1.40 | 1.90 | 1.93 |
| 2013 | High | 1.58 | 1.45 | 1.51 | 1.44 |
| | Low | 1.22 | 1.25 | 1.31 | 1.25 |
| 2012 | High | 1.58 | 1.45 | 1.51 | 1.44 |
| | Low | 1.22 | 1.25 | 1.31 | 1.25 |

Stock Price as of March 27, 2015 was at ₱2.36 per share.

*(2) Stockholders*

As of December 31, 2014, ACR has 6,291,500,000 shares outstanding held by 470 stockholders, inclusive of the two (2) accounts under PCD Nominee Corporation. The list of the top twenty stockholders of the Company as recorded by Prime Stock Transfer Services, Inc., the Company's stock transfer agent, are as follows:

**Table IV – Top Twenty (20) Stockholders**

| | Name | No. of Shares Held | % to Total |
|---|---|---|---|
| 1. | Alsons Corporation | 2,592,524,072 | 41.21% |
| 2. | Alsons Power Holdings Corp. | 1,249,999,600 | 19.87% |
| 3. | Alsons Development and Investment Corp. | 1,188,524,026 | 18.89% |
| 4. | PCD Nominee Corporation (Filipino) | 1,101,506,577 | 17.81% |
| 5. | PCD Nominee Corporation (Non-Filipino) | 113,543,000 | 1.80% |
| 6. | Rennie C. Tan | 7,000,000 | 0.11% |
| 7. | Felicisimo I. Alcantara | 6,027,574 | 0.09% |
| 8. | SEC Account No. 2 fao: Various Customers of Guoco Securities | 2,090,000 | 0.03% |
| 9. | All Asia Capital Trust & Investment Division A/C 95-001 | 1,830,000 | 0.03% |
| 10. | EBC Securities Corporation | 1,030,000 | 0.02% |
| 11. | Felipe A. Cruz, Jr. | 1,000,000 | 0.02% |
| 11. | Nora T. Go | 1,000,000 | 0.02% |
| 12. | First Integrated Capital Securities, Inc. (555300) | 900,000 | 0.01% |
| 13. | First Integrated Capital Securities, Inc. (555200) | 795,000 | 0.01% |
| 14. | Ansaldo, Godinez & Co., Inc. | 755,000 | 0.01% |
| 15. | George Go | 750,010 | 0.01% |
| 16. | AACTC FAO Trinity Investment | 680,000 | 0.01% |
| 17. | Generoso F. Balmeo | . 600,000 | 0.01% |
| 17 | EstebanYau | 600,000 | 0.01% |
| 18. | S. J. Roxas & Co., Inc. | 507,000 | 0.01% |
| 19. | Antonio Co | 500,000 | 0.01% |
| 19. | Mendoza, Martinez &/or Alberto Mendoza | 500,000 | 0.01% |
| 19. | Quiambao, Antonio S. | 500,000 | 0.01% |
| 19. | Roqueza, Ricardo S. | 500,000 | 0.01% |
| 19. | San Jose, Roberto V. | 500,000 | 0.01% |
| 19. | Vega, Luis &/or Eliseo C. Ocampo, Jr. | 500,000 | 0.01% |
| 20. | Mendoza, Alberto G. &/or Jeanie C. Mendoza | 450,000 | 0.01% |
| | **Total shares of top 20** | 6,275,611,859 | 99.75% |

*(3) Dividends*

Declaration of dividends is subject to approval by the Board of Directors. In its Board meeting held on May 23, 2014, the Board approved the payment of cash dividends of ₱0.016 per share on July 24, 2014 to stockholders of record on June 30, 2014.

The historical dividend declarations are follows:

| Year | Date of Declaration | Per Share | Amount | Date of Record | Date of Payment |
|---|---|---|---|---|---|
| 2013 | March 21, 2013 | ₱0.016 | ₱100,664,000 | May 23, 2013 | June 14, 2014 |
| 2012 | May 4, 2012 | 0.010 | 62,915,000 | May 18, 2012 | June 14, 2012 |
| 2011 | May 20, 2011 | 0.011 | 69,206,500 | June 6, 2011 | June 13, 2011 |
| 2010 | March 26, 2010 | 0.010 | 62,915,000 | April 20, 2010 | May 17, 2010 |
| 2009 | December 18, 2009 | 0.010 | 62,915,000 | January 11, 2010 | January 29, 2010 |

Management continuously endeavors to increase ACR's share value thru its new projects and project expansion programs while at the same time providing yearly dividends to its shareholders. On June 8, 2011, the Board of Directors adopted a dividend policy of annually declaring dividends from 20% of the previous year's unappropriated retained earnings.

*(4) Sales of Unregistered Securities Within the Last Two (2) Years*

There are no other securities sold for cash by the Company within the last two (2) years that were not registered under the Securities Regulation Code.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

## REVIEW OF CURRENT YEAR 2014 vs. 2013 OPERATIONS

Highlights of the Company's financial performance are as follows:

### 1. Revenues and Profitability

ACR and Subsidiaries posted consolidated revenues of ₱5,180 million in 2014, higher than the ₱3,344 million reported in 2013. The 55% growth was mainly due to the full year commercial operations of MPC in 2014 adding ₱2,958 of revenues. MPC was re-acquired in February 2013 and started commercial operation in September that year.

Cost of services was reported at ₱3,537 million, 79% higher than the ₱1,978 million in 2014. MPC spent ₱2,256 million for its full year fuel requirements in 2014 vis-à-vis the ₱977 million incurred for the four (4) months operations in 2013.

Nonetheless, gross profit improved by 21% in 2014 to ₱1,632 million from ₱1,345 million in 2013 due to higher revenues.

General and administrative expenses was higher in 2014 at ₱467 million from ₱363 million in 2013 due mainly to higher business taxes, a non-controllable item. In spite of this, operating profit still improved by 18% to ₱1,164 million from ₱983 million reported in previous year.

Furthermore, earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations, which represented 40% of total revenues reached ₱2,088 million, 27% higher than the ₱1,640 million realized in 2013.

Meanwhile, interest income was 12% lower in 2014 at ₱22 million from ₱25 million in 2013 due mainly to the lower cash placements made during the year. In contrast, interest expense was 73% higher at ₱207 million in 2014 from ₱119 million in 2013, as a result of higher loan availments.

On the other hand, the Company realized other income of ₱109 million in 2014 versus a reported loss of ₱49 million in 2013. Last year's other losses stemmed principally from the ₱101 million equity in net loss of its investment in Indophil as well as foreign exchange losses of ₱47 million resulting from the revaluation of US Dollar-denominated liabilities of the Company.

The net income attributable to the equity holders of the parent was reported at ₱359 million, 9% lower than the ₱395 million income in 2013. As a result, basic earnings of ₱0.057 per share decreased from ₱0.063 per share in 2013.

Without the ₱146 million one-time gain arising from the disposal of Lima Land, Inc. (LLI) in 2013, current year's level was 44% better. Correspondingly, basic earnings from continuing operations of ₱0.057 per share in 2014 was higher than the 2013 level of ₱0.040 per share.

2. Financial Position

As of December 31, 2014, total resources of ACR and Subsidiaries remained robust at ₱ 25,725 million, increasing by 43% versus the ₱17,989 million level reported in 2013.

Current assets grew by 14%, from ₱6,841 million to ₱7,765 million. The increment came largely from the increase in Sarangani Energy Corporation's (SEC's) cash and cash equivalents as well as higher prepaid expenses, mainly value added tax. Similarly, noncurrent assets rose by 61%, representing capital expenditures incurred for the on-going construction of the power plant.

On the other hand, current liabilities increased by 4% in 2014, from ₱2,367 million to ₱2,462 million, largely on account of higher trades payable. Noncurrent liabilities likewise escalated by 144%, as SEC drew from its project loan to finance its capital expenditures.

Accordingly, ACR's balance sheet remained strong with a current ratio at 3.15:1 in 2014 versus the 2.89:1 level in 2013, and continued to be underleveraged despite an increase in its debt-to-equity ratio, from 0.73:1 to 1.47:1.

Meanwhile, net cash inflows from operating activities decreased by 5%, from ₱2,090 million in 2013 to ₱1,977 million in 2014, as the 2013 balance included funds realized from discontinued operations. Together with net cash inflows from financing activities amounting to ₱5,693 million, largely from loan availments, available funds totaled ₱7,670 million in 2014. On the other hand, net cash outflows used in investing activities, mainly for the construction of the SEC power plant, amounted to ₱6,552 million. Including the effect of foreign exchange rate changes, ACR's consolidated cash reached ₱2,512 million, significantly higher than the 2013 balance of ₱1,422 million.

3. **Key Performance Indicators (KPI)**

The Company's financial KPI for the year ended December 31, 2014 showed significant improvement compared to 2013 as follows: (Amounts in million pesos, except ratios)

| **Financial KPI** | **Definition** | **Calendar Year** | |
|---|---|---|---|
| | | 2014 | 2013 |

| | | | |
|---|---|---|---|
| **Profitability** | | | |
| Revenues | | ₱5,180 | ₱3,344 |
| EBITDA | | ₱2,088 | ₱1,640 |
| EBITDA Margin | EBITDA ÷ Net Sales | 40% | 49% |
| Return on Equity | Net Income ÷ Total Average Stockholders' Equity | 7% | 7% |
| **Net Earnings Attributable To Equity Holders** | | ₱359 | ₱395 |
| **Efficiency** | | | |
| Operating Expense Ratio | Operating Expenses ÷ Gross Operating Income | 40% | 37% |
| **Liquidity** | | | |
| Net Debt Coverage | Cash Flow from Operating Activities ÷ Net Financial Debt | 18% | 46% |
| Debt-To-Equity Ratio | | 1.47:1 | 0.73:1 |
| Current Ratio | Current Assets ÷ Current Liabilities | 3.15:1 | 2.89:1 |

**Profitability**

The earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increase from ₱1,640 million to ₱2,088 million in 2014. EBITA Margin however, decreased from 49% in 2013 to 40% in 2014 due to higher revenues during the year.

Return on equity (ROE) stood at 7% for both years. Net income attributable to the equity holders of the Parent from continuing operations improved to ₱359 million from ₱249 million in 2013 as the Company's core income continue to improve.

**Efficiency**

The Company's operating expense ratio decreased to 37% in 2014 from 44% in 2013. Operating expenses in 2014 was higher due mainly to the higher real property taxes charged to the newly rehabilitated MPC plant which is a none-controllable item.

**Liquidity**

As a result of additional project loan drawdowns during the year, financial debt increased by 1.2x. Consequently, net debt coverage decreased to 18% from last year's 46%. Current ratio on the other hand improved to 3.15:1 from last year's 2.89:1.

**DESCRIPTION OF KEY PERFORMANCE INDICATORS:**

1. REVENUES. Revenue is the amount of money that the company subsidiaries receive arising from their business activities and is presented in the top line of the consolidated statements of income. The present revenue drivers of the Company are i) Energy and power ii) Utilities and iii) Real estate. Revenue growth is one of the most important factors management and investors use in determining the potential future stock price of a company and is closely tied to the earnings power for both the near and long-term timeframes. Revenue growth also aids management in making a sound investment decision.

2. EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA). The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Company to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Company's ability to service its debts, to finance its capital expenditure and working capital requirements.

3. NET EARNINGS ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT. Net income attributable to shareholders is one more step down from net income on the consolidated statements of income. The net income of a company is just all of the revenues minus all of the expenses including interest expenses and taxes. Net income attributable to shareholders is the net income minus the non-controlling interests. This aids management and investors in identifying company's profit allocated to each outstanding share.

4. DEBT-TO-EQUITY RATIO. This measures the company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

5. CURRENT RATIO. Current ratio is a measurement of liquidity computed by dividing current assets by current liabilities. It is an indicator of the Company's ability to meet its current maturing obligations. The higher the ratio, the more liquid the Company presents.

**Significant Disclosures**

Please refer to **Annex D** of this report for the significant disclosures made by the Company during the year. Other than those mentioned in Annex D and the disclosures made by the Company in its Audited Consolidated Financial Statements, it is not aware of the following:

1. Unusual items that materially affect the Company's assets, liabilities, equity, net income or cash flows because of their nature, size or incidence;

2. Changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts in prior financial years that have a material effect in the current period;

3. Issuance and repurchase of equity securities;

4. Segment revenues and segment results for business segments and geographical segments;

5. Changes in contingent liabilities or contingent assets since the annual balance sheet date;

6. Existence of material contingencies and other transaction events that are material to an understanding of the current period;

7. Known trends, commitments, events and uncertainties that will result in or likely to decrease its liquidity in a material way. ACR does not anticipate having, within the next twelve (12) months, any cash flow or liquidity problem nor does it anticipate any default or breach of any of its existing notes, loans, other indebtedness or financial arrangements requiring it to make payments. With the improvement in the Company's operating performance, ACR expects to meet all financial loan covenants for the next interim period;

8. Events that will trigger direct or contingent material financial obligations to the Company;

9. Material off-balance sheet transactions, arrangements, obligations (direct or contingent), and other relationships of the Company with unconsolidated entities or other persons created during the year;

10. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales, revenues, net income from continuing operations;

11. Significant elements of income or loss that did not arise from the Company's continuing operations;

12. Material events subsequent to the end of the reporting period that have not been reflected in the consolidated financial statements;

13. Material changes in the composition of the Company, including any business combination, acquisition or disposal of subsidiaries and long-term investments and discontinuing operations;

**Notes to Financial Statements**

*Accounting Policies and Principles*

The consolidated financial statements of ACR and its Subsidiaries for the years ended December 31, 2014 and 2013 are presented in accordance with Philippine Financial Reporting Standards (PFRS) applied on a consistent basis.

*Seasonality Aspects of the Business*

The operations of ACR and its subsidiaries were not affected by seasonality or cyclicality.

**Material Changes in Balance Sheet Accounts by 5% or More**

1. Cash and cash equivalents, 77% Increase

   The growth in cash and cash equivalents (2014: ₱2,512 million vs. 2013: ₱1,422 million) was principally due to receipt of the loan proceeds by Sarangani Energy Corp. that remain unused as of the end of 2014. Cash generated from operations during the year was ₱1,977 million, 5% lower than previous year's ₱2,090 million. The proceeds of loan presented in the financing activities amounting to ₱9,690 million was used to finance the on-going construction of the first phase of SEC's power plant. .

2. <u>Short-term cash investments, 291% Increase</u>

   Short-term cash investments increased (2014: ₱34 million vs. 2013: ₱9 million) due to funds from operating activities

3. <u>Trade and other receivables, 7% Decrease</u>

   With the full 2014 commercial operations of MPC, trade receivables increase (2014: 762 million vs. 2013: 610 million) generated during the year. Meanwhile, due from related parties the advances to its major shareholders decrease (2014: 2,945 million vs. 2013: 3,208 million), resulting from settlements during the year. The advances were subject to certain provisions, including interest and terms of repayment.

4. <u>Spare parts and supplies, 18% Increase</u>

   The build-up consisted mainly of the purchase of spare parts for MPC during the year which is reserve for contingency purposes.

5. <u>Noncurrent portion of installments receivables, 20% Decrease</u>

   The decrement is due to collection of maturing accounts during the year.

6. <u>Property, plant and equipment, 101% Increase</u>

   The growth is due mainly to expenditures incurred for the construction of the first phase of Sarangani Energy's power plant.

7. <u>AFS financial assets, 110%, Increase</u>

   The improve market values of these AFS financial assets caused the increase in values of these assets.

8. <u>Retirement plan assets, 10% Decrease</u>

   The decrease was mainly due to retirement expense incurred during the year.

9. <u>Accounts payable and other current liabilities, 49% Increase</u>

   The increase in payable to customers representing amount of overbilled fees collected in 2013 and 2014 by MPC, caused the increase in accounts payable and accrued expenses.

10. <u>Loans payable, 67% Decrease</u>

    The reclassification into long-term debt of the amount availed to finance the construction of Sarangani Energy Power Plant.

11. <u>Income tax payable, 19% Increase</u>

    The higher taxable income caused the increase in income tax payable in 2014.

12. Derivative liability, 27% Decrease

The embedded derivatives arising from the exchange option of APHC-ACR Loan Facility Agreement which was assigned to its Lender Bank in accordance with the Omnibus Loan and Security Agreement. The decline in derivative liability was the result of partial prepayment of the loan during the year thereby resulting to a mark-to-market gain. The salient features of this loan were discussed in Note 18 of the Notes to Consolidated Financial Statements. The derivative liability was a result of re-measurement of the options, such that a mark-to-market loss and the corresponding liability were recognized.

13. Current and Long-term debt, 159% Increase

The increment was due to the drawdown from the project loan facility of SEC during the year as well as the availment of a US$73.5 million loan to partly finance the repayment of an existing loan with APHC. Details of transaction is presented in Note 18 of the Financial Statements.

14. Retirement payable, 21% Decrease

The decrease was due mainly to the re-measurement of retirement benefit obligation as conducted by independent Actuary during the year.

15. Asset retirement obligation, 15% Decrease

The decline was due to the change in estimate resulting from discount rate changes. The assessment was based on best estimate of cash flows acquired to settle the obligation on an annual basis. The change in estimate resulted to a decrease in this account by ₱19 million.

## REVIEW OF CURRENT YEAR 2013 and 2012 OPERATIONS

Highlights of the Company's financial performance are as follows:

### a) Revenues and Profitability

ACR and Subsidiaries posted consolidated revenues of ₱3,344 million in 2013, higher than the ₱ 2,142 million reported in 2012. The 56% growth was mainly contributed by the Company's Energy and Power businesses, generating energy fees of ₱3,289 million in 2013, 590% up from the ₱2,068 million generated in 2012 due mainly to the start of MPC's commercial operations effective September 2013. MPC was re-acquired in February 2013, with rehabilitation starting in March 2013, and ramp-up operations commencing in May.

Revenues from the Property Development business decreased 36% from ₱42 million to ₱27 million. Revenues from sales of Campo Verde project were higher in 2012 at 29 units to only nine units in 2013 due to lower available inventories.

Cost of services and real estate sold was reported at ₱1,998 million, 1.17x higher than the ₱920 million in 2012 due mainly to the pass-through fuel costs of MPC that began full operations in September 2013.

Consequently, gross profit improved by 10% in 2013 to ₱1,346 million from ₱1,222 million in 2012 due mainly to higher revenues.

General and administrative expenses slightly decreased by 3%, from ₱373 million to ₱363 million due mainly to the absence of a provision for impairment of trade and other receivables. As a result, operating profit improved by 16% to ₱983 million from the ₱849 million reported in previous year. The management fees paid to other associates in 2012 as well as the provision for impairment in trade and other receivables contributed to the higher general administrative expenses in 2013.

Furthermore, earnings before interest, taxes, depreciation and amortization (EBITDA) from continuing operations, which represented 49% of total revenues reached ₱1,640 million, slightly higher than the ₱1,893 million realized in 2012.

Meanwhile, interest income was 46% lower in 2013 at ₱27 million from ₱50 million in 2012 due mainly to the lower placements in 2013. In contrast, interest expense was 426% higher at ₱122 million in 2013 from ₱85 million in 2012, as a result of additional loan availment in 2013.

The Company incurred other losses amounting to ₱49 million in 2013, vis-à-vis the reported ₱ 424 million other income in 2012. The current year's other losses stemmed principally from the ₱ 101 million equity in net loss on its investment in Indophil. In addition the company incurred foreign exchange losses of ₱46 million as a result of the revaluation of its dollar-denominated liabilities. Conversely, the company reported a ₱236 million other income in 2012, which pertained to the compensation of the Parent Company as the sole project proponent for the risk, time and resources in developing Sarangani Energy that was paid by a new partner in the project.

As a result, income before tax of ₱840 million, decreased by 32% from last year's level of ₱1,234 million. Nevertheless, provision for income tax was 12% higher at ₱270 million versus the previous year's ₱241 million, as the drop in income before tax was essentially due to provisions booked to revalue carrying costs of both investments and liabilities.

In the meantime, in line with the corporate decision to focus on power generation in Mindanao and other key areas of the Philippines, the company through its subsidiary, ALC, sold its investment in Lima Land, Inc. in October 2013. Income realized by LLI in 2013, shown as discontinued operations, amounted to ₱196 million, 130% higher than last year's income of ₱87 million.

With the recognition of losses due to peso depreciation, ACR's net income decreased by 29%. As such, the income attributable to equity holders of the Company was likewise lower by 22% at ₱395 million from last year's ₱509 million. Correspondingly, basic earnings of ₱0.063 per share decreased from ₱0.081 per share in 2012.

**b) Financial Position**

As of December 31, 2013, total resources of ACR and Subsidiaries stood at ₱17,989 million, 28% higher than the ₱14,024 million reported in 2012. Current assets grew by 25%, from ₱5,482 million to ₱6,841 million. The increment came largely from the increase in trade and other receivables, cash and cash equivalents as well as build-up of spare parts and supplies inventory. The expenditures incurred for the on-going construction of the SEC plant, on the other hand, caused the 31% growth in noncurrent assets.

The maturing portion of the loan availed by the Company from its major shareholder and the unpaid trade payables and interest by MPC increased current liabilities by 1.26x, from ₱1,049 million in 2012 to ₱2,367 million in 2013. On other hand, additional drawdowns from the project loan of SEC accounted for the 1.97x rise in the Company's non-current liabilities. Accordingly, ACR's balance sheet remained robust with a current ratio at 2.89:1 in 2013 versus the 5.22:1 level in 2012, and continued to be underleveraged despite an increase in its debt-to-equity ratio, from 0.73:1 from 0.25:1.

Meanwhile, net cash inflows from operating activities increased by 19%, from ₱1,740 million in 2012 to ₱2,090 million in 2013. Together with its net cash inflows from financing activities amounting to ₱2,827 million, largely from loan availment, total funds available reached ₱4,917 million. On the other hand, net cash outflows used in investing activities, mainly for the construction of the SEC power plant, amounted to ₱3,790 million. Including the effect of foreign exchange rate changes, ACR's consolidated cash reached ₱1,422 million, significantly higher than the 2012 balance of ₱277 million.

## Key Performance Indicators (KPI)

The Company's financial KPI for the year ended December 31, 2013 showed significant improvement compared to 2012 as follows: (Amounts in million pesos, except ratios)

| Financial KPI | Definition | Calendar Year | |
|---|---|---|---|
| | | 2013 | 2012 (Restated) |
| **Profitability** | | | |
| Revenues | | ₱3,444 | ₱2,142 |
| EBITDA | | ₱1,640 | ₱1,893 |
| EBITDA Margin | EBITDA ÷ Net Sales | 49% | 88% |

| | | | |
|---|---|---|---|
| Return on Equity | Net Income ÷ Total Average Stockholders' Equity | 7% | 9% |
| **Net Earnings Attributable To Equity Holders** | | ₱467 | ₱509 |
| **Efficiency** | | | |
| Operating Expense Ratio | Operating Expenses ÷ Gross Operating Income | 37% | 44% |
| **Liquidity** | | | |
| Net Debt Coverage | Cash Flow from Operating Activities ÷ Net Financial Debt | 46% | 124% |
| Debt-To-Equity Ratio | | 0.73:1 | 0.25:1 |
| Current Ratio | Current Assets ÷ Current Liabilities | 2.89:1 | 5.22:1 |

**<u>Profitability</u>**

The earnings before interest, taxes, depreciation and amortization (EBITDA) margin of the Company decreased from 88% in 2012 to 49% in 2013 due to fuel cost of MPC and spare parts used by WMPC and SPPC in 2013.

With the recognition of losses largely on account of the revaluation of Company's liabilities, mainly as a result of the volatility of the foreign exchange rate, net income was lower in 2013. As such, corresponding return on equity (ROE), stood at 8% vis-à-vis the 2012 level of 9%. Similarly, net income attributable to the equity holders of the Parent reached ₱395 million as compared to the ₱509 million realized in 2012.

**<u>Efficiency</u>**

The Company's operating expense ratio decreased to 37% in 2013 from 44% in 2012. Operating expenses in 2012 was higher due mainly to the provision of management fees and impairment of trade and other receivables.

**<u>Liquidity</u>**

As a result of additional project loan drawdowns in 2013, financial debt increased by 2.25x. Consequently, net debt coverage decreased to 46% from last year's 124%. Current ratio also declined to 2.89:1 from last year's 5.22:1.

## Notes to Financial Statements

*Accounting Policies and Principles*

The consolidated financial statements of ACR for the years ended December 31, 2014 and 2013 are presented in accordance with PFRS applied on a consistent basis.

*Seasonality Aspects of the Business*

The operations of ACR and its subsidiaries were not affected by seasonality or cyclicality.

*Material Changes in Balance Sheet Accounts 5% or More*

1. Cash and cash equivalents, 413% Increase

   The growth in cash and cash equivalents (2013: ₱1,422 million vs. 2012: ₱277 million) was principally due to receipt of the proceeds from sale of ALC's investment in LLI. As such, cash generated from operations during the year was ₱2,079 million, 19% higher than previous year's ₱ 1,740 million. Cash from operations was used to acquire additional assets, pay-off dividends and settle maturing debts.

2. Short-term cash investments, 99% Decrease

   Short-term cash investments declined (2013: ₱8 million vs. 2012: ₱1,068 million) as funds were drawn and infused as equity into Sarangani Energy Corporation. Subsequently, SEC used the funds to finance the on-going construction of the SEC power plant during the year.

3. Trade and other receivables, 48% Increase

   With the start of commercial operations of MPC in May 2013, additional trade receivables were generated during the year. Meanwhile, the Company made advances to its major shareholders, resulting in higher level of due from related parties account. The advances were subject to certain provisions, including interest and terms of repayment.

4. Spare parts and supplies, 63% Increase

   The build-up consisted mainly of the purchase of spare parts for MPC, lead-time of which is long.

5. Real estate inventories, 23% Decrease

   The variance is largely due to the disposal of ALC's investment in LLI during the year.

6. Noncurrent portion of installments receivables, 14% Decrease

   The decrement is due to collection of maturing accounts during the year.

7. Property, plant and equipment, 165% Increase

   The growth is due mainly to expenditures incurred for the construction of the Sarangani Power Plant as well as for the acquisition of Iligan Power Plant during the year.

8. Goodwill, 8% Increase

   The increment is due mainly to the foreign currency translation adjustments in 2013. Foreign exchange rate was at US$1:₱43.40 in end-2013 versus US$1: ₱41.05 in 2012.

9. AFS Financial Assets, 13%, Decrease

The decline of the market values of these AFS financial assets caused the drop in values of this account.

10. Retirement Plan Assets, 17% Decrease

The decrease was mainly due to the increase in current service cost and remeasurement of the retirement assets of the power companies during the year.

11. Other noncurrent assets, 47% Decrease

The reduction was due mainly to the reclassification of deferred power project costs to construction-in progress accounts, which is part of property, plant and equipment.

12. Accounts payable and other current liabilities, 113% Increase

The higher trade payable was due to MPC that commenced operations during the year and additional project advances.

13. Loans payable, 100% Increase

Increase due to loan availment to finance additional equity infusion in Sarangani.

14. Income tax payable, 46% Increase

The higher taxable income caused the increase in income tax payable.

15. Derivative liability, 81% Increase

The loan, which was obtained in 2012, included certain options, the salient features of which were discussed in Note 18 of the Notes to Consolidated Financial Statements. The derivative liability was a result of re-measurement of the options, such that a mark-to-market loss and the corresponding liability were recognized.

16. Current and Long-term debt, 2.09x Increase

The increment was due to the drawdown from the project loan facility of SEC during the year as well as the availment of a US$13.0 million loan to finance the purchase by the Company of 40% of the capital stock of CHC from EGCO of Thailand. Details of transaction is presented in Note 18 of the Financial Statements.

17. Deferred Tax Liabilities, 5% Increase

The increase was mainly attributable to the increase in the tax impact arising from equity in undistributed net earnings of a foreign subsidiary and increase in the transaction of nonmonetary assets.

18. Retirement payable, 75% Decrease

The decrease was due mainly to the remeasurement of retirement benefit obligation as conducted by independent Actuary. Due to the disposal of LLI Investment, retirement payable of LLI was derecognized.

19. Customers' deposits, 100% Decrease

Customer's deposits, which are equivalent to the estimated bill for one month of service by LUC customers within the Lima Technology Center and non-interest bearing, are collected to secure payment of monthly bills of electricity consumption. With the sale of LLI, the value is no longer carried in ALC's books.

20. Asset retirement obligation, 13% Increase

The upturn was due to the recalculation of the estimated liability for the dismantlement of the power plant complex.

21. Other noncurrent liabilities, 100% Decrease

This account represents deferred lease income of Lima Land. Due to the disposal of LLI investment during the year, deferred lease income was also derecognized in the financial statements.

## Item 8. FINANCIAL STATEMENTS

The consolidated financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A

## Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

(a) SyCip Gorres Velayo & Co. (SGV) is the Company's external auditors for the last three fiscal years. SGV has not expressed any intention to resign as the Company's principal public accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.

(b) In compliance with SEC Memorandum Circular No. 8, Series of 2003 on rotation of External Auditors, SGV's previous engagement partner was replaced in 2011.

(c) Fees for the years ended December 31, 2014 and 2013 were ₱811,519.52 and ₱ 432,100.16 respectively. The 2014 include the audits fees for the services done on Lima Land Subsidiaries covering the period ended September 30, 2013 amounting to ₱ 197,022.56 and the Liquidation Report on C. Alcantara and Sons, Inc. for the period ended March 31, 2014 amounting to ₱123,200. The above fees are for the audit of the Company's annual financial statements or services normally provided in connection with statutory and regulatory filings or engagements for 2014 and 2013. The fees and services were approved by the Audit Committee in compliance with the Code of Corporate Governance.

The other fees billed by SGV pertained to:

In 2013, SGV was engaged to conduct a tax advisory on the property to be received by way of liquidation of an associate. For this separate engagement, SGV billed the Company ₱302,400 as professional fee, inclusive of any applicable taxes.

d) There have been no disagreements with SGV & Co. on accounting principles or practices, financial statements disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference thereto in its respective reports on the Company's financial statements for the abovementioned years.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

**a) Board of Directors and Executive Officers**

(1) The Board of Directors

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly or as often as required, to review and monitor the Company's financial position and operations. Each Board member serves for a term of one year or until his successor is duly elected and qualified.

The following are the directors and officers of the Company and their business experience for the last five years:

**Table V- Board of Directors**

| Office | Name | Nationality |
|---|---|---|
| Director, President, Chairman of the Board | Tomas I. Alcantara | Filipino |
| Director and Treasurer | Editha I. Alcantara | Filipino |
| Director, Executive Vice President and Chief Operating Officer | Tirso G. Santillan, Jr. | Filipino |
| Director | Alejandro I. Alcantara | Filipino |
| Director | Ramon T. Diokno | Filipino |
| Director | Carlos G. Dominguez | Filipino |
| Director | Conrado C. Alcantara | Filipino |
| Independent Director | Jacinto C. Gavino, Jr. | Filipino |
| Independent Director | Jose Ben R. Laraya | Filipino |
| Director | Honorio A. Poblador III | Filipino |
| Independent Director | Thomas G. Aquino | Filipino |

**Tomas I. Alcantara**, 68, Filipino, became the Chairman of the Board of Directors and the President of the Company in August 2001. He holds a Bachelor of Science degree in Economics from the Ateneo de Manila University and a Masters in Business Administration (MBA) from Columbia University, and he attended the Advanced Management Program of the Harvard Business School. He is presently the Chairman of the Board of Directors and President of Alsons Development & Investment Corporation and Sarangani Agricultural Company, Inc., and other companies in the Alcantara Group (since August 2001).

Mr. Alcantara is also the Chairman of the Alsons Adtx Information Systems, Inc. (since August 2001). He is a Trustee of the European IT Service Center Foundation (since August 2002) and of the Foundation for Revenue Enhancement (August 2004). He has been a Director of Holcim Philippines, Inc. since July 2003, Philweb Corporation (May 2002) and DBP-Daiwa Capital Markets Phils., Inc. (July 1995).

Mr. Alcantara served as Undersecretary for the Industry & Investment Group of the Department of Trade and Industry, the Vice Chairman and Managing Head of the Board of Investments from July 1986 to March 1995, and the Special Envoy of the Philippine President to Asia Pacific Economic Cooperation forum in 1996. He was also the Chairman of the Board of Directors and the President of Holcim Manufacturing Corporation (formerly Alsons Cement Corporation) from May 1997 to July 2003 and has served as a Director of that company since 1997. He was a Member of the Advisory Board of Rizal Commercial Banking Corporation (RCBC) from April 1997 to June 2007. Mr. Alcantara served as a Director of Philippine Reclamation Authority (formerly Public Estate Authority) from 2003 to April 2006 and Chairman of the Manila Economic & Cultural Office from March 2001 to August 2010.

**Editha I. Alcantara**, 66, Filipino, has served as Director of the Company since March 8, 1995. She holds a Business Administration degree from Maryknoll College and an MBA from Boston College. Ms. Alcantara became the President of C. Alcantara and Sons, Inc. in 1992 after serving as the Treasurer of that company. Presently, she is a Director (since 1980) and the Treasurer (since October 2000) of other companies in the Alcantara Group.

She is also a Director of the Philippine Wood Producers Association (since May 16, 1980), and has served as a Trustee for the Philippine Business for the Environment, Inc. since July 1995 and as a Trustee of Miriam College since December 1998.

**Tirso G. Santillan Jr.**, 71, Filipino, became a Director of the Company in June 11, 1996. He has also been the Executive Vice-President since April 27, 1995. He holds a Bachelor of Arts degree in Engineering and a Masters in Business Management degree from the Ateneo de Manila University.

Presently, he heads the Power Business Unit of the Alcantara Group. He has been the Executive Vice-President of Alto Power Management Corporation since January 1996, Conal Holdings Corporation since June 1997, Southern Philippines Power Corporation and Western Mindanao Power Corporation since March 1996. He is also a Director of Sarangani Agricultural Co., Inc. since May 2002.

Additionally, he has been the Managing Partner of Private Capital of Asia Ltd. since June 1991. Mr. Santillan worked with the First Pacific Group from February 1987 to May 1991.

**Alejandro I. Alcantara**, 60, Filipino, has served as a Director of the Company since July 2003. He graduated from the Ateneo de Davao with a degree in Economics. Mr. Alcantara has been a Director and the President of Aquasur Resources Corporation since 1993 and has served in the same capacity with Finfish Hatcheries, Inc. since 1995. He has also served as the Executive Vice President & General Manager of Sarangani Agriculture Company, Inc. since 1986 and of Alsons Aquaculture Corporation since 1998. He also became a Director of other companies in the Alcantara Group in 1986. Mr. Alcantara also served as a Director and the Treasurer of the Federation of Cattle Raisers Association of the Philippines from 1997 to December 2009.

**Ramon T. Diokno**, 67, Filipino, rejoined the Company as a Director in March 18, 2009. Previously, he served the Company as a Director from June 19, 2002 to June 29, 2006 and as its Chief Financial Officer from January 16, 2001 to June 30, 2006. He holds an Economics and Accountancy degree from the De La Salle University and a Masters of Science in Management degree from the Massachusetts Institute of Technology.

Mr. Diokno is also the Chief Financial Officer of Lepanto Consolidated Mining Co and its wholly-owned subsidiaries. He is currently also a Director of Alsons Insurance Brokers Corporation.

**Carlos G. Dominguez**, 69, Filipino, has served as Director of the Company since March 8, 1995. He holds an Economics degree and an MBA from the Ateneo de Manila University. He also attended the Executive Program at the Stanford University. Currently, he is the President of Retail Specialist, Inc.

(1991), Philippine Tobacco Flue-Curing and Redrying Corporation, Bacsa Redevelopment Corporation, Halifax Capital Resources, Inc. (1992), C.G. Dominguez and Associates, Inc., Huntly Corporation (1993) and Linden Suites, Inc. (1997). He is also a Director of RCBC Capital Corporation (1994), the Chairman of Philippine Eagle Foundation (2001) and a member of the Board of Trustees of the Ninoy and Cory Aquino Foundation (1995).

Mr. Dominguez also serves as Director of United Paragon Mining Corporation (since 1993), Transnational Diversified Corporation (1999), Alip River Development and Export Corporation (2000) and Diamond Star Agro Products, Inc. (2007).

He served as the Minister of Natural Resources during the Corazon C. Aquino Administration from 1986 to 1987 and as Secretary of Agriculture from 1987 to 1989. He was Chairman of the Board of Directors of Republic Planters Bank from 1987 to 1992, Chairman of the Board of Directors and the President of Philippine Airlines from 1993 to 1995, Chairman of the Board of Directors of RCBC Capital Corporation from July 1994 to May 2002, Chairman of the Board of Directors and the President of the Philippine Associated Smelting and Refining Corporation from 1999 to 2002, a Director of the Manila Electric Company from 2001 to July 2003, a Director of Roxas Holdings, Inc. from 1997 to May 2009, a Director of iPVG Corporation from October 2004 to June 2008 and President of Lafayette Philippines, Inc. from January 2006 to April 2008.

**Conrado C. Alcantara**, 42, Filipino, has served as Director of the Company since November 2010. He graduated from the Boston University with a degree in Political Science and attended a Post Baccalaureate Program in Management at Harvard University. He presently serves as a Director and President of Infinicor, Inc. He also became a Director of C. Alcantara & Sons, Inc. in July 2006 and of Alsons Land Corporation in July 2009.

**Jacinto C. Gavino**, Jr., 65, Filipino, has served as Independent Director of the Company since May 2005. He has been a full-time Faculty of the Asian Institute of Management (AIM) since 1990 and he presently holds the Fr. James F. Donelan, SJ, Professorial Chair in Business Ethics. He is on the core faculty of the Washington SyCip Graduate School of Business (WSGSB). He was also the Associate Dean of the Master in Management Program from 1993 to 1995, and Associate Dean for Research from 1995 to 1999.

He is currently a Director of Productronica Holdings, Inc. (2003), Aurotech Corporation (2000), Green Chemicals Corporation (2006), RNuable Energy Corporation (2011) and Sarangani Agricultural Co., Inc. (2005). He also serves as a Trustee of Fundacion Santiago (2002) and the Center for Family Ministries at the Loyola School of Theology (2006). He also does consultancy work for various businesses and non-profit organizations.

Professor Gavino holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines (1971), a Master in Business Administration degree from the Ateneo de Manila University (1984), and a Doctorate in Public Administration from the University of the Philippines (1993). He also taught in the Ateneo de Manila University, Maryknoll College, and the University of the Philippines.

**Jose Ben R. Laraya**, 75, Filipino, has served as Independent Director of the Company since March 1995. He holds a Commerce degree from De La Salle College and an MBA from the University of the Philippines. He also attended the Advanced Management Program at Harvard Business School. Currently, he serves as Chairman of the Board of Directors of Ultrex Management & Investments

Corporation (1992) and Laraya Holdings, Inc. (2007). He also serves as President of Trully Natural Food Corporation (2004), and a Director of La Frutera, Inc. (1997).

Previously, he served as Vice-Chairman of Philcom Corporation from October 1996 to February 1999, President of National Steel Corporation from September 1980 to February 1989, Dole Asia from February 1989 to June 1992, and APC Group, Inc. from September 1995 to February 1999.

**Honorio A. Poblador III**, 69, Filipino, has served as a Director of the Company since March 8, 1995. He holds a Political Science degree from the Ateneo de Manila University. Currently, he serves as Chairman of the Board of Directors of Asuncion Realty Corporation (since 1995), Chairman of the Board of Directors and President of Asmaco, Inc. and President of Asian Aesthetic Excellence, Inc. and Mayriad Human Resources and Services, Inc.

He is also a Director of Philippine Communications Satellite Corporation, Philippine Overseas Telecommunications Corporation, and Elnor Investment Corp. (since 1983), Philcomsat Holdings Corporation (1998), the Philodrill Corporation (1997), F & C Realty Corporation and POB Corporation (2003).

**Dr. Thomas G. Aquino**, 66, Filipino, became an Independent Director of the Company in May 20, 2011. He is a Senior Fellow at the Center for Research and Communication of the University of Asia and the Pacific (UA&P). He was formerly the Senior Undersecretary of Philippine Department of Trade and Industry. He supervised the country's foreign trade promotions, trade negotiations under World Trade Organization & the ASEAN Free Trade Agreements as well as bilateral trade talks with the country's major economic trading nations. He served as overall lead negotiator for the country's fist free trade agreement, namely the Philippines-Japan Economic Partnership Agreement and was country representative to the High Level Task Force on ASEAN Economic Integration. For public service, Dr. Aquino was conferred the Presidential Service Award (or Lingkod Bayan) for extraordinary contribution of national impact on public interest, security and patrimony and was receipient of the Gawad Mabini Award with the rank of Grand Cross (or Dakilang Kamanong) for distinguished service to the country both at home and abroad by the President of the Republic of the Philippines.

Before entring public service, Dr. Aquino held important roles in the fields of economics and business in the private sector as Vice President for Business Economics and Director of the Strategic Business Economics Program of UA&P. He returned to private practice as strategy consultant to companies and economic policy adviser to government entities. He is the Chairman of NOW Corporation and Independent Director of A Brown Company, both publicly listed at the Philippine Stock Exchange. He obtained his Doctorate in Management from IESE Business School, University of Navarre (Spain) in 1980, an MS in Industrial Economics from presently the University of Asia and the Pacific in 1972 and an AB in Economics from the School of Economics, University of the Philippines in 1970.

He obtained a Doctorate in Management from IESE Business School, University of Navarre (Spain) in 1980, an MS in Industrial Economics from presently the University of Asia and the Pacific in 1972 and an AB in Economics from the School of Economics, University of the Philippines in 1970.

**a. The Executive Officers**

The following Company executive officers do not own more than 2% of ACR:

**Table VI** – Executive Officers

| Office | Name | Nationality |
|---|---|---|
| Director, President, Chairman of the Board | Tomas I. Alcantara | Filipino |
| Director and Treasurer | Editha I. Alcantara | Filipino |
| Director, Executive Vice President, Chief Operating Officer | Tirso G. Santillan, Jr. | Filipino |
| Chief Financial Officer | Luis R. Ymson, Jr. | Filipino |
| Corporate Secretary | Roberto V. San Jose | Filipino |
| Assistant Corporate Secretary | Angel M. Esguerra III | Filipino |

**Luis R. Ymson, Jr**., 61, Filipino, has been the Chief Financial Officer of the Company since June 30, 2006. He is also Chief Financial Officer of the Alcantara Group since June 5, 2006. He holds a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering from the De La Salle University, and pursued an MBA degree from the same university.

He has extensive investment banking experience from his previous employment with Allied Banking Corporation and UBP Capital Corporation from 1992 to 1996 and First Metro Investment Corporation and Metropolitan Bank & Trust Co. from 1996 to 2001. He previously served as Chief Finance Officer of The Philippine Daily Inquirer and Director/President of its affiliate, Newspaper Paraphernalia, Inc. until 2004.

**Roberto V. San Jose**, 73, Filipino, has been the Corporate Secretary of the Company since June 1991. He received his Bachelor of Arts degree from De La Salle University and his law degree from the University of the Philippines. He is a member of the Philippine Bar and a Consultant of the Castillo Laman Tan Pantaleon and San Jose Law Offices. In addition to serving as Corporate Secretary for the Company, he serves as Director, Officer and/or Corporate Secretary of Anglo Philippine Holdings Corp., CP Equities Corporation, Atlas Resources Management Group, MAA Consultants, Inc. and several other companies. He is also the Corporate Secretary of Premiere Horizon Alliance Corporation, Marc Ventures Holdings, Inc,, Solid Group Inc., United Paragon Mining Corporation, FMF Development Corporation, Beneficial Life Insurance Co., Inc., The Metropolitan Club, Inc., and other client corporations of the Castillo Laman Tan Pantaleon and San Jose Law Firm.

**Angel M. Esguerra III**, 53, Filipino, was appointed as the Assistant Corporate Secretary of the Company on August 10, 2010. He is a member of the Philippine bar and obtained his Bachelor of Arts degree in Economics and his Law degree from the University of the Philippines. Mr. Esguerra practiced with several firms then joined a trans-national energy company with power plants in the Asia-Pacific Region as internal counsel, and served as the Corporate Secretary of its Philippine subsidiaries such as Batangas Power Corp. and Subic Power Corporation. In June of 2010, he joined the Alcantara Group as head of its Legal Services department and now serves as the Corporate Secretary of the group's other companies.

**b) Family Relationship of Directors and Officers**

Mr. Tomas I. Alcantara, Mr. Alejandro I. Alcantara and Ms. Editha I. Alcantara are siblings, while Mr. Conrado C. Alcantara is their nephew.

**c) Independent Directors**

The following are the Company's independent directors. They are neither officers nor substantial shareholders of ACR:

1. **Jacinto C. Gavino, Jr.**
2. **Jose Ben R. Laraya**
3. **Thomas G. Aquino**

**d) Warrants and Options Outstanding**

There are no warrants or options granted by the Company to any of its Directors or executive Officers.

**e) Pending Legal Proceedings**

None of the directors and officers was involved in any bankruptcy proceedings as of March 31, 2015 and during the past five years. Neither have they been convicted by final judgment in any criminal proceedings or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court of administrative bodies to have violated a securities or commodities law.

**f) Significant employees**

There are no persons other than the executive officers that are expected by the Company to make a significant contribution to the business.

**g) Legal Proceedings where Property is the Subject**

There are no material pending legal proceedings to which the Company or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

## Item 11. EXECUTIVE COMPENSATION

A director's compensation represents a per diem of ₱30,000 for every Board of Directors' meeting and ₱15,000 for every Executive Committee meeting and Audit Committee meeting.

Sections 9 and 10 of the Amended By-laws which pertain to compensation and other arrangements with the Directors read:

> Section 9. Compensation of Directors. Each director shall receive, for his services as Director such amount as may be fixed by the stockholders for each regular or special meeting of the Board actually attended by him provided, that nothing herein contained shall be construed to preclude any director from serving the company in any other capacity and receiving such compensation therefore as may be fixed from time to time by the Board of Directors.

Section 10. Profit Sharing. The Board of Directors shall be authorized and empowered to pay or distribute to the members of the Board of Directors and the Executive Committee, and the officers of the Corporation, amounts of up to five percent (5%) of the net income before tax in each year, to be allocated at its discretion. If the income arises from the consolidation, or equity accounting of earnings of subsidiaries or affiliates, the computation of net income subject to profit sharing, shall be based on the cash or property dividends declared and actually received by the Company during the year.

The aggregate amounts paid by the Company to its directors and executive officers as a group were ₱3,145,000, ₱2,460,000 for the years 2014 and 2013, and ₱2,460,000 in 2012, respectively. For 2015, the Company estimates that it will pay an aggregate amount of ₱3,780,000 as compensation to its directors and executive officers.

**Table VII - Summary of Compensation of Directors and Executive Officers**

| Name and Principal Position | Year | Salary (₱) | Bonus (₱) | Other Annual Compensation Income (₱) |
|---|---|---|---|---|
| 1. Tomas I. Alcantara<br>Chairman and President | **2015est**<br>**2014**<br>2013<br>2012 | ₱ -<br>-<br>- | ₱ -<br>-<br>- | **₱315,000**<br>**310,000**<br>240,000<br>195,000 |
| 2. Editha I. Alcantara<br>Director & Treasurer | **2015est**<br>**2014**<br>2013<br>2012 | -<br>-<br>- | -<br>-<br>- | **420,000**<br>**345,000**<br>315,000<br>300,000 |
| 3. Tirso G. Santillan, Jr.<br>Director, EVP & COO | **2015est**<br>**2014**<br>2013<br>2012 | -<br>-<br>- | -<br>-<br>- | **420,000**<br>**405,000**<br>330,000<br>270,000 |
| 4. Jose Ben R. Laraya<br>Director | **2015est**<br>**2014**<br>2013<br>2012 | -<br>-<br>- | -<br>-<br>- | **420,000**<br>**405,000**<br>330,000<br>300,000 |
| 5. Ramon T. Diokno<br>Director | **2015est.**<br>**2014**<br>2013<br>2012 | -<br>-<br>- | -<br>-<br>- | **315,000**<br>**270,000**<br>210,000<br>245,000 |
| All other Officers and Directors as a group unnamed | **2015est.**<br>2014<br>2013<br>2012 | -<br>-<br>- | -<br>-<br>- | **1,890,000**<br>**1,410,000**<br>1,035,000<br>1,150,000 |

Other Annual Compensation received from ACR represents per diems given for every attendance in a Board, an Executive Committee (Excom) meeting or an Audit Committee meeting. The disclosure on the compensation of Key Management Personnel is presented in Note 21 of the audited consolidated financial statements.

The Company and the executive officers are not involved in any of the following transactions:

a. Standard arrangement and any material arrangements;

b. Employment contract (between the registrant and named executive officers);
c. Compensatory plan or arrangement;
d. Outstanding warrants or options;
e. Adjustments or amendments on the stock warrants or options.

The members of the Compensation Committee of the Company are as follows:

1. **Tomas I. Alcantara** - **Chairman**
2. **Honorio A. Poblador III** - **Member**
3. **Jose Ben R. Laraya** - **Member (Independent Director)**
4. **Tirso G. Santillan, Jr.** - **Member**

**Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

The above named executive officers of the company are not employees of ACR and are not covered by any existing employment contracts. They only receive per diem if they attend a Board meeting, an Executive Committee meeting, and/or an Audit Committee meeting.

**Warrants and Options Outstanding: Repricing**

There are no outstanding warrants or options held by the directors or executive officers of the Company.

## Item 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### (1) Security Ownership of Certain Record and Beneficial Owners

As of December 31, 2014, Alsons Consolidated Resources, Inc. knows of no one who beneficially owns in excess of 5% of its common stock except as set forth in Table VIII below:

**Table VIII - Beneficial Owners of Voting Securities**

| Title of Class | Name and address of Record Owner | Relationship with Issuer | Name of Beneficial Owner and Relationship with record owner | Citizenship | Number of Shares Held | Percentage |
|---|---|---|---|---|---|---|
| Common | Alsons Corporation[1] (AC) Alsons Bldg., 2286 Don Chino Roces Avenue, Makati City | Affiliate | Alsons Corporation[2] | Filipino | 2,592,524,072 | 41.21% |
| Common | **Alsons Power Holdings Corp[1]. (APHC)** Alsons Bldg., 2286 Don Chino Roces, Avenue Makati City | Affiliate | Alsons Power Holdings Corporation[2] | Filipino | 1,249,999,600 | 19.87% |
| Common | **Alsons Development & Investment Corp[1]. (ADIC)** 329 Bonifacio St., Davao City | Affiliate | Alsons Development and Investment Corporation[2] | Filipino | 1,188,524,026 | 18.89% |
| Common | **PCD Nominee Corporation[3] (Fil)** MSE Bldg., Ayala Ave., Makati City | None | Various[4] | Filipino | 1,101,506,577 | 17.51% |

1 The President and CEO of the Corporation, Tomas I. Alcantara, is the Chairman of the Board of Directors of the Company.
2 The respective Boards of Directors of each of AC, APHC and ADIC has power to decide how the shares are to be voted.
3 The PCD Nominee Corporation is not related to the Company.
4 There are no holders of more than 5% of common stock under PCD. The clients of the various PCD participants have the power to decide how the Company's shares are to be voted.

**(2) Security Ownership of Management**

The table below shows the securities beneficially owned by all directors, nominees and executive officers of ACR as of December 31, 2014:

**Table IX - Security Ownership of Management**

**Directors:**

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Registered (r) or Beneficial (b) | Percent of Ownership |
|---|---|---|---|---|---|
| Common | Tomas I. Alcantara | 1 | Filipino | r | 0.00% |
| Common | Editha I. Alcantara | 100,000 | Filipino | r | 0.00% |
| Common | Alejandro I. Alcantara | 1 | Filipino | r | 0.00% |
| Common | Jacinto C. Gavino, Jr. | 1 | Filipino | r | 0.00% |
| Common | Ramon T. Diokno | 1 | Filipino | r | 0.00% |
| Common | Carlos G. Dominguez | 100 | Filipino | r | 0.00% |
| Common | Jose Ben R. Laraya | 100 | Filipino | r | 0.00% |
| Common | Conrado C. Alcantara | 1 | Filipino | r | 0.00% |
| Common | Honorio A. Poblador III | 100 | Filipino | r | 0.00% |
| Common | Thomas G. Aquino | 100 | Filipino | r | 0.00% |
| Common | Tirso G. Santillan, Jr. | 1 | Filipino | r | 0.00% |
| | Total | 100,406 | | | 0.00% |

**Officers:**

| Title of Class | Name of Beneficial Owner | Amount and Nature of Beneficial Ownership | Citizenship | Registered (r) or Beneficial b) | Percent of Ownership |
|---|---|---|---|---|---|
| Common | Tomas I. Alcantara | 1 | Filipino | r | 0.00% |
| Common | Editha I. Alcantara | 100,000 | Filipino | r | 0.00% |
| Common | Tirso G. Santillan, Jr. | 1 | Filipino | r | 0.00% |
| Common | Roberto V. San Jose | 500,000 | Filipino | r | 0.00% |
| | Total | 600,002 | | | 0.00% |

**(3) Voting Trust Holder of 5% or More**

No person holds five percent (5%) or more of the issued and outstanding shares of stock of the Company under voting trust or similar agreement.

**(4) Changes in Control**

There are no arrangements which may result in a change in control of the registrant.

## Item 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

During the last three (3) years, the Company was not a party in any transaction in which a Director or Executive Officer of the Company, any nominee for election as a Director, or any security holder owning more than 5% of any class of the Company's issued and outstanding shares and/or his/her immediate family member had a material interest thereon.

In the normal conduct of business, the following are among the other transactions with its affiliates and related parties disclosed in the audited financial statements under Notes 17 (Loans Payable), 18 Long-term Debt) and 21 (Related Party):

- On March 21, 2013, Aldevinco and ACIL (collectively referred to 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) shall undertake the development of the Lanang property in Davao. On September 17, 2013, ADC was incorporated as JVC. ACR has subscribed 296 preferred shares and 32 common shares for 34% ownership in ADC.

- On December 23, 2010, Alsons Corporation, a major shareholder of ACR, transferred its 29,149,000 shares of Indophil Resources NL, an Australian publicly-listed company, valued at ₱1.3 billion (equivalent to AU$1.03 per share), to ACR.

There were no transactions to which the Company was a party during the past two (2) fiscal years where a director, executive officer, nominee for director, or stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

The Company retains the law firm of Castillo Laman Pantaleon and San Jose Law Offices for legal services, where Atty. Roberto V. San Jose is a Consultant. During the last two fiscal years, ACR paid ₱472,830.40 in 2014 and ₱403,200 in 2013 to the law firm. The Company believes that the legal fees are reasonable for the services rendered.

**List all parents of the registrant showing the basis of control and as to each parent, the percentage of voting securities owned or other basis of control by its immediate parent, if any.**

The Company has no parent company holding or controlling more than 50% of its outstanding capital stock. However, the following corporations separately own and control substantial shares in the Company: Alsons Corporation - 41.21%; Alsons Power Holdings Corporation - 19.87%; and Alsons Development & Investment Corporation - 18.89%.

## PART IV – CORPORATE GOVERNANCE

### Item 14. CORPORATE GOVERNANCE

In compliance with the directive of the Securities and Exchange Commission and in view of the ASEAN Corporate Governance Scorecard Assessment, please refer to the attached ACGR.

## PART V - EXHIBITS AND SCHEDULES

### Item 15. EXHIBITS AND REPORTS

15.1 Consolidated Financial Statements

The Audited Consolidated Financial Statements for the years ended December 31, 2014 and 2013 are attached as Exhibit 1:

- Management's Responsibility to the Financial Statements
- Independent Auditors' Report
- Consolidated Balance Sheets December 31, 2014 and 2013
- Consolidated Statements of Income for the three years ended December 31, 2014, 2013 and 2012
- Consolidated Statements of Comprehensive Income for the three years ended December 31, 2014, 2013 and 2012
- Consolidated Statements of Cash Flows for the three years ended December 31, 2014, 2013 and 2012.
- Notes to Consolidated Financial Statements

15.2 Supplementary Schedules Exhibit 2

Independent Auditors' Report on Supplementary Schedules
SRC Annex 68-E Schedules

A. Financial Assets – (Cash equivalents, Short-term cash investments, and Available for Sale Financial Assets)
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders
C. Amounts receivable from related parties which are eliminated during the consolidation of financial statements
D. Intangible Assets - Other Assets
E. Long-term Debt
F. Indebtedness to Related Parties
G. Guarantees of Securities of Other Issuers
H. Capital Stock

Reconciliation of Retained Earnings for Dividend Declaration
Conglomerate Map
Tabular Schedule of All Effective Standards and Interpretations under the PFRS as at Reporting Period

15.3 Reports on SEC Form 17-C

- Report on SEC Form 17-C filed during the year ended December 31, 2014 is attached together with this report and presented in Exhibit 6:

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Makati on APR 13 2015

**ALSONS CONSOLIDATED RESOURCES, INC.**
Issuer

Pursuant to the requirements of the Securities Regulation Code, this annual report has been signed by the following persons in the capacities and on the date indicated.

By:

| | | | |
|---|---|---|---|
| Tomas I. Alcantara<br>Chairman and President | Date : 4/13/15 | Editha I. Alcantara<br>Treasurer | Date : 4/13/15 |
| Tirso G. Santillan, Jr.<br>Executive Vice-President | Date : 4/13/15 | Roberto V. San Jose<br>Corporate Secretary | Date : 4/13/15 |
| Luis R. Ymson Jr.<br>Chief Financial Officer | Date : 4/13/15 | | |

**SUBSCRIBED AND SWORN** to before me this APR 13 2015 day of ______ affiants exhibiting to me their Identifications, as follows:

| NAMES | IDENTIFICATION NO. | DATE & PLACE OF ISSUE |
|---|---|---|
| Tomas I. Alcantara | PP#EB8610644 | 07-09-13 / DFA Manila |
| Editha I. Alcantara | PP#EB1982304 | 02-25-11 / DFA Manila |
| Tirso G. Santillan, Jr. | DL#N17-72-000977 | 02-12-12 / LTO QC |
| Luis R. Ymson Jr. | PP#EB1623317 | 12-29-10 / DFA Manila |
| Roberto V. San Jose | PP#EB6079962 | 08-03-12 / DFA Manila |

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Series of 2015

ANGEL M. ESGUERRA, III
NOTARY PUBLIC
MAKATI CITY, PHILIPPINES

**ANGEL M. ESGUERRA III**
Notary Public, Until December 31, 2015
4760120; 01/09/15; Makati City
IBP Lifetime No. 00259; 06/01/95; Pasay Chapter
Roll No. 34787; 06/01/87
Alsons Bldg, 2286 Don Chino Roces
Avenue, Makati City Philippines

ALSONS CONSOLIDATED RESOURCES, INC.
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
FORM 17-A, Item 7

## INDEX TO EXHIBITS

### Form 17-A



* These Exhibits are either not applicable to the Company or require no answer.

** There were no changes or additions to those already provided in our SEC Form 11-A (1996) and in our succeeding filing on August 22, 1997 (As per Compliance Letter dtd 7/29/97).

# Annual Corporate Governance Report for 2014

Republic of the Philippines
Department of Finance
Securities and Exchange Commission
SEC Building, EDSA, Greenhills, Mandaluyong City

**TO : ALL PUBLICLY-LISTED COMPANIES**

**SUBJECT : SUBMISSION OF THE ANNUAL CORPORATE GOVERNANCE REPORT (ACGR) TOGETHER WITH THE ANNUAL REPORT**

# SEC ADVISORY

In view of the forthcoming 2014-2015 ASEAN Corporate Governance Scorecard Assessment, all publicly-listed companies (PLCs) are directed to submit their 2014 ACGR together with their 2014 Annual Report (SEC Form 17-A) to the Commission and to the Philippine Stock Exchange (PSE). The ACGR is intended to take the place of the Corporate Governance section of the Annual Report.

The ACGR is to be attached to the Annual Report with the proper reference, i.e., "Please refer to attached ACGR", in Item 13. Part IV - Corporate Governance portion of the Annual Report.

Otherwise, the company's Annual Report (SEC Form 17-A) shall be deemed an incomplete filing.

Mandaluyong City, 12 March 2015.

**TERESITA J. HERBOSA**
**Chairperson**

# SECURITIES AND EXHANGE COMMISSION

# SEC FORM – ACGR

# ANNUAL CORPORATE GOVERNANCE REPORT

1. Report is Filed for the Year **Consolidated Changes for the Calendar Year 2014**

2. Exact Name of Registrant as Specified in its Charter **ALSONS CONSOLIDATED RESOURCES, INC.**

3. **Alsons Building, 2286 Chino Roces Avenue, Makati City, Philippines** — **1231**
   Address of Principal Office — Postal Code

4. SEC Identification Number **59366**

5. (SEC Use Only)
   Industry Classification Code

6. BIR Tax Identification Number **001-748-412**

7. **(632) 982-3000**
   Issuer's Telephone, Including area code

8. **N/A**
   Former name of former address, if changed from the last report

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## A. BOARD MATTERS

### 1. Board of Directors

| | |
|---|---|
| Number of Directors per Articles of Incorporation | 11 |

| | |
|---|---|
| Actual number of Directors for the year | 11 |

(a) Composition of the Board

**Complete the table with information on the Board of Directors:**

| Director's Name | Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)] | If nominee, identify the principal | Nominator in the last election (if ID, state the relationship with the nominator) | Date first elected | Date last elected (if ID, state the number of years served as ID)[1] | Elected when (Annual/ Special Meeting) | No. of years served as director |
|---|---|---|---|---|---|---|---|
| 1. Tomas I. Alcantara | ED | | Nomination Committee | AUG 2001 | 23 MAY 2014 | ASM | 13 |
| 2. Editha I. Alcantara | ED | | Nomination Committee | MAR 1995 | 23 MAY 2014 | ASM | 19 |
| 3. Tirso G. Santillan, Jr. | ED | | Nomination Committee | JUNE 1996 | 23 MAY 2014 | ASM | 18 |
| 4. Alejandro I. Alcantara | NED | | Nomination Committee | JULY 2003 | 23 MAY 2014 | ASM | 11 |
| 5. Ramon T. Diokno | NED | | Nomination Committee | MAR 2009 | 23 MAY 2014 | ASM | 5 |
| 6. Carlos G. Dominguez | NED | | Nomination Committee | MAR 1995 | 23 MAY 2014 | ASM | 19 |
| 7. Conrado C. Alcantara | NED | | Nomination Committee | NOV 2010 | 23 MAY 2014 | ASM | 4 |
| 8. Honorio A. Poblador III | NED | | Nomination Committee | MAR 1995 | 23 MAY 2014 | ASM | 19 |
| 9. Jose Ben R. Laraya | ID | | Nomination Committee | MAR 1995 | 23 MAY 2014 | ASM | 19 |
| 10. Jacinto C. Gavino, Jr. | ID | | Nomination Committee | MAY 2005 | 23 MAY 2014 | ASM | 9 |
| 11. Thomas G. Aquino | ID | | Nomination Committee | MAY 2011 | 23 MAY 2014 | ASM | 3 |

(b) **Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclose duties, and board responsibilities.**

*The latest revised Corporate Governance Manual was approved by the Board of Directors last 31 July 2014. The manual was also submitted to the PSE/SEC and posted in the Company's website. The revised Manual incorporates provisions from SEC Memorandum Circular No. 9, Series of 2014 amending SEC's Revised Manual on Corporate Governance to include references to stakeholders.*

[1] Reckoned from the election as of the Annual Stockholders' Meeting (ASM) held on 23 May 2014.

*The Board of Directors, management, employees and shareholders believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to institutionalize the principles of good corporate governance in the entire organization.*

*The Board of Directors respects the rights of the stockholders, particularly, the right to vote on all matters that require their consent or approval, right to inspect corporate books and records, the right to information, the right to dividends and appraisal right. All stockholders are encouraged to personally attend the meetings. Although all stockholders are treated equally and without discrimination, minority stockholders may request in writing the holding of meetings and the particular items that they want to be taken up in the agenda relating to a legitimate purpose and business of the Company subject to the requirements of the By-Laws.*

*To ensure a high standard of best practice for the Company, the Board should conduct itself with honesty and integrity in the performance of its duties characterized by transparency, accountability and fairness. Included in its duties and functions are:*

1.) *Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies. Appoint competent, professional, honest and highly-motivated management officers. Adopt an effective succession planning program for management.*
2.) *Establish and maintain an investor relations program that will keep the shareholders and other stakeholders informed of important developments in the Company.*
3.) *Identify the sectors in the community in which the Company operates or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them.*
4.) *Adopt a system of check and balance within the board of directors. A regular review of the effectiveness of such system should be conducted to ensure the integrity of the decision making and reporting processes at all times.*

*As a commitment to the standards of full **Disclosure and Transparency** as contained in the Revised Manual of Corporate Governance of the Company, the Board shall therefore commit at all times to full disclose of material information dealings. It shall cause the filing of all required informaton through the appropriate Exchange mechanisms for listed companies and submission to the Commission for the interest of its stockholders and other stakeholders.*

### (c) How often does the Board review and approve the vision and mission?

*The board formulates the Company's vision, mission, strategic objectives, policies and procedures and reviews, updates and approves as changes occur.*

### (d) Directorship in Other Companies

#### (i) Directorship in the Company's Group[2]

**Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:**

| Director's Name | Corporate Name of the Group Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|---|---|---|
| Tomas I. Alcantara | Southern Philippines Power Corporation<br>Western Mindanao Power Corporation<br>Alto Power Holdings, Inc.<br>Alsing Power Holdings, Inc.<br>Conal Holdings Corporations<br>Sarangani Energy Corporation<br>San Ramon Power, Inc.<br>Alsons Energy Development Corporation<br>Kamanga Agro-Industrial Ecozone Development Corp.<br>Aces Technical Services Corporation<br>Alsons Land Corporation | ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman |

[2]The Group is composed of the parent, subsdiaries, associates and joint ventures of the company.

| | | |
|---|---|---|
| | ACR Mining Corporation<br>Market Developers, Inc. (MADE)<br>Eagle Ridge Golf & Country Club, Inc.<br>Alsons Renewable Energy Corporation | ED-Chairman<br>ED-Chairman<br>ED-Chairman<br>ED-Chairman |
| **Editha I. Alcantara** | Southern Philippines Power Corporation<br>Western Mindanao Power Corporation<br>Alto Power Holdings, Inc.<br>Alsing Power Holdings, Inc.<br>Conal Holdings Corporations<br>Sarangani Energy Corporation<br>San Ramon Power, Inc.<br>Alsons Energy Development Corporation<br>Kamanga Agro-Industrial Ecozone Development Corp.<br>Aces Technical Services Corporation<br>Alsons Land Corporation<br>ACR Mining Corporation<br>Market Developers, Inc. (MADE)<br>Eagle Ridge Golf & Country Club, Inc. | ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED<br>ED |
| **Tirso G. Santillan, Jr.** | Sarangani Energy Corporation<br>San Ramon Power, Inc.<br>Mapalad Power Corporation<br>Alsons Energy Development Corporation<br>Kamanga Agro-Industrial Ecozone Development Corp.<br>Siguil Hydro Power Corporation<br>Kalaong Hydro Power Corporation<br>Aces Technical Services Corporation<br>A/S Power Development Inc.<br>ACR Mining Corporation<br>Market Developers, Inc. (MADE)<br>Alsons Renewable Energy Corporation | ED<br>ED<br>ED-Chairman<br>ED<br>ED<br>ED-Chairman<br>ED-Chairman<br>ED<br>ED<br>ED<br>ED<br>ED |
| **Alejandro I. Alcantara** | Alsons Land Corporation<br>Market Developers, Inc. (MADE) | NED<br>NED |
| **Conrado C. Alcantara** | Alsons Land Corporation<br>Market Developers, Inc. (MADE) | NED<br>NED |

### (ii) Directorship in Other Listed Companies

**Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group.**

| Director's Name | Corporate Name of the Group Company | Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman. |
|---|---|---|
| *Tomas I. Alcantara* | *Holcim Philippines, Inc.*<br>*Philweb Corporation*<br>*Philippine Bank of Communications* | *NED*<br>*ID*<br>*ID* |
| *Carlos G. Dominguez* | *Phil. Tobacco Flue-Curing and Redrying Corp.*<br>*United Paragon Mining Corporation* | *ED*<br>*NED* |
| *Thomas G. Aquino* | *NOW Corporation*<br>*A Brown Company* | *ED*<br>*NED* |

### (iii) Relationship within the Company and its Group

**Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:**

| Director's Name | Name of the Significant Shareholder | Description of the relationship |
|---|---|---|
| *Tomas I. Alcantara* | *Alsons Corporation (ALCORP), Alsons Power Holdings Corporation (APHC), and Alsons Development and Investment Corporation (ALDEVINCO)* | *Chairman, Director and President of Significant Shareholders.* |
| *Editha I. Alcantra* | *ALCORP, APHC and ALDEVINCO* | *Director and Treasurer of Significant Shareholders.* |
| *Alejandro I. Alcantara* | *ALCORP, APHC and ALDEVINCO* | *Director of Significant Shareholders* |

(iv) **Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? if yes, briefly describe other guidelines:**

*The Company has not imposed any limit on the number of board seats of its directors in other companies but it may consider the adoption of such guidelines taking into consideration the capacity of a director to diligently and efficiently perform his duties and responsibilies.*

### (e) Shareholding in the Company

**Complete following table on the numbers of the company's Board of Directors who directly and indirectly own shares in the company:**

| Name of Director | Number of Direct shares | Number of Indirect shares / Through (name of record owner) | % of Capital Stock |
|---|---|---|---|
| *1. Tomas I. Alcantara* | *1* | - | *0.00%* |
| *2. Editha I. Alcantara* | *100,000* | - | *0.00%* |
| *3. Tirso G. Santillan,Jr.* | *1* | - | *0.00%* |
| *4. Alejandro I. Alcantara* | *1* | - | *0.00%* |
| *5. Ramon T. Diokno* | *1* | - | *0.00%* |
| *6. Carlos G. Dominguez* | *100* | - | *0.00%* |
| *7. Conrado C. Alcantara* | *1* | - | *0.00%* |
| *8. Honorio A. Poblador III* | *100* | - | *0.00%* |
| *9. Jose Ben R. Laraya* | *100* | - | *0.00%* |
| *10. Jacinto C. Gavino, Jr.* | *1* | - | *0.00%* |
| *11. Thomas G. Aquino* | *100* | - | *0.00%* |
| *Total* ***11*** | | | |

## 2) Chairman & CEO

(a) **Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.**

| Yes | | No | / |
|---|---|---|---|

**Identify the Chairman and CEO:**

| | |
|---|---|
| Chairman of the Board | Mr. Tomas I. Alcantara |
| CEO/President | Mr. Tomas I. Alcantara |

*The CEO of the Company who also assumes the role of the Chairman of the Board holds only one vote. Generally, the Board is the governing body of the Company, and all corporate acts are approved by the Board of Directors. The Board has constituted Nomination, Compensation, Executive and Audit Committees to ensure that there are adequate checks and balances in the Corporate Governance structure of the Company and an appropriate balance of power, increased accountability and better capacity for independent decision-making by the Board.*

**(b) Roles, Accountabilities and Deliverables**

**Define and clarify the roles, accountabilities and deliverables of the Chairman/CEO.**

| Definition | Chairman | Chief Executive Officer |
|---|---|---|
| Role<br>Accountabilities<br>Deliverables | *The Chairman of the Board shall preside over all meetings, whether regular or special of the Board of Directors and shall likewise preside over all meetings of stockholders. He shall have such other powers and duties as may be assigned to him by the Board of Directors.*<br><br>*Further, the Chairman of the Board also: (a) Ensures that the meetings of the board are held in accordance with the By-Laws; (b) Supervises the preparation of the agenda of the eeting in coordination with the Corporte Secretary, taking into consideration the suggestions of management, the directors and other stockholders; (c) Maintains qualitative and timely lines of communication and information between the Board and management.* | *The President shall be the Chief Executive Officer of the Company and shall have general mangement and supervision of the business affairs and property of the Company. He shall have the power to enter into contracts and arrangements for and in behalf of the Company and to employ, appoint and remove officers and employees of the Company. He shall see to it that all orders and resolutions of the Board of Directors are carried into effect. The President shall submit to the stockholders at each annual meeting, a complete report of the operations of the Company for the preceeding year, and the state of its affairs, and he shall from time to time report to the Board of Directors all matters within his knowledge which the interests of the Company may require to be brough to its notice. He shall do and perform such other duties as from time to time may be assigned to him by the Board of Directors..* |

**3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?**

*The Board of Directors through its Nomination Committee, review and evaluate the qualifications of all persons nominated to the Board and other appointments, which includes CEO/President and the top key management positions that require Board approval and to assess the effectiveness of the Board's processes and procedures in the election or replacement of such.*
*(Revised Manual of Corporate Governance, page 12, item ii-a, Nomination Committee)*

*Part of the duties of the Board is to appoint competent, professional, honest and highly motivated management officers and to do this, management has adopted an effective Succession Planning Program.*

*The program includes the promotion and hiring decisions when filling key positions that become vacant and the specific development activities for each candidate, identified as "ready or nearly ready now" to asume the position in case of vacancy. While not completely closing the doors to external candidates, priority is given to internal applicants. Each incumbent in an identified succession position is responsible for nominating candidates to be included in the succession pool and in identifying the specific development plan to prepare the successor.*

*Specific to the CEO/President, the major qualities identified are integrity, maturity, energy, business acumen, leadership acumen, organizational skills, intellectual capacity, gloval mindset, superior judgment, insatiable appetite for accomplishment and results and powerful motivatiion to grow and convert learning into practice.*

**4) Other Executive, Non-Executive and Independent Directors**

**Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.**

*It is the policy of the Company that the membership of the Board shall be a combination of executive and non-executive directors, including independent directors, in order that no director or small group of directors can dominate the decision-making process.*

**Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.**

*It is the policy of the Company that chosen non-executive directors possess the qualifications and stature that will enable them to effectively participate in the deliberations of the Board.*

**Define and clarify the <u>roles, accountabilities and deliverables</u> of the Executive, Non-Executive and Independent Directors:** *(Revised Manual on Corporate Governance, pages 3-4 and pages 8-9)*

| | **Executive/Non-Executive/Independent Director** |
|---|---|
| Role | *The Board of Directors is the governing body elected by the stockholders to exercise the corporate powers of the Company, conduct its business and control its properties* |
| ***Accountabilities*** | *A Director should observe the following norms of conduct:*<br><br>*a) Conduct fair business transaction with the Company and ensure that personal interest does not conflict with the interests of the Company.*<br>*b) Devote the time and attention necessary to property and effectively perform his duties and responsibilities.*<br>*d) Act judiciously and carefully evaluate the issues, make inquiries and request clarification.*<br>*d) Exercise independent judgment*<br>*e) Have a working knowledge of the statutory and regulatory requirements that affect the Company, including its Articles of Incorporations and By-Laws, the rules and regulations of the Commission, and, where applicable, the requirements of relevant regulatory agencies as well as developments in the industry.*<br>*f) Observe confidentiality* |
| Deliverables | *Direct the Company towards sustained progress* |

**Provide the company's definition of "independence" and describe the company's compliance to the definition.**

*The Company defines independence as a state or quality possessed by the respective individuals, which refers to the avoidance of being unduly influenced by a vested interest and to being free from any constraints that would prevent a correct course of action being taken.*

*The Board of Directors of the Company has three (3) independent directors. It is a given requirement that all directors exercise independent judgment. A director should view each problem or situation objectively.*

*The Audit Committee is constituted to perform oversight function over the Company's internal and external auditors to ensure that they are given unrestricted access to all records and other requirements; and free from interference by outside parties to enable them to perform their respective audit function.*

**Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.**

*The Company will formalize its policy that will be consistent with the related SEC Memorandum Circular 9, Series of 2011 on the Term Limits for Independent Directors, which took effect on January 2, 2012. Accordingly, the terms of any independent director as of January 2, 2012 would expire on or about December 31, 2016.*

## 5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

### (a) Resignation/Death/Removal

**Indicate any changes in the composition of the Board of Director that happened during the period:**

| Name | Position | Date of Cessation | Reason |
|---|---|---|---|
| *There were no changes in the composition of the Board of Director that happened during the period.* | | | |

### (b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

| Procedure | Process Adopted | Criteria |
|---|---|---|
| **a. Selection/Appointment** | *The Directors are selected and elected to serve the Company according to the procedures set forth in the By-Laws, with particular care in regard to a director's ability to perform duties and responsibilities as specified in the Revised Manual on Corporate Governance.*<br><br>*In case of vacancies and other authorized instances, the Board may select or appoint its own members recommended by the Nomination Committee. It may appoint members of senior management as a Director. The invitation to join the Board is extended by the Board itself.* | *The Board follows a screening process and evaluates it Director based on background, skills and characeristics, ability to act in good faith in the interest of the Company and its stakeholders, capacity to provide business continuity, possession of a keen understanding of the business and any other qualification as specified in the Revised Manual on Corporate Governance.* |
| **b. Re-appointment** | *The process followed in re-appointment follows the same procedures as if a new appointment is made.* | *The same criteria observed as if a new appointment is made.* |
| **c.Permanent Disqualification and/or Removal** | | *The criteria for the permanent disqualification of a Director are appropriately described in Section E of the Revised Manual on Corporate Governance, which involves final or permanent judgment or order by a competent judicial or administrative body,order of the Commission or any court or administratuive body of competent jurisdiction and/or conviction by final judgment of an offense punishable by imprisonmengt for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.*<br><br>*Any person earlier elected as Independent Director who becomes an oficer, employee or consultant of the Company.*<br><br>*Any person judicially declared as insolvent.* |
| **d. Temporary Disqualification and/or Reinstatement and/or Suspension** | *A temporary disqualified director shall, within sixty (60) business days from such disqualification, take appropriate action to remedy or correct the qualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.*<br><br>*The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.*<br><br>*The disqualification shall be lifted if the limit is later complied with.* | *A Director will be temporarily disqualified under the following:*<br><br>*Refusal to comply with the disclosure requirements of the Commission and its implement Rules and Regulations.*<br><br>*Absence in more than 50% of all regular and special meetings of the board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident.*<br><br>*Dismissal or termination for cause as a director of any company covered by the Manual*<br><br>*If the beneficial equity ownershuip of an Independent Director in the Company or its subsidiaries and affiliates exceeds two (2) percent of its subscribed capital stock.*<br><br>*If any of the judgements or orders cited in the grounds for permanent disqualification has not yet become final.* |

**Voting Result of the last Annual General Meeting** ***(held last May 23, 2014)***

*The number of nominees for directors is 11 and this equals the number of board seats available so that each of the 11 nominee for directors received equal number of votes of 5,066,840,277 each (Tomas I. Alcantara, Editha I. Alcantara, Carlos G. Dominguez, Honorio A. Poblador III, Tirso G. Santillan, Jr., Ramon T. Diokno, Conrado C. Alcantara, Alejandro I. Alcantara, Jose Ben R. Laraya, Thomas I. Aquino and Jacinto C. Gavino, Jr.)*

## 6) Orientation and Education Program

### (a) Disclose details of the company's orientation program for new directors, if any.

*The Company does not have a formal orientation program, however new directors are provided with reference reading materials to assist them in understanding better the business and operations of the Company. Among the reading materials provided are: Audited Financial Statements; SEC Form 20-IS-Information Statement/Annual Report; Revised Manual on Corporate Governance; Articles of Incorporation and By-Laws and other relevant write-ups, references and reports.*

### (b) State any in-house training and external courses attended by Directors and Senior Management for the past three (3) years: (2009-2011)

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| Tomas I. Alcantara (Chairman President) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Editha I Alcantara (Director-Treasurer) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Carlos G. Dominguez (Director) | 09 June 2014 | Corporate Governance Seminar | Center for Training and Development, Inc. |
| Tirso G. Santillan, Jr. (Director-EVP) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Honorio A. Poblador III (Director) | 18 February 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Ramon T. Diokno (Director) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Jose Ben R. Laraya (Independent Director) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Thomas G. Aquino (Independent Director) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Luis R. Ymson, Jr. (Chief Financial Officer & Compliance Officer) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Roberto V. San Jose (Corporate Secretary) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Angel M. Esguerra, III (Asst. Corporate Secretary) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Esperidion D. Develos, Jr. (Chief Audit Executive) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |
| Sylvia M. Duque (Member, Nomination Committee) | 07 November 2014 | Corporate Governance Seminar | Risks, Opportunities, Assessment & Management (ROAM), Inc. |

(c) **Continuing education programs for directors: programs and seminars and roundtables attended during the year.**

| Name of Director/Officer | Date of Training | Program | Name of Training Institution |
|---|---|---|---|
| *Tomas I. Alcantara* | *30&31 May 2013* | *Basic Course on Corporate Governancne for Banks* | *Bankers' Institute of the Philippines, Inc.* |

## B. CODE OF BUSINESS CONDUCT & ETHICS

**1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:**

*The Company's Code of Conduct and Policies which was approved by the Board and posted on the Company's website, touches on the topics identified below:*

| Business Conduct & Ethics | Directors | Senior Management | Employees |
|---|---|---|---|
| (a) Conflict of Interest | *This policy requires directors, officers, employees and consultants who find themselves in a potential or actual conflict of interest situation to promptly disclose the matter and, as applicable, seen an appropriate decision from the authorised person. Unless otherwise authorized by the Company, the person concerned should inhibit him/herself fron any action, transaction, discussion, evaluation, or decision involving such conflict of interest. The policy also prohibits the Company from granting personal loan to directors or officers unless allowed by applicable laws and regulations.*<br><br>*A Conflict of Interest is a set of circumstances that creates a risk that professional judgment or actions regarding a primary interest will be unduly influenced by a secondary interest. Primary interest refers to the principal goals of the Company, such as the protection of its interests, the advancement of its financial and business performance and, the quality of service it provides to its clients. Secondary interest includes not only financial gain of an employee or group of employees, but also such motives as the desire for professional advancement and the wish to do favors for family and friends as such terms are defined in the Related Party Transactions Policy.*<br><br>*GUIDELINES*<br><br>*1) Employees are expected, at all times, to act in the best interests of the Company and to exercise sound judgment, unclouded by personal interest or divided loyalties, therefore while employed by the Company or any of its affiliates:*<br><br>*(a) An employee is expected to devote his/her time, attention and skill to the affairs of the Company and its affiliates during the usual business hours and will use his/her best endeavors to further its interests in every way.*<br><br>*(b) An employee is expected to at all times to diligently, faithfully and to the best of his/her ability, perform the duties and responsibilities for which he/she has been employed as well as abide any additional instructions as may reasonably be requested of him/her.*<br><br>*(c) An employee is required to use all proper means within his/her area of control and responsibility to maintain and improve the business, and to protect and further the reputation and interest of the Company and its affiliates.*<br><br>*(d) An employee is not permitted to work for, or have any interest in any other company or business, or undertake any activity which might interfere with his/her duties, or negatively affect his/her performance, or create a conflict with the company's interest.*<br><br>*2) Whenever a director, officer, employee or consultant of the company find themselves in a possible or actual conflict of interest situation, they shall be required to disclose such fact to their supervisor or direct superior in order for the latter to determine the extent to which the possible or actual conflict of interest may adversely affect the Company's interests. This disclosure shall also include a request for approval from the company to engage in the subject action or activity.*<br><br>*This supervisor or direct superior, on his/her own, or with the help of other qualified officers of the Company, shall assess the circumstances as well as all factors involving such possible or actual conflict and fairly decide on whether to allow the same or not.* | | |

| | |
|---|---|
| **(b) Conduct of Business and Fair Dealings** | *Directors and Officers should not use his position to profit or gain some benefit or advantage for himself and/or his related interests.*<br><br>*In espousing professionalism among all employees, the Company strictly prohibits behavior that violates common decensy as referred to in the Code of Conduct (ACR Employees Handbook, Section 1, 2-e page 4)* |
| **(c) Receipts of gifts from third parties** | *Directors, Senior Management and Employees must avoid situations where personal interests of the Company. Examples include involvement in competing businesses, accepting or giving preferential treatment, favors or gifts*<br>*to customers and/or suppliers. (ACR Employee Handbook Section 1, 2-d , page 4)* |
| **(d) Compliance with Laws & Regulations** | *A director should have a working knowledge of the statutory and regulatory requirements that affect the Company. Officers and employees shall adhere to the norms and restrictions imposed by applicable laws, rules and regulations.* |
| **(e) Respect for Trade Secrets/Use of Non-public Information** | *A director should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.* |
| **(f) Use of Company Funds, Assets and Information** | *Diretors, Officers and Employees shall use company property and resources including company time, supplies and softwares, efficiently, responsiibly and only for legitimate business purposes only.* |
| **(g) Employment & Labor Laws & Policies** | *The Company has an Employees' Handbook of Policies which provides for employee rights and obligations to ensure uniformity and consistency in the interpretation and implementation of Human Resources Policies, which are consistent with and in accordance with relevant provisions of the Labor Code.* |
| **(h) Disciplinary action** | *Employees disciplinary measures are imposed in progressively increasing weight whenever violations are committed against the prescribed policies, rules and regulations. A running period of one calendar year will be the basis for computing and imposing applicable penalties/recurring violations. The Management has the prerogative to impose appropriate disciplinary action depending on mitigating or aggravating circumstances. (ACR Employees Handbook, Section III, page 12)* |
| **(i) Whistle Blower** | *This specific policy pertains to "whistle-blowing" which refers to the disclosure by covered employees who have personal knowledge of fraud, misappropriations, discrimination, sexual harassment and other wrongful conduct by employees at the Company.*<br><br>*GUIDELINES*<br><br>*1) Mechanism. The Company shall designate a dedicated e-mail address for employees to freely communicate any wrongful conduct committed by employees while working at the Company. The reporting employee may report the wrongful conduct anonymously. This reporting mechanism is in addition to the existing system of reporting to a supervisor, a manager at the higher level, or in the Office of the Chairman, or others as specified in the individual policies.*<br><br>*2) Confidentiality. Allegations of wrongful conduct will be taken seriously, and the Human Resources Department will direct the conduct of the investigation of such allegations. Reports will be kept confidential to the greatest extent possible, consistent with the need to conduct an investigation. The identity of the individual making the allegation will be kept confidential so long as it does not hinder or frustrate any investigation. However, the investigation process may reveal the resource of the information and the individual making the disclosure may need to provide a statement as part of the evidence required.*<br><br>*3) Wrongful Conduct to be Reported. Reporting must be made in good faith. This policy is not intended to be a mechanism to communicate grievances against other employees of the Company or, unless such grievance is a wrongful conduct under existing policy.*<br><br>*Violations of existing policies and any other unlawful or questionable actions may be reported through the dedicated whistle-blowing e-mail address on the matters such as, but not limited to:*<br><br>*(i) Loss and fraudulent act or suspected fraudulent act,*<br>*(ii) Criminal activity,*<br>*(iii) Discrimination and Sexual Harassment* |

| | |
|---|---|
| | (iv) Violation of the code of conduct and accountability<br>(v) Acceptance of gifts or other inducements<br>(vi) Conflict of Interest<br>(vii) Ill treatment of a costumer/client<br>(viii) Dangerous act affecting health and safety<br>(ix) Act causing damage to the environment<br>(x) Breach of standing financial instructions<br>(xi) Showing undue favor to a vendor or client or to a job applicant, or<br>(xii) Information on any of the above that has been, is being, or is likely to be concealed.<br><br>This list is not exclusive and is merely a guide.<br>It should be emphasized that this policy is intended to assist employees who reasonably believe that they have personally witnessed any of the foregoing violations. It is not designated to question financial or business decision taken by management, and it should not be used to reconsider the decision on any matter that had already been rendered under the formal disciplinary and grievance procedures. Once the whistle-blowing procedures are in place, it is reasonable to expect employees to use them rather than air their complaints outside the Company.<br><br>4) No Harassment of a Whistle-blower. No employee, who in good faith, reports a violation, will suffer harassment or retaliation or bullying. The Company will not tolerate any harassment or victimization in whatever form or manner of a whistle-blower and will treat this as a serious disciplinary offense, which will be dealt with under the Company's existing disciplinary rules and regulations.<br><br>5) Untrue Allegations. If an employee makes an allegation in good faith, which allegation was proven to be false by subsequent investigation, no action will be taken against such employee. In making a disclosure, the employee should exercise due care to ensure veracity of the information. If, however, an employee makes malicious allegations or retaliations, disciplinary action may betaken against that individual.<br><br>6) Sanction. The Human Resources Department will be primarily responsible for imposing the sanction to employees who have been proven guilty for not following this policy. The appropriate sanction shall be based on the Company's Code of Conduct.<br><br>7) Amendment and/or Termination. At any time, and at its sole discretion, the Company may amend, modify or suspend or completely withdraw this policy, in a whole or in part.<br><br>8) Approvals. All approvals for any amendment to this policy are vested with the President upon the recommendation by the Human Resources, Internal Audit and Legal Departments. |
| **(j) Conflict Resolution** | *Conflicts affecting directors, senior management and employees are amicably settled by internal discussions and meetings.* |

**2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?**

*A draft code of ethics and conduct has been drafted and revised, and is awaiting for distribution to all directors, managers and employees upon approval by the executive directors and senior management.*

**3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.**

*Upon approval of the code of ethics and conduct, copies will be distributed to all directors, managers and employees, and it is expected that Human Resources department will conduct in-house briefings, seminars and general assemblies to discuss the code, its salient provisions, and how the employees will implement the same. The monthly general assembly of the employees of the Group will most likely be used to disseminate the code and inculcate compliance with the same at all levels.*

**4) Related Party Transactions**

**(a) Policies and Procedures**

**Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the board.**

| Related Party Transactions | Policies and Procedures |
|---|---|
| **(1) Parent Company** | *Related party transactions are conducted at arm's length with consideration paid or received by the Company and on terms at least similar to any such terms available to non related party. The Board thru its Audit Committee defines the threshold for approval and/or disclosure, if needed.* |
| **(2) Joint Ventures** | *Related party transactions are conducted at arm's length with consideration paid or received by the Company and on terms at least similar to any such terms available to non related party. The Board thru its Audit Committee defines the threshold for approval and/or disclosure, if needed.* |
| **(3) Subsidiaries** | *Related party transactions are conducted at arm's length with consideration paid or received by the Company and on terms at least similar to any such terms available to non related party. The Board thru its Audit Committee defines the threshold for approval and/or disclosure, if needed.* |
| **(4) Entities Under Common Control** | *Related party transactions are conducted at arm's length with consideration paid or received by the Company and on terms at least similar to any such terms available to non related party. The Board thru its Audit Committee defines the threshold for approval and/or disclosure, if needed.* |
| **(5) Substantial Stockholders** | *Substantial stockholdrs shall disclose to the board, through the Corporate Secretary, details of all their directorships and any shareholdings owned by them or members of their family. It is the responsibility of the stockholder to promptly notify the board of any proposed related party transaction. Conflicted stockhoders shall not participate in discussions on transactions in which they are a conflicted party and shall abstain from voting on such issues.* |
| **(6) Officers including spouse/children/siblings/parents** | *Officers shall disclose to the board, through the Corporate Secretary, details of all their directorships and any shareholdings owned by them or members of their family. It is the responsibility of the officer to promptly notify the board of any proposed related party transaction. Conflicted officers shall not participate in discussions on transactions in which they are a conflicted party and shall abstain from voting on such issues.* |
| **(7) Directors including spouse/children/siblings/parents** | *Directors shall disclose to the board, through the Corporate Secretary, details of all their directorships and any shareholdings owned by them or members of their family. It is the responsibility of the officer to promptly notify the board of any proposed related party transaction. Conflicted officers shall not participate in discussions on transactions in which they are a conflicted party and shall abstain from voting on such issues.* |
| **(8) Interlocking director relationship of Board of Director** | *As provided under the Corporation Code, management obtains the Board's approval before entering into any related party transaction ("RPT"). Thus, the RPT is specifically included in the notice and agenda of the Board meeting, and the Directors are fully informed of each proposed RPT. Moreover, the Directors of the Company who are also directors of the related party with whom the RPT is to be entered (the "inter-locked" Directors) are expressly excluded from the calculation of the quorum of the meeting during which the proposed RPT is considered. In the vote for the RPT, the inter-locked Directors are excluded from the voting.* |

### (b) Conflict of Interest

#### (i) Directors/Officers and 5% or more Shareholders

**Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.**

*No related party transaction with subject directors/ officers and 5% shareholders, other than the per diem received for attending meetings of the Board and its committees.*

(ii) Mechanisms

**Describe the mechanism laid down to detect, determine and resolve any posible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.**

| | Directors/Officers/Significant Shareholders |
|---|---|
| **Company** | *The Company's accounting and audit departments continuously reviews its transactions and any sign of a conflict of interest is examined and investigated.* |
| **Group** | *The Company's accounting and audit departments continuously reviews its transactions and any sign of a conflict of interest is examined and investigated.* |

### 5) Family, Commercial and Contractual Relations

**(a) Indicate, if applicable, any relation of a family, commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:**

| Names of Related Significant Shareholders | Type of Relationship | Brief Description of the Relationship |
|---|---|---|
| *Alsons Corporation (AC)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |
| *Alsons Development & Investment Corporation (ALDEVINCO)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |
| *Alsons Power Holdings Corporation (APHC)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |

**(b) Indicate, if applicable, any relation of a commercial, contractual or business that exists between the holders of significant equity (5% or more) and the company:**

| Names of Related Significant Shareholder | Type of Relationship | Brief Description |
|---|---|---|
| *Alsons Corporation (AC)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |
| *Alsons Development & Investment Corporation (ALDEVINCO)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |
| *Alsons Power Holdings Corporation (APHC)* | *Affiliated with other significant shareholders* | *AC, ALDEVINCO & APHC are affiliates of each other* |

**(c) Indicate any shareholder agreement that may impact on the control, ownership and strategic direction of the company:**

| Name of Shareholder | % of Capital Stock affected (Parties) | Brief Description of the Transactions |
|---|---|---|
| *None* | *None* | *None* |

### 6) Alternative Dispute Resolution

**Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.**

| | Alternative Dispute Resolution System |
|---|---|
| **Corporation & Stockholders** | *Between the Company and its stockholders, any "dispute" is addressed by conciliation meetings and efforts, on the Company's part, to assist the stockholders in their issue with the Company. To the extent allowed by law, rules and regulations, the Company extends advice and assistance to the stockholder, particularly those who have missing share certificates or those inheriting the same from relatives who had passed away.* |

| | |
|---|---|
| **Corporation & Third Parties** | *Between the Company and it third parties, the Company ensures that its contracts have alternative dispute resolution provisions, such as arbitration, that will allow the Company to avoid costly and time-wasting litigation. If the counter-party allows it, the venue of arbitration is in the Philippines.* |
| **Corporation & Regulatory Authorities** | *Between the Company and regulatory authorities, the Company simply seeks clarifications on the requirement(s) imposed by such agencies and attempts to comply with same. Such measures include conferences with the appropriate officials of the Commission.* |

## C. BOARD MEETINGS & ATTENDANCE

### 1) Are Board of Director's meetings scheduled before or at the beginning of the year?

*Yes, board of directors' meetings are scheduled at the beginning of the year, in accordance with the requirements of the Articles of Incorporation and By-Laws.*

### 2) Attendance of Directors

| Board | Name | Date of Election | No. of Meetings held during the year | No. of Meetings Attended | % |
|---|---|---|---|---|---|
| Chairman | 1. Tomas I. Alcantara | 23 May 2014 | 6 | 6 | 100% |
| Member | 2. Editha I. Alcantara | 23 May 2014 | 6 | 6 | 100% |
| Member | 3. Tirso G. Santillan,Jr. | 23 May 2014 | 6 | 6 | 100% |
| Member | 4. Alejandro I. Alcantara | 23 May 2014 | 6 | 3 | 50% |
| Member | 5. Ramon T. Diokno | 23 May 2014 | 6 | 5 | 83% |
| Member | 6. Carlos G. Dominguez | 23 May 2014 | 6 | 4 | 66% |
| Member | 7. Conrado C. Alcantara | 23 May 2014 | 6 | 6 | 100% |
| Member | 8. Honorio A. Poblador III | 23 May 2014 | 6 | 4 | 66% |
| Independent | 9. Jose Ben R. Laraya | 23 May 2014 | 6 | 6 | 100% |
| Independent | 10. Jacinto C. Gavino, Jr. | 23 May 2014 | 6 | 5 | 83% |
| Independent | 11. Thomas G. Aquino | 23 May 2014 | 6 | 6 | 100% |

### 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times?

*Management is unaware if the non-executive directors have a separate meeting or meetings during the year without the presence of any executive.*

### 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

*No, the minimum quorum requirement for Board decisions is set at a majority as specified in the Corporation Code and the Company's articles of incorporation and/or by-laws.*

### 5) Access to Information

**(a) How many days in advance are board papers for board of directors meetings provided to the board?**

*Notice of the meeting, agenda, reference materials and other related reports are required to be sent to the members of the Board of Directors at least three (3) days prior to the date of the meeting.*

**(b) Do board members have independent access to Management and the Corporate Secretary?**

*Yes, each Director has independent access to management and the Corporate Secretary.*

**(c) State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?** *Yes*

*The Company secretary is responsible for the safekeeping and preservation of the integrity of the minutes of the meetings of the Board and its committees, as well as the other official records of the Company. He informs the members of the Board, of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval. He ensures that all board procedures, rules and regulations are strictly followed by the members.*

(d) **Is the company secretary trained in legal, accountancy or company secretarial practices?** Please explain should the answer be in the negative.

*Yes, the Company Secretary has the appropriate administrative and interpersonal skills; and is aware of the laws, rules and regulations necessary in the performance of his duties and responsibilities.*

(e) **Committee Procedures**

**Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:**

Yes / No

| Committee | Details of the procedures |
|---|---|
| Executive | *Notice of the meeting and related Agenda are sent at least three days before the scheduled meeting date, with presentation materials (if any), to be sent as soon as possible thereafter.* |
| Audit | |
| Nomination | |
| Compensation | |

6) **External Advice**

**Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:**

| Procedures | Details |
|---|---|
| *Engagement of consultants* | *At Board or Committee meetings, Directors may suggest the engagement of consultants, whether o financial, accounting or legal matters, who can render advise on issues arising from the operations of the Compan and/or its subsidiaries.* |
| *Direct Advice from Advisors and/or Counsel* | *The Directors can directly contact the external advisors of the Company and ask them to address the issues raised by such Directors and arising from the operations of the Company and/or its subsidiaries. Conferences among the Directors and advisors may be arranged.* |

7) **Change/s in existing policies**

**Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:**

| Existing Policies | Changes | Reason |
|---|---|---|
| *None* | *None* | *None* |

## D. REMUNERATION MATTERS

1) **Remuneration Process**

**Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:**

| Process | CEO | Top 4 Highest Paid Management Officers |
|---|---|---|
| (1) Fixed remuneration<br>(2) Variable remuneration<br>(3) Per diem allowance<br>(4) Bonus<br>(5) Stock Options and other financial instruments<br>(6) Others (specify) | *The Board's Compensation Committee establilshes a formal and transparent procedure for developing a policy on renumeration of CEO to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates* | *The Board, with the Compensation Committee, establishes a formal and transparent procedure for developing a policy on remuneration of senior managers to ensure that their compensation is consistent wih the Corporation's culture, strategy and the business environment in which it operates.* |

2) **Remuneration Policy and Structure for Executive and Non-Executive Directors**

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**Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-executive Directors is calculated.**

| | Remuneration | Structure of Compensation Packages | How Compensation is Calculated |
|---|---|---|---|
| *Executive Directors* | *Per diem* | *At each meeting of the Board of Committee, the Company pays the ED a per diem for attendance of the meeting* | *The Board reviews the remuneration of executive directors to ensure that their compensation is consistent wih the Corporation's culture, strategy and the business environment in which it operates.* |
| *Non-Executive Directors* | *Per diem* | *At each meeting of the Board of Committee, the Company pays the NED a per diem for attendance of the meeting* | *The Board reviews the remuneration of non-executive directors to ensure that their compensation is consistent wih the Corporation's culture, strategy and the business environment in which it operates.* |

**Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.**

*Yes, the details are set forth below.*

| Remuneration Scheme | Date of Stockholders' Approval |
|---|---|
| *Per diems in 2011 were duly reported to the stockholders at the annual meeting in the information statement and annexes thereto* | *18 May 2012* |
| *Per diems in 2012 were duly reported to the stockholders at the annual meeting in the information statement and annexes thereto* | *24 May 2013* |
| *Per diems in 2013 were duly reported to the stockholders at the annual meeting in the information statement and annexes thereto* | ***23 May 2014*** |

3) **Aggregate Remuneration**

**Complete the following table on the aggregate remuneration accrued during the most recent year:**

| Remuneration | Executive Directors | Non-Executive Directors (other than independent directors) | Independent Directors |
|---|---|---|---|
| (a) Fixed Remuneration | None | | |
| (b) Variable Remuneration | | | |
| (c) Per diem Allowance | *The aggregate amount paid by the Company to its Directors and Executive Officers as a group was ₱3,150,000.00* | | |
| (d) Bonuses | None | | |
| (e) Stock Options and/or other financial instruments | | | |
| (f) Others (specify) | | | |
| **Total** | ***₱ 3,150,000.00*** | | |

4) **Stock Rights, Options and Warrants**

**(a) Board of Directors**

**Complete the following table, on the members if the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:**

| Director's Name | Number of Direct Option/Rights/ Warrants | Number of Indirect Options/Rights/ Warrants | Number of Equivalent Shares | Total % from Capital Stock |
|---|---|---|---|---|
| *Not Applicable* | | | | |

**(b) Amendments of Incentive Programs**

**Indicate any amendments and discontinuation of any incentives programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:**

| Incentive Program | Amendments | Date of Stockholders' Approval |
|---|---|---|
| *Not Applicable* | | |

5) **Remuneration of Management**

**Identify the five (5) members of management who are not at the same time executive directors and indicate the total remuneration received during the financial year:**

| Name of Officer/Position | Total Remuneration |
|---|---|
| ***Luis R. Ymson, Jr.,** Chief Financial Officer* | *₱105,000.00* |
| ***Esperidion D. Develos, Jr.,** Chief Audit Executive* | *₱105,000.00* |
| ***Roberto V. San Jose,** Corporate Secretary* | *₱210,000.00* |
| ***Angel M. Esguerra, III,** Asst. Corporate Secretary* | Not included in the Company's per diem |

## E. BOARD COMMITTEES

1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

| Committee | No. of Members | | | Committee Charter | Functions | Key Responsibilities | Power |
|---|---|---|---|---|---|---|---|
| | Executive Director (ED) | Non-Executive Director (NED) | Independent Director (ID) | | | | |
| **Executive** | **3** | **0** | **2** | *The Company By-Laws, Article 1, Section 8* | *The ExecutiveCommittee exercise all the powers of the Board except: (1) The approval of any action for which stockholders' approval is required; (2) The filling of vacancies in the board; (3) The amendment or repeal of the By-Laws or the adoption of new by-laws; (4) The amendment or repeal of any resolutions of the Board of Directors which by its terms is not so amendable or repealable; and (5) Distribution of cash dividends to the shareholders.*<br><br>*The act of the majority of the members of the Executive Committee shall be the act of the Executive Committee. Minutes of all the proceedings of the executive Committee shall be kept, and shall be submitte to the Board of Directors for its information.* | *The Executive Committee has the same responsibilities as the Board except for the responsibility for (1) The approval of any action for which stockholders' approval is required; (2) The filling of vacancies in the board; (3) The amendment or repeal of the By-Laws or the adoption of new by laws; (4) The amendment or repeal of any resolutions of the Board of Directors which by its terms is not so amendable or repealable and (5) Distribution of cash dividends to the shareholders.* | *The Executive Committee has the same power as the Board except for the power to (1) approve any action for which stockholders' approval is required; (2) Filling of vacancies in the board; (3) Amending or repealing of the By-Laws or the adoption of new by laws; (4) Amending or repealing of any resolutions of the Board of Directors which by its terms is not so amendable or repealable and (5) Distribution of cash dividends to the shareholders.* |
| **Audit** | **2** | **1** | **2** | *Audit Committee Charter* | *Assists the Board of Directors in fulfilling its responsibility for oversight of corporate governance processes, particularly those which affect the integrity of consolidated financial statements and any formal announcements relating to the financial performance* | *Oversight responsibility in matters relating to:*<br>*1. The Company's consolidated financial statements and the financial reporting process*<br>*2. Systems of internal accounting, financial controls, information technology security and managing business risks*<br>*3. The functions of internal and external auditors and their performance*<br>*4. Adoption of the highest standards of accounting and business ethics*<br>*5. Compliance with legal and regulatory matters* | *Authority to conduct or authorize investigations into any matter within its scope of responsibility, with full access to all records, books of accounts, facilities and personnel. It has the authority to obtain advice and assistance from outside legal, accounting and other advisors, and to meet with and seek information it requires from employees, officers and directors* |
| **Nomination** | **1** | **2** | **1** | ***Revised Manual on Corporate Governance*** | *Review and evaluate the qualifications of all prsons nominated to the Board and other appointments that require Board approval, and to assess the effectiveness of the Board's processes and procedures in the election or replacement of directors;* | *Ensure that all persons nominated to the Board and other appointments that require Board approval are qualified, and that the Board's processes and procedures in the election or replacement of directors are effective.* | *Screening of all persons nominated to the Board and other appointments; such other implied power to ensure that the Board's processes and procedures in the election or replacement of directors are effective.* |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Compensation** | 2 | 1 | 1 | *Revised Manual on Corporate Governance* | *Establish a formal and transparent procedure for developing a policy on remuneration of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates.* | *Establishment of a formal and transparent procedure for developing a policy on remuneration of directors and officers so that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates.* | *Recommend to the Board a policy on the remuneration of directors and officers.* |

## 2) Committee Members

### (a) Executive Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee (from 2012) |
|---|---|---|---|---|---|---|
| Chairman | Tomas I. Alcantara | 23 May 2014 | 7 | 7 | 100% | 3 years |
| Member (ED) | Editha I. Alcantara | 23 May 2014 | 7 | 6 | 83% | 3 years |
| Member (ED) | Tirso G. Santillan, Jr. | 23 May 2014 | 7 | 7 | 100% | 3 years |
| Member (ID) | Jose Ben R. Laraya | 23 May 2014 | 7 | 7 | 100% | 3 years |
| Member (ID) | Thomas G. Aquino | 23 May 2014 | 7 | 3 | 66% | 3 years |

### (b) Audit Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee (from 2012) |
|---|---|---|---|---|---|---|
| Chairman (ID) | Jose Ben R. Laraya | 23 May 2014 | 6 | 6 | 100% | 3 years |
| Member (ED) | Editha I. Alcantara | 23 May 2014 | 6 | 5 | 83% | 3 years |
| Member (ED) | Tirso G. Santillan, Jr. | 23 May 2014 | 6 | 6 | 100% | 3 years |
| Member (ID) | Jacinto C. Gavino, Jr. | 23 May 2014 | 6 | 4 | 66% | 3 years |
| Member (NED) | Ramon T. Diokno | 23 May 2014 | 6 | 6 | 100% | 3 years |

**Disclose the profile or qualifications of the Audit Committee members.**

*Each member has a working knowledge of the statutory and regulatory requirements and responsibilities, the business environment, operations and the risks relating thereto, and key accounting and financial reporting concepts and practices relevant to the various companies included in the Company.*

**Describe the Audit Committee's responsibility relative to the external auditor.**

*The Audit Committee provides assistance to the board of directors in fulfilling the oversight responsibility to the shareholders relating to the functions of external auditors and their performance.*

*In consultation with the CEO, CFO and CAE, the Audit Committee recommends the appointment, compensation, and replacement of the external auditor. It reviews and approves the audit plan, and receives audit reports; including disagreements with management on critical accounting policies and practices. The Audit Committee assesses and ensures the independence of the external auditor, and recommends rotation, if applicable.*

### (c) Nomination Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee (from 2012) |
|---|---|---|---|---|---|---|
| Chairman | Tomas I. Alcantara | 23 May 2014 | 1 | 1 | 100% | 3 years |
| Member (NED) | Sylvia M. Duque | 23 May 2014 | 1 | 1 | 100% | 3 years |
| Member (NED) | Carlos G. Dominguez | 23 May 2014 | 1 | 1 | 100% | 3 years |
| Member (ID) | Jose Ben R. Laraya | 23 May 2014 | 1 | 1 | 100% | 3 years |

### (d) Compensation Committee

| Office | Name | Date of Appointment | No. of Meetings Held | No. of Meetings Attended | % | Length of Service in the Committee (from 2012) |
|---|---|---|---|---|---|---|
| Chairman | **Tomas I. Alcantara** | 23 May 2014 | - | - | - | 3 years |
| Member (ED) | **Tirso G. Santillan, Jr.** | 23 May 2014 | - | - | - | 3 years |
| Member (NED) | **Honorio A. Poblador III** | 23 May 2014 | - | - | - | 3 years |
| Member (ID) | **Jose Ben R. Laraya** | 23 May 2014 | - | - | - | 3 years |

## 3) Changes in Committee Members

**Indicate any changes in committee membership that occurred during the year and the reason for the changes:**

| Name of Committee | Name | Reason |
|---|---|---|
| Executive | *No change during the year.* | |
| Audit | | |
| Nomination | | |
| Compensation | | |

## 4) Work done and Issues Addressed

**Describe the work done by each committee and the significant issues addressed during the year.**

| Name of Committee | Work Done | Issues Addressed |
|---|---|---|
| **Executive** | *This Committee reviewed all matters and actions for approval of the Board prior to presentation to the Board. Thus, all actions of the Board were recommended by this Committee after study and evaluation.* | *In reviewing all matters and actions for approval by the Board prior to presentation to the Board, this Committee addressed all contentious issues that the Board raised, as well as those issues arising from the study and evaluation of the proposed transactions. Such issues included (I) the transfer of shares of subsidiaries from a subsidiary to the Company; (ii) agreements with other shareholders of a foreign company for joint voting of said shares; (iii) loans with banks and affiliates for the funding of projects; audited annual and quarterly financial statement; conversion of advances into equity in a land-holding subsidiary; (iv) development expenses budget; (v) cash dividends; (vii) acceptance of a partner in a power project.* |
| **Audit** | a. *Assessed and challenged, where necessary, the correctness of the quarterly, midyear and annual consolidated financial statements and all related disclosures and reports certified by the CFO before submission to the board and released to the SEC and the public. In consultation with the CFO and CAE assured the relevance and consistency of the accounting policies applied; no material errors or misstatements and fraud occurred.* | *All questions raised to clarify items in the financial statements were adequately answered, particularly the assumptions used in the valuation and impairment assessment, which were all disclosed in the financial statements under Significant Judgments and Estimates.* |
| | b. *In consultation with the External and Internal Auditors, assessed the effectiveness and adequacy of the internal control systems. Understood the audit plan and obtained results of audit activities, including significant findings, corresponding recommendations and Management responses and plans of action.* | *Aside from those specifically identified and disclosed under the Notes to Financial Statements, there were no issues raised that materially affected the accuracy of financial statements.* |
| | c. *Obtained assurance that the External and Internal Auditors had free and full access to the Company records and were free from interference in the conduct of the audits. Recommended the appointment of the External Auditor* | *None* |

| | | |
|---|---|---|
| | d. Obtained and understood updates on ongoing projects of subsidiaries and visited and did ocular inspection of the existing facilities<br>e. Revised the Audit Committee Charter to comply with the new guidelines and completed the assessment of the performance of the Committee | There were no material issues raised and the Committee agreed to continuously improve its performance |
| **Nomination** | *This Committee reviewed and evaluated the qualifications of the persons nominated to the Board* | *The issue of the qualifications of the persons nominated to the Board were addressed by this Committee.* |
| **Compensation** | *Members of this Committee were consulted on the proposed increase of the per diems for the directors and executive officers, which increase was implemented.* | *The issue of whether or not to increase the per diems of the directors and executive officers was addressed by this Committee.* |

## 5) Committee Program

**Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.**

| Name of Committee | Planned Programs | Issues to be Addressed |
|---|---|---|
| **Executive** | *This Committee will continue to review and evaluate the transactions to be brought to the Board.* | *This Committee will address all the issues arising from transactions to be brought to the Board.* |
| **Audit** | *This Committee will continue to assess and challenge, where necessary, the correctness of the quarterly, midyear and annual consolidated financial statements and all related disclosures and reports certified by the CFO before submission to the Board and release to the SEC and the public. In consultations with the CFO and CAE, this Committee will continue to: (a) assure the relevance and consistency of the accounting policies applied; (b) ensure that no material errors or misstatements and fraud occur; (c) in consulation wih the External and Internal Auditors, assess the effectiveness and adequacy of the internal control systems, review the audit plan and obtain results of audit activities, including significant findings, correspondence, corresponding recommendations and Management responses and plans of action; (d) obtain assurance that the External and Internal Auditors had free and full access to the Company records and were free from interference in the conduct of the audits; (e) Recommended the appointment of the External Auditor; (f) obtain and understand updates on ongoing projects of subsidiaries and visit and do occular inspection of the exisitng facilities; (g) revise the Audit Committee Charter to comply with the new guidelines and complete the assessment of the performance of the Committee.* | *This Audit Committee will address all the issues arising from transactions to be brought to the Executive Committeee and/or Board.* |
| **Nomination** | *This Committee will continue to review and evaluate the qualifications of all persons nominated to the Board, as well as other appointments that require Board approval. Moreover, it will continue to aassess the effectiveness of the Board's processes and procedures in the election or replacement of directors;* | *This Committee will address the issues arising from nominations to the Board, including the issue of qualifications of various nominees. The Committee will also determine whether it needs a separate Charter similar to that of the Audit Committee.* |
| **Compensation** | *Members of the Compensation Committee continue to develop a policy on remunerations of directors and officers to ensure that their compensation is consistent with the Corporation's culture, strategy and the business environment in which it operates* | *This Committee will most likely address the issues arising from such a policy, including the extent of application, and the criteria for officers to be beneficiaries of such policies in the context of the business environments where the Company or its subsidiaries operate.* |

## F. RISK MANAGEMENT SYSTEM

### 1) Disclose the following:

**(a) Overall risk management philosophy of the company**

*The Company believes that the oversight and accountability for the risk assessment process is critical to ensure that the necessary commitment and resources are secured, that it occurs at the right level in the organization and the risks are evaluated through a rigorous and ongoing process, the results of which are timely acted upon.*

**(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof**

*The board of directors through the Audit Committee reviewed the effectiveness and adequacy of the risk management system.*

**(c) Period covered by the review**

*Year 2014*

**(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and**

*The review of the Company's risk management system is continuous and reports on its adequacy and effectiveness obtained as regularly as needed.*

**(e) Where no review was conducted during the year, an explanation why not.**

*Annual review is conducted.*

### 2) Risk Policy

**(a) Company**

**Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behid the policy for each kind of risk.**

| Risk Exposure | Risk Management Policy | Objective |
|---|---|---|
| *Credit Risk* | *The Company trades only with recognized and creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.* | *Ensure that the counterparty will meet its obligation* |
| *Liquidity Risk* | *The Company maintains sufficient funds or will not have difficulty in raising funds to meet or settle its obligations at a reasonable price* | *Ensure that the Company maintains sufficient funds to finance its operations* |
| *Interest Rate Risk* | *The Company manages its interest cost using a mix of fixed and variable debt rates and monitors possible changes in interest rates using sensitivity analysis* | *Ensure that changes in market interest rates will not materially affect the fair value or future cash flows of financial instruments* |
| *Equity Price Risk* | *The Company intends to hold on to investmnets indefinitely in response to liquidity requirements or changes in market conditions* | *Ensure that decreases as a result of changes in the value of individual stocks will not materially affect the fair value of quoted AFS investments* |
| *Foreign Currency Risk* | *The Company manages its exposure to foreign currency risk by maintaining sensitivity analysis of possible decline in values and limits its transactions denominated in currencies other than its functional currency* | *Ensures that losses due to changes in foreign currency is limited* |

| | | |
|---|---|---|
| *Capital Management* | *The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment, return capital or issue new shares to stockholders. The Company monitors capital on the basis of the debt-to-equity ratio.* | *Ensures that the Company maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder's value* |

**(b) Group**

**Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:**

| Risk Exposure | Risk Management Policy | Objective |
|---|---|---|
| *Credit Risk* | *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.*<br><br>*In the Group's real estate business, the transfer of the property is executed only upon full payment of the purchase price. There is a provision in the Sales Contract which allows forfeiture of the instalment/deposits made by the customer in favor of the Group in case of default.*<br><br>*In the power generation business, it is the policy of the Group to comply with all the provisions in the Energy Conversion Agreements (ECA)*<br><br>*With respect to financial assets of the Group, maximum exposure arising from default of the counterparty is equal to the carrying value of the instruments.* | *Ensure that the counterparty will meet its obligation under a financial instrument or a customer contract and avoid financial loss.*<br><br>*Minimize Group's exposure to bad debts.*<br><br>*Minimize the credit risk exposure or any margin loss from possible default in the payment of instalment.* |
| *Liquidity Risk* | *The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements.* | *Maintain sufficient cash and cash equivalents to meet maturing obligations and pay dividend declarations.* |
| *Interest Rate Risk* | *The Group's policy is to manage its interest cost using a mix of fixed and variable debt rates and monitors possible changes in interest rates using sensitivity analysis* | *Ensure that changes in market interest rates will not materially affect the fair value or future cash flows of financial instruments* |
| *Equity Price Risk* | *The Group intends to hold on to investmnets indefinitely in response to liquidity requirements or changes in market conditions* | *Ensure that decreases as a result of changes in the value of individual stocks will not materially affect the fair value of quoted AFS investments* |
| *Foreign Currency Risk* | *The Group manages its exposure to foreign currency risk by maintaining sensitivity analysis of possible decline in values and limits its transactions denominated in currencies other than its functional currency* | *Ensures that losses due to changes in foreign currency is limited* |
| *Capital Management* | *The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment, return capital or issue new shares to stockholders. The Company monitors capital on the basis of the debt-to-equity ratio.* | *Ensures that the Group maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder's value* |

**(c) Minority Shareholders**

**Indicate the principal risk of the exercise of controlling shareholders' voting power.**

| Risk to Minority Shareholder |
|---|
| *The principal risk to the minority shareholders of the exercise by the controlling shareholders' voting power is lack of control.* |

## 3) Control System Set Up

### (a) Company

**Briefly describe the control system set up to assess, manage and control the main issue/s faced by the company:**

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|---|---|---|
| *Financial Risks* | *Financial Statement risk assessment* | *Evaluate risks related to the material misstatement of the Company financial statements through input from the Accountants, Internal Audit and Operations. The evaluation considers the characterisitcs of the financial reporting elements; particularly, materiality and susceptibility of the underlying accounts, transactions, or related support to a likelihood that a control may fail to operate as intended and its impact to financial reports.* |
| *Market Risks* | *Market risk assessment* | *Evaluate market movements that could affect the Company's performance, particularly interst rates and currency.* |
| *Credit Risks* | *Credit risk assessment* | *Evaluate the potential that a borrower will fail to meet its obligations in accordance with agreed terms.* |

### (b) Group

**Briefly decribe the control system set up to assess, manage and control the main issue/s faced by the company:**

| Risk Exposure | Risk Assessment (Monitoring and Measurement Process) | Risk Management and Control (Structures, Procedures, Actions Taken) |
|---|---|---|
| *Financial Risks* | *Financial Statement risk assessment* | *Evaluate risks related to the material misstatement of the Company financial statements through input from the Accountants, Internal Audit and Operations. The evaluation considers the characterisitcs of the financial reporting elements; particularly, materiality and susceptibility of the underlying accounts, transactions, or related support to a likelihood that a control may fail to operate as intended and its impact to financial reports.* |
| *Market Risks* | *Market risk assessment* | *Evaluate market movements that could affect the Company's performance, particularly interst rates and currency.* |
| *Credit Risks* | *Credit risk assessment* | *Evaluate the potential that a borrower will fail to meet its obligations in accordance with agreed terms.* |

### (c) Committee

**Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:**

| Committee/Unit | Control Mechanisms | Details of its Functions |
|---|---|---|
| *Audit Committee* | | *The Committee encourages conitnuous improvement of and fosters adherence to the policies, procedures and best practices set up by the Company as well as the subsdiaries under it, at all levels. It provides for open communications among and between management, the exernal auditors, internal auditors and the board of diretors.* |

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

**Disclose the following information pertaining to the internal control system of the company:**

**(a) Explain how the internal control system is defined for the company**

*The Company's Manual on Corporate Governance defines internal control system as the framework under which internal controls are developed and implemented to manage and control business risks to which the Company is exposed. The manual further identifies the objectives of the internal control system which is to ensure the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, safeguarding of assets and compliance with laws, rules, regulations and contracts.*

**(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate**

*The Board of Directors confirm the adequacy and effectiveness of the internal control system of the Company.*

**(c) Period covered by the review;**

*Year 2014*

**(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and**

*The review of internal controls is continuous and the Board of Directors, thru its Audit Committee renders an annual report of its adequacy and effectiveness.*

**(e) Where no review was conducted during the year, an explanation why not.**

*Not applicable, quarterly review is conducted.*

### 2) Internal Audit

**(a) Role, Scope and Internal Audit Function**

**Give a general description of the role, scope of internal audit work and other details of the internal audit function.**

| Role | Scope | Indicate whether In-House or Outsource Internal Audit Function | Name of Chief Internal Auditor/Auditing Firm | Reporting Process |
|---|---|---|---|---|
| *To provide independent assurance to the Board and Management as to the status of the Company's risk management, control and governance processes.* | *The Internal Audit Team is involved in the examination and evaluation of the adequacy and effectiveness of the Company's governance, risk management, and internal control processes as well as the quality of performance in carrying out assigned responsibilities to achieve the Company's stated goals and objectives. It's responsibilities thereby include, though not limited to, the following: Evaluation* | *In-House* | *Mr. Esperidion D. Develos, Jr.* | *The Internal Audit Group reports functionally to the Board of Directors through the Audit Committee. Its activities are guided and performed in accordance with the revised "Standards for the Professional Practice of Internal Auditing" and "Code of Ethics" developed by the Institute of Internal Auditors and/or any other auditing standards as may be adopted by the Internal Audit* |

| | | | | |
|---|---|---|---|---|
| | <u>of the reliability and integrity of information and the means used to identify, measure, classify, and report such information; Evaluation of the means of safeguarding assets; and, Assessment of the effectiveness and efficiency with which resources are employed.</u> | | | |

**(b) Do the appointment and/or removal of the Internal Auditor or the accounting/ auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?**

*The appointment or removal of the Chief Internal Auditor is vested in the Audit Committee.*

**(c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of the directors and the audit committee and to all records, properties and personnel?**

*The results of the financial, operations and compliance review conducted by Internal Audit are reported directly to the Audit Committee. In the performance of its audit function, it has full access to all records, facilities, properties and personnel of the line companies and is authorized to review and appraise policies, plans, procedures, and processes. The internal audit activity is free from interference in determining its scope, performing its work and communicating its results. A separate meeting between the Audit Committee and the Chief Audit Executive may be conducted to discuss any matter that may be necessary to be discussed privately.*

**(d) Resignation, Re-assignment and Reasons**

**Disclose any registration/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.**

*The Internal Auditors' assignments are rotated periodically to avoid familiarity and ensure independence. <u>For the year 2014</u>, the following Internal Auditors tendered their resignation.*

| Name of Audit Staff | Reason |
|---|---|
| *<u>Chonabeth I. Nazario</u>* (AVP & Head of Group Internal Audit) | *Career advancement* |
| *<u>Cherryl Ivy C. Losala</u>* (Group Internal Auditor) | *Personal* |

**(e) Progress against Plans, Issues, Findings and Examination Trends**

**State the internal audit's progress against plans, significant issues, significant findings and examination trends.**

| | |
|---|---|
| **Progress Against Plans** | *The progress of Annual Internal Audit Plan versus the Actual engagements completed or on-going is being monitored annually and is reported to the Audit Committee* |
| **Issues** | *Issues are discussed with the Auditees in informal and formal meetings for clarification and/or agreement to subsequently comply or discuss required changes or updates to existing policies or procedures, if necessary.* |
| **Findings** | *Findings are discussed with the Auditees in informal and formal exit meetings and their responses considered and included as Auditees' Comments in final Audit Reports* |
| **Examination Trends** | *As a holding Company, the examinations are being conducted on the subsidiaries* |

**The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:**

1) **Preparation of an audit plan inclusive of a timeline and milestones;**
2) **Conduct of examination based on the plan;**
3) **Evaluation of the progress in the implementation of the plan;**
4) **Documentation of issues and findings as a result of the examination;**
5) **Determination of the pervasive issues and findings ("examination trends") based on single year result and/or year-to-year results;**
6) **Conduct of the foregoing procedures on a regular basis.]**

*The Internal Audit Plan is presented to the Audit Committee for approval on a yearly basis. The assignments are prioritized to cover transactions mostly at risk in case of non-compliance or deviation. The timing, scope and limitations of the actual audit activity is based on volume, size and complexity of transactions, the degree of delegation of authority, extent and effectiveness of information technology and extent of regulatory compliance.*

*Under the Internal Audit Annual Plan, for financial audits, which are designed to validate the existence, accuracy and completeness of account balances, account balances as of a particular date are reviewed. For operations audit, which involve the walkthrough of procedures and compliance review, samples for testing are selected from a period of one year.*

*All audit findings are discussed with the line management operating heads to validate that the Internal Auditor's understanding of the processes and procedures is accurate and to obtain agreement on the facts and key statements in the report. The Auditees' comments, responses on recommendations, concurrence or non-concurrence with the findings, corrective actions and timetable for such actions are incorporated in the audit report.*

*Internal audit will report on the results of the review on the next nearest Audit Committee meeting.*

(f) **Audit Control Policies and Procedures**

**Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column "Implementation".**

| Policies & Procedures | Implementation |
|---|---|
| *Cash* | *Implemented* |
| *Receivables* | *Implemented* |
| *Inventories* | *Implemented* |
| *Fixed Assets* | *Implemented* |
| *Investments* | *Implemented* |
| *Payables* | *Implemented* |
| *Requisition, Procurement and Storage Process* | *Implemented* |
| *Release of Materials and Inventory Process* | *Implemented* |
| *Expenditure and Disbursement Process* | *Implemented* |
| *Recruitment/Labor Contracting/Salary and Benefit Management Process* | *Implemented* |
| *Contract Review* | *Implemented* |
| *Billing and Collection Process* | *Implemented* |
| *Project Management Process* | *Implemented* |
| *Outside and Contracted Service Review* | *Implemented* |
| *Compliance Review over Regulatory Reports* | *Implemented* |

(g) **Mechanism and Safeguards**

**State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company's shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):**

| Auditors (Internal ad External) | Financial Analysts | Investment Banks | Rating Agencies |
|---|---|---|---|
| a. The Group reports directly to the Audit Committee, not to Management<br>b. The Group does not assume operating responsibilities and is not required nor expected to develop or install procedures, prepare records or engage in any activity which will be subject of review<br>c. Internal Auditors are free from interference in determining the scope of examination, in performing audit work and in communicating results of audit<br>d. Internal Auditors have free and full access to all records, properties and personnel | The Financial Analysts engaged by the Company for various purposes are so engaged precisely because of their independence so that their findings are credible to those who will be using their findings. The have the quality to avoid being unduly influenced by a vested interest and being free from any constraints that would prevent a correct course of action being taken. | The Investment Banks who transact, or propose to transact, with the Company, are not affiliated with the Company and possess the quality to avoid being unduly influenced by avested interest and being free from any constraints that would prevent a correct course of action being taken. | The Rating Agencies the rate the Company are not affiliated with the Company and possess the quality to avoid being unduly influenced by a vested interest and being free from any constraints that would prevent a correct course. |

**(h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such information must state that all directors, officers and employees of the company have been given proper instruction of their respective duties as mandated by the Code and that internal mechanism are in place to ensure that compliance.**

*The Chairman and President (who is the CEO) and the Compliance Officer attest to the company's full compliance with the SEC Code of Corporate Governance.*

## H. ROLE OF STAKEHOLDERS

**1) Disclose the company's policy and activities relative to the following:**

| | Policy | Activities |
|---|---|---|
| Customers' welfare | The Company's commitments to its stakeholders include a commitment to its customers of product excellence and quality service | The Company adheres to its commitments to its customers by adopting and maintaining practices that will produce an excellent product and/or render services of excellent quality |
| Supplier/contractor selection practice | The Company's selection practice for its supliers and contractors takes into account not only the lowest price but the right price and quality for the services or goods being supplied. | The Company review its requirements from suppliers and contractors and considers prices and quality of products and good supplied or services to be rendered. |
| Environmentally friendly value-chain | To the extent possible, the environment is considered in deciding who will provide the products and services in the company's value chain. | The Company assiduously reviews its requirements from suppliers and contractors and considers the environmental impact of the products or good supplied or services to be rendered. |
| Community interaction | The Company's commitments to its stakeholders include a commitment to its host communities of shared efforts in sustainable development. Thus, the Conmpany continued outreach to host communities in coordination with the Conrado and Ladislawa Alcantara Foundation Inc. (CLAFI), a non-stock, non-profit entity overseeing the Corporate Social Responsibility (SCR) functions of the Company and the Alcantara Group. | Donation of workbooks; provision of tutoring and mentoring programs, and English review sessions; scholarships for short-term technical-vocational courses, high school and college students; donations of study chairs, computer equipment, and entire scool buildings. |

| | | |
|---|---|---|
| Anti-corruption programmes and procedures? | *Corruption is deterred by the dissemiation of ethical expectations and he enforcement of rules and regulations.* | *The Company disseminates its materials to establish ethical standards of conduct, and reinforces the same by regular lectures during its monthly general meeting of all Group employees.* |
| Safeguarding creditors' rights | *The Company respects the rights of its creditors by complying with all of its affirmative covenants, negative undertakings and all other obligations in its various creditors' agreements.* | *The Company regularly reviews its loan and security agreements to ensure tht all of the rights of the creditors are observed, and all of its obligations are complied with.* |

2) **Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section?** *Yes*

3) **Performance-enhancing mechanisms for employee participation.**

   (a) **What are the company's policy for its employees' safety, health, and welfare?**

   *The company, as part of the Group, provides its employess with Management-initiated Benefits in addition to providing the benefits mandated by statutes. Management-initiated Benefits include additional vacation leave, sick leave, transporation allowance, rice, uniform, medical & hospitalization benefits, accident and life insurance.*

   (b) **Show data relating to health, safety and welfare of its employees.**

   *The data for the Company employees relating to health, safety and welfare re to be extracted from the data for the Group employees, which extraction is currently on-going.*

   (c) **State the company's training and development programmes for its employees. Show the data.**

   *The data for the Company's training and development program for its employees are to be extracted from the data for the Group employees, which extraction is currently on-going.*

   (d) **State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.**

   *This Company is considering the codification of this policy.*

4) **What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behavior? Explain how employees are protected from retaliation.**

   *Currently, complaints by employees concerning illegal and unethical behavior, including corruption, if any, are coursed through the appropriate department, including but not limited to, the Human Resources Department, Internal Audit or Legal. Depending on the nature of the complaint, and the evidence of the complainant, the Company will call the attention of the employee concerned, ask him/her to submit an explanation and, depending on the employee's explanation, impose the appropriate sanction, which may inclue, but are not limited to, application of the Labor Code, section 282, its implementing rules and regulations, and relevant jurisprudence. Complaining employees are protected from retaliation by anonymity and confidentiality.*

   *To further enhance the reception, investigation and handling of these complaints, as well as ensuring that complaining employees are protected from retaliation, the Company implemented its Whistleblowing Policy effective October 1, 2014. There is now a dedicated e-mail address where employees can report anonymously, if desired.*

## I. DISCLOSURE AND TRANSPARENCY

1) **Ownership Structure**

   (a) **Holding 5% shareholding or more (as of May 23, 2014)**

| Shareholder | Number of Shares | Percent | Beneficial Owner |
|---|---|---|---|
| *Alsons Corporation*<br>*Alsons Power Holdings Corporation*<br>*Alsons Development & Investment Corporation* | *2,592,524,072*<br>*1,249,999,600*<br>*1,188,524,026* | *41.21%*<br>*19.87%*<br>*18.89%* | *Alcantara Family represented by its President, Mr. Tomas I. Alcantara* |
| *PCD Nominee Corporation (Fil)* | *1,108,739,577* | *17.62%* | *There are no holders of more than 5% of common shares individually. The clients of the various PCD participants have the power to decide how the shares are to be voted* |

| Name of Senior Management | Number of Direct Shares | Number of Indirect shares/ Through (name of record owner) | % of Capital Stock |
|---|---|---|---|
| *Tomas I. Alcantara* | *1* | - | - |
| *Editha I. Alcantara* | *100,000* | - | - |
| *Alejandro I. Alcantara* | *1* | - | - |
| *Jacinto C. Gavino* | *1* | - | - |
| *Ramon T. Diokno* | *1* | - | - |
| *Carlos G. Dominguez* | *1* | - | - |
| *Jose Ben R. Iaraya* | *100* | - | - |
| *Conrado C. Alcantara* | *1* | - | - |
| *Honorio A. Poblador III* | *100* | - | - |
| *Thomas G. Aquino* | *100* | - | - |
| *Tirso G. Santillan, Jr.* | *10,406* | - | - |
| ***Total*** | ***110,712*** | - | - |

### 2) Does the Annual Report disclose the following:

| | |
|---|---|
| Key risks | *Yes* |
| Corporate objectives | *Yes* |
| Financial performance indicators | *Yes* |
| Non-financial performance indicators | *Yes* |
| Dividend policy | *Yes* |
| Details of whistle-blowing policy | *Yes* |
| Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners | *Yes* |
| Training and/or continuing education programme attended by each director/commissioner | *Yes* |
| Number of board of directors/commissioners meetings held during the year | *Yes* |
| Attendance details of each director/commissioner in respect of meetings held | *Yes* |
| Details of remuneration of the CEO and each member of the board of directors/commissioners | *Yes* |

**Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.** *Not applicable*

### 3) External Auditor's fee

| Name of auditor | Audit Fee | Non-audit Fee |
|---|---|---|
| *SyCip, Gorres, Velayo & Co.* | *₱811,519.52* | - |

### 4) Medium of Communication

**List down the mode/s of communication that the company is using for disseminating information.**

*The Company formally disseminates information to its stockholders via the Exchange and the Commission using facsimile transmission, emails, and uploading into the portals of these institutions. The Company also maintains a website that may be accessed by all stockholders and the public.*

5) **Date of release of audited financial report**

*April 15, 2014 with disclosure to the Philippine Stock Exchange and Securities Exchange Commission under SEC Form 17-A.*

6) **Company Website**

**Does the company have a website disclosing up-to-date information about the following?**

| | |
|---|---|
| Business operations | *Yes* |
| Financial statements/reports (current and prior years) | *Yes* |
| Materials provided in briefing to analysts and media | *Yes* |
| Shareholding structure | *Yes* |
| Group corporate structure | *Yes* |
| Downloadable annual report | *Yes* |
| Notice of AGM and/or EGM | *Yes* |
| Company's constitution (company's by-laws, memorandum and articles of association) | *No. The Company's amended Articles of Incorporation and/or By-Laws are available to the public through the Commission. However, any stockholder may request the Company for a copy of the same. These amended Articles of Incorporation and/or By-Laws may also be uploaded into the Company's website as soon as the same shall be re-formatted for easier review by stockholders who will be accessing the site.* |

**Should any of the foregoing information be not disclosed, please indicate the reason thereto.**

*The Company's amended articles of incorporation and/or by-laws (the Corporation Code does not use the terms "memorandum and articles of association") are available to the public through the Commission. However, any stockholder may request the Company for a copy of the same. These amended articles of incorporation and/or by-laws may also be uploaded into the Company's website as soon as the same are re-formatted for easier review by stockholders accessing the site.*

7) **Disclosure of RPT**

| RPT | Condition | Nature | Value |
|---|---|---|---|
| *Major Stockholders* | *Party Secured* | *Advances* | *2,626,965,900* |
| *Subsidiaries of major stockholders* | *Unsecured* | *Advances* | *49,654,432* |
| *Affiliates* | *Unsecured* | *Advances* | *268,070,204* |

**When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?**

*As provided under the Corporation Code, management obtains the Board's approval before entering into any related party transaction ("RPT"). Thus, the RPT is specifically included in the notice and agenda for the Board meeting, and the Directors are fully informed of each proposed RPT. Moreover, the Directors of the Company who are also directors of the related party with whom the RPT is to be entered (the "inter-locked" Directors) are expressly excluded from the calculation of the quorum of the meeting during whoch the proposed RPT is considered. In the vote for the RPT, the inter-locked Directors are excluded from the voting.*

## J. RIGHTS OF STOCKHOLDERS

1) **Right to participate effectively in and vote in Annual/Special Stockholders' Meetings**

(a) Quorum

**Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.**

*A quorum for any meeting of the stockholders shall consist of a **majority** of the subscribed stock of the corporation, and a majority of such quorum shall decide any question at the meeting, save and except in those matters where the Corporation Law requires the affirmative vote of a greater proportion.*
*(Amended By-Laws, Article 3, Section 4, page 10)*

(b) Systems Used to Approve Corporate Acts

**Explain the system used to approve corporate acts.**

| | |
|---|---|
| **System Used** | *Advice and Ratification* |
| **Description** | *Prior to the annual or any special stockholders meetings, a list and summary of corporate acts by the Board and management is prepared and distributed to the stockholders. At the annual or any special stockholders meeting, the Board directs the attention of the stockholders to this list and summary for their review and questions. If there are questions, the Board and management addresses the questions. If there are no further questions, the Chairman specifically asks the stockholders to ratify these acts of management.* |

(c) Stockholders's Rights

**List any Stockholders' Rights concerning Annual/Special Stockholders's Meeting that differ from those laid down in the Corporation Code.**

| Stockholders' Rights under The Corporation Code | Stockholders' Rights not in The Corporation Code |
|---|---|
| *The stockholers have the right, as provided by the Corporation Code and Articles of Incorporation, to, among others, (I) vote on all matters that require the stockholders' consent or approval; (ii) inspect corporate books and records; (iii) information; (iv) dividends; and (v) appraisal of the stockholders' shares.* | *Under the Company's By-laws, Articles III, section 2, a stockholder holding of record not less than ¼ of the outstanding capital stock of the Company may request in writing for a stockholders' meeting and the Board or the President must call for a special stockholders' meeting* |

Dividends

| Declaration Date | Record Date | Payment Date |
|---|---|---|
| *May 23, 2014*<br>*March 21, 2013*<br>*May 4, 2012* | *June 30, 2014*<br>*May 23, 2013*<br>*May 18, 2012* | *July 24, 2014*<br>*June 14, 2013*<br>*June 14, 2012* |

(d) Stockholders' Participation

(i) **State, if any, the measures adopted to promote stockholder participation in the Annual/ Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.**

| Measures Adopted | Communication Procedure |
|---|---|
| *Notice and Full Disclosure* | *The Board timely advises the stockholders of the annual stockholders with adequate information meaningfully participate in the meeting. The notice and other materials for the stockholders have reminders of the rights of the stockholders.* |

| | |
|---|---|
| *Advise and Ratification* | *Prior to the annual or any speical stockholders meetings, a list and summary of corporate acts by the Board and management is prepared and distributed to the stockholders. At the annual or any special stockholders meeting, the Board directs the attention of the stockhoders to this list and summary for their review and questions. If there are questions, the Board and management addresses the questions. If there are no further questions, the Chairman specifically asks the stockholders to ratify these acts of management* |

**2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:**

**a. Amendments to the company's constitution**

*The articles of incorporation, as amended, is the constitution of the Company. Pursuant to the Corporation Code, section 16, the amendment of the articles required the vote or written assent of the stockholders representing at least 2/3 of the outstanding capital stock. Therefore, in amending its articles, the Company calls for a stockholders' meeting and asks its shareholders to actively participate in the corporate decision of amending the articles of incorporation or constitution of the Company.*

**b. Authorization of additional shares**

*The articles of incorporation, as amended, sets for the number and other details of the shares of the capital stock ofr the Company. Pursuant to the Corporation Code, section 38, the increase in the capital stock requires the vote of the stockholders representing at least 2/3 of the outstanding capital stock. Therefore, in authorizing additional shares in its capital stock, the Company calls for a stockholders' meeting and asks its sharesholders to actively participate in the corporate decision of authorizing shres in the capital stock of the Company.*

**c. Transfer of all or substantially all assets, which in effect results in the sale of the company**

*Pursuant to the Corporation Code, section 40, the sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the Company's assets requires the vote of the stockholders representing at least 2/3 of the outstanding capital stock. Therefore, in authorizing such a transfer, the Company calls for a stockholders' meeting and asks its shareholders to actively participate in the corporate decision of transferring all or substantially all of the Company's assets.*

**3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up?**

*Yes, giving out notice of Annual Stockholders' Meeting is 23 days as counted from April 30, 2014 to May 23, 2014.*

**a. Date of sending out notices:** *On April 30, 2014, sending out of Notices and Definitive Information Statement in compact disc to all record stockholders was done thru personal delivery using courier service or registered mail.*

**b. Date of the Annual/Special Stockholders' Meeting:** *May 23, 2014*

**4. State, if any, questions and answers during the Annual/ Special Stockholders' Meeting.**

*During the Annual Stockholders' Meeting, a stockholder referred to the previously disclosed fund-raising effort by the Company that did not proceed and asked whether the discontinued fund-raising effort was the cause of the delay of the power project of one of the Company's subsidiaries, Sarangani Energy Company, Inc.*

*The Company's management replied that it still intended to raise funds for its future projects and that the previously disclosed fund-raising effort was affected, among other factors, with the state of the international capital markets. Sarangani Energy's power project was not delayed by the adjustment in the Company's fund-raising effort because it had its own funding from project debt.*

*Another stockholder asked whether the Company has a share buy-back program, to which the Company's management replied that it could study such a program.*

*Another stockholder referred to a news article claiming that the price of the power to be sold by one of the Company's subsidiaries, San Ramon Power, Inc., was more expensive that an alleged competitor and asked if this was true. The Company's management replied that price of power depended on the contruction price for the plant and refuted the claims by alleged competitiors without previous experience in constructing and maintaining power plants.*

*A stockholder asked whether a Japanese company he could not name was still interested in investing in the Company, to which the Chair advised the stockholders of the name of the Japanese company and its continued interest in investing in the Company.*

*Another stockholder asked whether the shares of one of the Company's subsidiaries, Alsing Power Holdings, Inc., would be listed in the Exchange. The Company's management replied that the Company's power subsidiaries were not listed.*

*A stockholder asked why the prices of the power to be sold by the Company's subsidiaries were different from each other. The Company's management replied that the Company's subsidiaries had different types of power plants consuming different types of fuel for different uses. After explaining the types of plants, fuel and uses, the Company's management advised that prices of different types of plants will necessarily be different.*

*Another stockholders referred to the Company's long-term debt and asked whether the same was still manageable, to which the Company's management replied in the affirmative.*

*A stockholder asked whether the Company had renewable energy projects, to which the Company's management replied that it was studying a hydro-power project in Mindanao.*

5. **Result of Annual/Special Stockholders' Meeting's Resolutions**
   ***May 23, 2014 Annual Stockholders' Meeting***

| Resolution | Approving | Dissenting | Abstaining |
|---|---|---|---|
| *Approval of the Minutes of Annual Stockholders' Meeting held on May 24, 2013.* | *Stockholders representing a total of 5,066,840,277 shares of stocks or 80.53% of the Corporation's outstanding shares entitled to vote* | *None* | *None* |
| *Approval of the Annual Report and Audited Financial Statements for the year ended December 31, 2013* | | *None* | *None* |
| *Ratification of the actions & proceedings of the Board of Directors, different Committees and Management during the year 2013.* | | *None* | *None* |
| *Election of Directors (including Independent Directors)* | | *None* | *None* |
| *Amendment of Article Three of the Article of Incorporation on principal office address* | | | |
| *Appointment of the External Auditors – Sycip Gorres Velayo & Co.* | | *None* | *None* |

6. **Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:** *The results of the annual stockholders' meeting was immediately disclosed to PSE's on line reporting system (PSE Edge Submission System) within the same date of the meeting.*

**(e) Modification**

**State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:**

| Modifications | Reason for Modification |
|---|---|
| *No modification made in the Annual/Special Stockholders' Meeting regulations during the most recent year.* | |

**(f) Stockholders' Attendance**

**(i) Details of Attendance in the Annual/Special Stockholders' Meeting held:**

| Type of Meeting | Names of Board members / Officers present | Date of Meeting | Voting Procedure (by poll, show of hands, etc) | % of SH Attending in Person | % of SH in Proxy | Total % of SH attendance |
|---|---|---|---|---|---|---|
| Annual Stockholders' Meeting | **Directors:**<br>1. Tomas I. Alcantara<br>2. Editha I. Alcantara<br>3. Alejandro I. Alcantara<br>4. Tirso G. Santillan, Jr.<br>5. Ramon T. Diokno<br>6. Jose Ben R. Laraya<br>7. Carlos G. Dominguez<br>8.Honorio A. Poblador, III<br>9. Jacinto C. Gavino, Jr.<br>10. Conrado C. Alcantara<br>11. Thomas G. Aquino<br>**Officers:**<br>1. Luis R. Ymson, Jr.<br>2. Roberto V. San Jose<br>3. Angel M. Esguerra, III<br>4. Esperidion D. Develos, Jr. | *23 May 2014* | By poll<br><br>one share one vote | *0.12%* | *80.41%* | *80.53%* |
| Special | *No Special Stockholders' Meeting held during the year.* | | | | | |

**(ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the AASM/SSMs? The Company asks personnel from its stock & transfer agent to act as inspectors to count and/or validate the proxies before the stockholders meeting, and the votes taken, if any, at such meetings.**

*Yes. Sycip Gorres Velayo & Co. was the appointed Board canvasser, an independent party to count and validate the votes during the Annual Stockholders' Meeting held on May 23, 2014.*

**(iii) Do the company's common shares carry on vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.**

*Yes. The Company's common shares entitles the holder to one vote that may be exercised in person or by proxy at shareholders' meeting, including the Annual Stockholders' Meeting.*

**(g) Proxy Voting Policies**

**State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.**

| | Company's Policies |
|---|---|
| Execution and acceptance of proxies | *Pursuant to the Company's By-Laws, Article III, section 7, every stockholder entitled to vote at any meeting of the stockholders may, so vote by proxy, provided that the proxy shall have been appointed in writing by the stockholder himself, or by his duly authorized attorney in favor of a registered stockholder. No proxy in favor of a third person who is no a bona fide registered stockholder of the Company and no proxy bearing a signature which is not legally acknowledged shall be recognized at any meeting unless such signature is known and recognized by the Secretary of the Meeting. The instrument authorizing a proxy to act shall be lodged with the Secretary at least five (5) days* |

| | |
|---|---|
| | *before the date of the meeting. No proxy shall be recognized for shares in the names of stockbrokers who are members of the stock exchanges, unless accompanied by the written consent or authorization of their clients authorizing the grant of such proxy or by a certification by the stockbroker that the shares are beneficially owned by him.* |
| Notary | *If the signature on the proxy is known and recognized by the Secretary, the legal acknowledgment of such a signature is not necessary.* |
| Submission of Proxy | *The instrument authorizing a proxy to act shall be lodged with the Secretary at least five (5) days before the date of the meeting.* |
| Several Proxies | *Pursuant to the Commission's Memorandum Circular N° 5, series of 1996, section B.10, "Where the same stockholder gives two or more proxies, the latest one given is to be deemed to revoke all former proxies."* |
| Validity of Proxy | *Pursuant to the Commission's Memorandum Circular N° 5, series of 1996, the Company's By-laws shall be controlling in determining the proper procedure to be followed in the execution and acceptance of proxies, or the validity of the proxy, provided that the Company will comply with the minimum required formalities prescribed under Section 58 of the Corporation Code and the applicable provisions of the SRC and its implementing rules and regulations.* |
| Proxies executed abroad | *Pursuant to the Commission's Memorandum Circular N° 5, series of 1996, section B.16, "Proxies executed abroad shall be duly authenticated by the Philippine Embassy or Consular Office."* |
| Invalidated Proxy | *An invalidated proxy shall not be used for the purposes for which it was issued.* |
| Validation of Proxy | *Pursuant to the Commission's Memorandum Circular N° 5, series of 1996, the Company's By-laws shall be controlling in determining the proper procedure to be followed in the execution and acceptance, and validation, of proxies, provided that the Company will comply with the minimum required formalities prescribed under Section 58 of the Corporation Code and the applicable provisions of the SRC and its implementing rules and regulations.* |
| Violation of Proxy | *The Company will comply with the Commission's Memorandum Circular N° 5, series of 1996, the Company's By-laws, Section 58 of the Corporation Code and the applicable provisions of the SRC and its implementing rules and regulations shall be controlling in determining the proper procedure to be followed in the execution and acceptance, and validation, of proxies, provided that the Company will comply with the minimum required formalities prescribed under Section 58 of the Corporation Code and the applicable provisions of the SRC and its implementing rules and regulations.* |

### (h) Sending of Notices

**State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.**

| Policies | Procedure |
|---|---|
| *At the first Board meeting in the calendar year, management recommends to the Board the schedule of activities leading up to, and including, the annual stockholders meeting, which, under the By-laws, Article III, section 1, is held during May of each year.*<br><br>*Notices to stockholders shall comply with the by-laws of the Company, the Corporation Code and the Securities Regulation Code and its implementing rules and regulations.* | *Notices of the time and place of holding any annual meeting, or any special meeting, of the stockholders, shall be given either by posting the same enclosed in a postage prepaid envelope, addressed to each stockholder of record entitled to vote at the address left by such stockholder with the secretary of the Company, or at his last known post-office address, or by delivering the same to him in person or by messengerial service, at least seven (7) days before the date set for such meeting. Every stockholder shall furnish the* |

| | |
|---|---|
| | *Secretary with the address at which notices of meetings and all other corporation notices may be served upon or mailed to him, and if any stockholder shall fail to furnish such address, notices may be served upon him by mail directed to him at his last known post-office address. The notice of every special meeting shall state briefly the objects of the meeting, and no other business shall be transacted at such meeting except by consent of all the stockholders of the Company entitled to vote. No notice of any meeting need be published in any newspaper. Failure to give or any defect or irregularity in giving the notice of the annual meeting shall not affect or invalidate the actions or proceedings at such meeting. The stockholders of the Company entitled to vote, may, by unanimous consent in writing, waive notice of the time, place and purpose of any meeting of stockholders and any action taken at a meeting held pursuant to such waiver shall be valid and binding.* |

### (i) Definitive Information statements and Management Report

| | |
|---|---|
| ***Number of Stockholders entitled to receive Definitive Information Statements and Management Report and other Materials*** | *481* |
| ***Date of Actual Distribution of Definitive Information Statement and Management Report and other Materials held by market participants/certain beneficial owners*** | *April 30, 2014* |
| ***Date of Actual Distribution of Definitive Information Statement and Management Report and other Materials held by Stockholders*** | *April 30, 2014* |
| ***State whether CD format or hard copies were distributed*** | *Yes* |
| ***If yes, indicate whether requesting stockholders were provided hard copies*** | *Yes* |

### (j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

| | |
|---|---|
| ***Each resolution to be taken up details with only one item.*** | *Yes* |
| ***Profiles of directors (at least age, qualification, date of first appointment, experience, and directorship in other listed companies) nominated for election/re-election.*** | *Yes* |
| ***The auditors to be appointed or re-appointed.*** | *Yes* |
| ***An explanation of the dividend policy, if any dividend is to be declared.*** | *Yes* |
| ***The amount payable for final dividends.*** | *₱0.016 per share* |
| ***Documents required for proxy vote*** | *Yes* |

**Should any of the foregoing information be not disclosed, please indicate the reason thereto.**

*All the foregoing inormation are disclosed.*

### 2) Treatment of Minority Stockholders

(a) **State the company's policies with respect to the treatment of minority stockholders.**

| Policies | Implementation |
|---|---|
| *The Board respects the rights of the stockholders as provided by the Corporation Code and Articles of Incorporation such as rights to (i) vote on all matters that require the stockholders' consent or approval; (ii) inspect corporate books and records; (iii) information; (iv) dividends; and (v) appraisal of the stockholders' shares.* | *The Board timely advises the stockholders of the annual stockholders meeting and provides each stockholder with adequate information meaningfully participate in the meeting. The notice and other materials for the stockholders have reminders of the rights of the stockholders.* |
| *As allowed by the Corporation Code, the pre-emptive right of the stockholders has been denied* | *The Board timely and duly advises the stockholders when it plans to sell shares of the Corporation to stockholders.* |
| *Transparency and fairness in the conduct of the annual stockholders meetings; encouragement of the stockholders to attend in person; timely notice of right and information on attendance by proxy; no undue restriction on voting by proxy.* | *The notice and other materials for the stockholders are internally drafted, revised and reviwed, and then sent to the Commission for commentd before distribution to the stockholders. External counsel is consulted on the schedule and content of materials for the annual stockholders' meeting.* |

(b) **Do minority stockholders have a right to nominate candidates for board of directors?** *Yes*

## K. INVESTORS RELATIONS PROGRAM

1) **Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.**

*The Corporation recognizes that the essence of corporate governance is transparency. The more transparent the internal workings of the Corporation are, the more difficult it will be for Management and dominant stockholders to mismanage the Corporation or misappropriate its assets.*

*Thus, it is essential that all material information about the Corporation that could adversely affect its viability or the interests of the stockholders be publicly and timely disclosed. Such information should include, among others, earnings results, acquisition or disposition of assets, off balance sheet transactions, related party transactions, and direct and indirect remuneration of members of the Board Management. All such information should be disclosed through the appropriate Exchange mechanisms and submissions to the Commission.*

2) **Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.**

*The members of the senior management all participate in managing the releationships with investors by contributing to the disclosures to the Exchange and/or the press. The Chairman of the Board of Directors, the President, the Executive Vice President, the Chief Finance Officer, and/or the Manager for Communications and Stakeholder Relations all confer with the Compliance Officers in composing, revising and finalizing the form and content of the information disclosed through the appropriate Exchange mechanisms and submissions to the Commission*

| | Details |
|---|---|
| ***(1) Objectives*** | *Transparency for all internal workings of the Corporation to prevent mismanagement or misappropriation of assets.* |
| ***(2) Principles*** | *All material information about the Corporation that could adversely affect its viability or the interests of the stockholders are publicly and timely disclosed.* |

| | |
|---|---|
| ***(3) Modes of Communications*** | *Upon the occurrence of a material event, management prepares disclosure statements to the PSE and press* |
| ***(4) Investors Relations Officer*** | *The members of the senior management all participate in managing the releationships with investors by contributing to the disclosures to the PSE and press.* |

3) **What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?**

*The Company conducts a rigorous financial, operational, accounting and legal review – with due diligence – of any company control of which it may acquire either through the capital markets or other systems. This due diligence review would begin by amassing any and all publicly available information about such company, then negotiating and executing a confidentiality or non-disclosure agreement with the owners of the company or the company itself. Under the latter, confidential, non-public and propreitary information is obtained to detemine the consideration, terms and conditions for the acquisiiton. Thereafter, an extensive negotiation takes place on the definitive agreement(s) by which control is obtained.*

*An identical and no less rigorous exercise in conducted in a merger.*

*In a sale or disposition of substantial assets, the exercise is the same but the flow of confidential, non-public and propreitary information is reversed, with such information being provided by the Corporation to the acquiring company or companies. The Company also negotiates and then executes a confidentiality or non-disclosure agreement with the potential buyer or buyers in preparation for the negotiations over the consideration, terms and conditions for the disposition. Thereafter, an extensive negotiation takes place on the definitive agreement(s) by which the assets are sold.*

**Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.**

*In the event of an acquisiton, merger and/or sale that requires an evaluation of the fairness of the transaction price, the parties usually agree on an internationally-recognized accounting firm to be the evaluator of the fairness of the transaction price, and the consideration, terms and conditions for such an engagement, as well as the sharing of the firm's consideration.*

## L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

**Discuss any initiative undertaken or proposed to be undertaken by the company.**

| Initiative | Beneficiary |
|---|---|
| *The Company continues to reach out to its host communities in coordination with the Conrado and Ladislawa Alcantara Foundation, Inc. (CLAFI), a non-stock, non-profit entity overseeing the Corporate Social Responsibility (CSR) functions of the Company and the Alcantara Group.* | *The communities in Sarangani Province and Zamboanga City in Mindanao where CLAFI establishes an outreach presence benefit from the CSR efforts of the Company, CLAFI, and the Group.* |
| *Direct support through the donation of workbooks; provision of tutoring and mentoring programs, and English review sessions; scholarships for short-term technical-vocational courses, high school and college students; donations of study chairs, computer equipment, and entire school buildings* | *Students taking up short-term technical-vocational courses; high school and college students; school districts in need, in cooperation with their respective local government units.* |
| *Reviewing a medical-related CSR project such as an "Adopt a Barangay" program for a public health initiative* | *Communities in Sarangani Province and/or Zamboanga City* |
| *Realignment of environment-related CSR projects in ACR's areas of operation; water-related programs in Sarangani, including mangrove reforestation, carbon sequestration, artificial reef installation, watershed protection, and fish restocking in Sarangani Bay.* | *Communities along Sarangani Bay in in Sarangani Province* |

## M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

**Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/ President.**

| | Process | Criteria |
|---|---|---|
| **Board of Directors** | *The Board was advised and updated on the self assessment of the annual performance of the Audit Committee as implemented under the Commission's Memorandum Circular N° 4 of 2012. A similar assessment of the Board's annual performance could therefore follow the same pattern as that of the Audit Committee, adjusted to consider the wider powers and responsibilities of the Board.* | *Any self assessment of the annual performance of the Board will likely take into account the wider powers and responsibilities of the Board, the frequency of its meetings, and reiteration or duplication of the assessments of its committees such as the Audit, Executive, Nomination and Compensation Committees.* |
| **Board of Committees** | *The self assessment of the annual performance of the Audit Committee as implemented under the Commission's Memorandum Circular N° 4 of 2012. A self assessment or self rating of the annual performance of the Executive, Nomination and Compensation Committees could therefore follow the same pattern as that of the Audit Committee, adjusted to consider the wider powers and responsibilities of the Board.* | *Any self assessment or self rating of the annual performance of the Executive, Nomination and Compensation Committees will likely take into account the divergent powers and responsibilities of these Committees, the frequency of meetings, and the membership of each committee, which may find it necessary to create a charter to be approved by the Board. These charters will be necessary to formulate the criteria against which the committee members can assess or rate themselves.* |
| **Individual Directors** | *The draft procedure and schedule for the self assessment or rating of the annual performance of each Director need to be formalized, disseminated and approved by the Board.* | *As set forth in the Company's Revised Manual of Corporate Governance, each Director would assess/rate his/her performance of the following individual duties: (i) fair business transaction with the Company; (ii) Time and attention to duties to the Company; (iii) acting judiciously; (iv) exercising independent judgement; (v) having a working knowledge of the statutory and regulatory requirements affecting the Company; and (vi) observing confidentiality.* |
| **CEO/ President** | *The draft procedure and schedule for the self assessment or rating of the annual performance of the CEO/President need to be formalized, disseminated and approved by the CEO/President.* | *As set forth in the Company's Revised Manual of Corporate Governance, the CEO/President would assess/rate his performance of the following individual duties, including, but not limited to, observing the proper checks and balances necessitated by the unification of the positions with a view to getting the benefits of individual vies and perspectives, ensuring that the meetings of the Board are held in accordance with the by-laws or as the Chair may deem necessary; supervising the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of management and the directors; and maintaining qualitative and timely lines of communication and information between the Board and Management.* |

## N. INTERNAL BREACHES AND SANCTIONS

**Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees.**

| Violations | Sanctions |
|---|---|
| *Director's breach of the corporate governance manual* | *Depending on the severity of the breach, and the materiality of the effects or consequences of the breach, the Board of Directors may call the attention of the breaching Director, ask for an explanation and impose the appropriate sanction. The most severe sanction would involve the application of the Corporation Code, section 28.* |
| *Officer's breach of the corporate governance manual* | *Depending on the severity of the breach, and the materiality of the effects or consequences of the breach, the Board of Directors will call the attention of the breaching Officer, ask him/her to submit an explanation for the breach, and, depending on the Officer's explanation, impose the appropriate sanction, which may include, but shall not be limited to, application of the Labor Code, section 282, its implementing rules and regulations, and relevant jurisprudence.* |
| *Employee's breach of the corporate governance manual* | *Depending on the severity of the breach, and the materiality of the effects or consequences of the breach, the Company will call the attention of the breaching Employee, ask him/her to submit an explanation for the breach, and, depending on the Employee's explanation, impose the appropriate sanction, which may include, but shall not be limited to, application of the Labor Code, section 282, its implementing rules and regulations, and relevant jurisprudence.* |

Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati, Metro Manila on APR 08 2015.

**SIGNATURES**

**Tirso G. Santillan, Jr.**
Executive Vice-President

**Jose Ben R. Laraya**
Independent Director

**Luis R. Ymson, Jr.**
Chief Financial Officer & Compliance Officer

**Thomas G. Aquino**
Independent Director

SUBSCRIBED AND SWORN to before me this APR 08 2015, affiant(s) exhibiting to me competent evidence of their respective identity, as follows:

| Name | I.D. Type & No. | Date/Place of Issue |
|---|---|---|
| Tirso G. Santillan, Jr. | TIN 134-840-919 | Issued by the Bureau of Internal Revenue |
| Luis R. Ymson, Jr. | TIN 126-818-715 | Issued by the Bureau of Internal Revenue |
| Jose Ben R. Laraya | TIN 137-981-006 | Issued by the Bureau of Internal Revenue |
| Thomas G. Aquino | TIN 121-905-565 | Issued by the Bureau of Internal Revenue |

Doc. no. 25;
Page no. 6;
Book no. II;
Series of 2015.

ANGEL M. ESGUERRA, III
NOTARY PUBLIC
ROLL NO. 34787
MAKATI CITY, PHILIPPINES

Notary Public

ANGEL M. ESGUERRA, III
Commission No. M-200
Notary Public for Makati City
Until December 31, 2015
Roll No. 34737; 06-01-1987
IBP No. 00259; 06-01-1995; Pasay Chapter
PTR No. 4760120;01-09-2015; Makati City
Alsons Bldg., 2286 Chino Roces Avenue, Makati City

Exhibit 1

# AUDITED FINANCIAL STATEMENTS
# DECEMBER 31, 2014 AND 2013
# And Years Ended December 31,2014, 2013 and 2012

**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, 2014 and 2013 , 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** | **TIRSO G. SANTILLAN, JR.** | **LUIS R. YMSON, JR.** |
| Chairman and President | Executive Vice-President | Chief Financial Officer |

APR 13 2015

SUBSCRIBED AND SWORN to before me this _____of______affiants exhibiting to me their Identifications, as follows:

| Name | Identification No. | Date | Place of Issue |
|---|---|---|---|
| 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. 29
Page No. 7
Book No. 4
Series of 2015

ANGEL M. ESGUERRA, III
NOTARY PUBLIC
ROLL NO. 34787
MAKATI CITY, PHILIPPINES

ANGEL M. ESGUERRA, III
Commission No. M-200
Notary Public for Makati City, Until December 31, 2015
PTR OR No. 4760120; 01/09/15; 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

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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

BOA/PRC 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

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

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, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2014, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Martin C. Guantes
Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-2 (Group A),
March 15, 2012, valid until April 30, 2015
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 4751287, January 5, 2015, Makati City

March 27, 2015

## ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| | **2014** | 2013 (Note 16) |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Notes 7, 32 and 33) | **₱2,512,383,375** | ₱1,422,362,785 |
| Short-term cash investments (Notes 7, 32 and 33) | **34,444,998** | 8,802,310 |
| Trade and other receivables (Notes 8, 20, 32 and 33) | **4,008,142,109** | 4,319,949,469 |
| Spare parts and supplies - at cost (Note 9) | **241,564,024** | 204,349,009 |
| Real estate inventories (Note 10) | **642,340,836** | 649,416,295 |
| Prepaid expenses and other current assets (Note 15) | **326,665,057** | 236,228,525 |
| **Total Current Assets** | **7,765,540,399** | 6,841,108,393 |
| **Noncurrent Assets** | | |
| Noncurrent portion of installment receivables (Notes 8, 32 and 33) | **7,843,712** | 9,756,899 |
| Investments in real estate (Notes 10 and 18) | **1,527,215,497** | 1,477,259,866 |
| Investments in associates (Note 11) | **1,218,315,960** | 1,219,595,317 |
| Property, plant and equipment (Notes 12, 18 and 19) | **13,410,542,642** | 6,673,763,949 |
| Available-for-sale (AFS) financial assets (Notes 13 and 33) | **117,040,963** | 55,862,692 |
| Goodwill (Note 14) | **1,001,896,049** | 994,928,342 |
| Net retirement assets (Note 28) | **45,200,561** | 49,965,852 |
| Deferred tax assets - net (Note 29) | **30,268,777** | 42,315,885 |
| Other noncurrent assets (Note 15) | **601,428,826** | 624,572,058 |
| **Total Noncurrent Assets** | **17,959,752,987** | 11,148,020,860 |
| **TOTAL ASSETS** | **₱25,725,293,386** | ₱17,989,129,253 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and other current liabilities (Notes 16, 32 and 33) | **₱1,464,218,604** | ₱980,021,607 |
| Loans payable (Notes 17, 32 and 33) | **259,999,978** | 794,366,639 |
| Income tax payable (Note 29) | **120,268,492** | 100,872,098 |
| Current portion of long-term debt (Notes 18, 32 and 33) | **590,427,513** | 454,022,139 |
| Derivative liability (Notes 18 and 33) | **27,595,736** | 37,923,780 |
| **Total Current Liabilities** | **2,462,510,323** | 2,367,206,263 |
| **Noncurrent Liabilities** | | |
| Long-term debt - net of current portion (Notes 18, 32 and 33) | **12,348,264,305** | 4,736,472,902 |
| Deferred tax liabilities - net (Note 29) | **431,506,243** | 425,715,041 |
| Retirement liabilities (Note 28) | **7,472,680** | 9,488,962 |
| Asset retirement obligation (Notes 12 and 19) | **67,169,574** | 78,801,367 |
| **Total Noncurrent Liabilities** | **12,854,412,802** | 5,250,478,272 |
| **Total Liabilities** | **15,316,923,125** | 7,617,684,535 |

(Forward)

| | December 31 | |
|---|---|---|
| | 2014 | 2013 (Note 16) |
| **Equity** (Note 21) | | |
| Capital stock | **₱6,313,683,333** | ₱6,309,283,333 |
| Other equity reserves | **1,613,004,480** | 1,750,828,447 |
| Retained earnings: | | |
| Unappropriated (Note 16) | **489,928,413** | 1,084,786,946 |
| Appropriated | **1,700,000,000** | 850,000,000 |
| Attributable to equity holders of the parent | **10,116,616,226** | 9,994,898,726 |
| Non-controlling interests | **291,754,035** | 376,545,992 |
| **Total Equity** | **10,408,370,261** | 10,371,444,718 |
| **TOTAL LIABILITIES AND EQUITY** | **₱25,725,293,386** | ₱17,989,129,253 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2014 | 2013 (Note 16) | 2012 |
| **SALES OF SERVICES:** | | | |
| Energy fees (Notes 16 and 34) | **₱5,134,628,826** | ₱3,289,130,401 | ₱2,068,686,056 |
| Management fees (Note 34) | **24,825,460** | 27,063,025 | 32,019,719 |
| Rental income (Note 31) | **8,643,774** | 9,827,272 | 11,229,171 |
| | **5,168,098,060** | 3,326,020,698 | 2,111,934,946 |
| **REAL ESTATE SALES** (Note 34) | **11,973,028** | 17,515,916 | 30,521,191 |
| **TOTAL REVENUE** | **5,180,071,088** | 3,343,536,614 | 2,142,456,137 |
| **COSTS AND EXPENSES** | | | |
| Cost of services (Note 22) | **(3,536,933,374)** | (1,978,477,036) | (875,278,689) |
| Cost of real estate sold (Note 10) | **(11,396,417)** | (19,506,240) | (44,837,635) |
| General and administrative expenses (Note 23) | **(467,312,254)** | (362,875,246) | (373,440,679) |
| **OTHER INCOME (CHARGES)** | | | |
| Finance charges (Note 26) | **(206,568,748)** | (119,372,797) | (84,290,660) |
| Interest income (Note 7) | **22,224,257** | 25,186,522 | 46,443,117 |
| Other income (charges) - net (Note 27) | **109,302,563** | (48,981,949) | 423,544,149 |
| | **(4,090,683,973)** | (2,504,026,746) | (907,860,397) |
| **INCOME BEFORE INCOME TAX** | **1,089,387,115** | 839,509,868 | 1,234,595,740 |
| **PROVISION FOR INCOME TAX** (Notes 16 and 29) | | | |
| Current | **345,191,757** | 294,235,703 | 232,099,888 |
| Deferred | **17,052,091** | (24,011,649) | 9,054,613 |
| | **362,243,848** | 270,224,054 | 241,154,501 |
| **NET INCOME FROM CONTINUING OPERATIONS** | **727,143,267** | 569,285,814 | 993,441,239 |
| **NET INCOME FROM DISCONTINUED OPERATIONS** (Note 30) | – | 196,295,608 | 85,428,052 |
| **NET INCOME** | **₱727,143,267** | ₱765,581,422 | ₱1,078,869,291 |
| **Attributable to:** | | | |
| Equity holders of the parent | | | |
| Net income from continuing operations | **₱359,040,865** | ₱248,925,802 | ₱457,918,762 |
| Net income from discontinued operations | – | 146,348,389 | 51,197,032 |
| | **359,040,865** | 395,274,191 | 509,115,794 |
| Non-controlling interests | | | |
| Net income from continuing operations | **368,102,402** | 320,360,012 | 535,522,477 |
| Net income from discontinued operations | – | 49,947,219 | 34,231,020 |
| | **368,102,402** | 370,307,231 | 569,753,497 |
| | **₱727,143,267** | ₱765,581,422 | ₱1,078,869,291 |
| Basic/diluted earnings per share attributable to equity holders of the parent (Note 21) | **₱0.057** | ₱0.063 | ₱0.081 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2014 | 2013 (Note 16) | 2012 |
| **NET INCOME** | **₱727,143,267** | ₱765,581,422 | ₱1,078,869,291 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Actuarial gains (losses) (Note 28) | **23,034,830** | (1,994,575) | (12,151,615) |
| Limit on retirement asset (Note 28) | **(16,238,612)** | (7,547,368) | (4,978,395) |
| Tax effect (Note 29) | **(448,297)** | 1,380,343 | 704,767 |
| | **6,347,921** | (8,161,600) | (16,425,243) |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Unrealized gains (losses) on fair valuation of AFS financial assets (Note 13) | **(86,998,124)** | (6,741,009) | 18,019,708 |
| Translation adjustments | **(54,755,323)** | 213,527,769 | (266,651,873) |
| | **(141,753,447)** | 206,786,760 | (248,632,165) |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX** | **(135,405,526)** | 198,625,160 | (265,057,408) |
| **TOTAL COMPREHENSIVE INCOME** | **₱591,737,741** | ₱964,206,582 | ₱813,811,883 |
| **Attributable to:** | | | |
| Equity holders of the parent: | | | |
| Total comprehensive income from continuing operations | **₱222,381,502** | ₱413,877,467 | ₱310,293,431 |
| Total comprehensive income from discontinued operations | – | 143,027,095 | 47,349,334 |
| | **222,381,502** | 556,904,562 | 357,642,765 |
| Non-controlling interests | | | |
| Total comprehensive income from continuing operations | **369,356,239** | 359,575,463 | 424,510,720 |
| Total comprehensive income from discontinued operations | – | 47,726,557 | 31,658,398 |
| | **369,356,239** | 407,302,020 | 456,169,118 |
| | **₱591,737,741** | ₱964,206,582 | ₱813,811,883 |

*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, 2014, 2013 AND 2012

| | Attributable to Equity Holders of the Parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Other Equity Reserves | | | | | Retained Earnings (Notes 16 and 21) | | | | |
| | Capital Stock (Note 21) | Remeasurement Gains (Losses) On Defined Benefit Plan (Notes 21 and 29) | Unrealized Gains (Losses) on AFS Financial Assets (Notes 13 and 21) | Cumulative Translation Adjustments | Equity Reserves - Acquisition of Non-controlling Interest (Note 21) | Total | Unappropriated Retained Earnings | Appropriated Retained Earnings | Total | Non-controlling Interests (Note 1) | Total |
| BALANCES AS AT DECEMBER 31, 2011 | ₱6,291,500,000 | ₱4,941,568 | ₱17,475,890 | ₱1,254,366,627 | ₱– | ₱1,276,784,085 | ₱1,207,574,548 | ₱– | ₱8,775,858,633 | ₱3,142,714,430 | ₱11,918,573,063 |
| Net income | – | – | – | – | – | – | 509,115,794 | – | 509,115,794 | 569,753,497 | 1,078,869,291 |
| Other comprehensive income (loss) | – | (8,757,849) | 18,019,708 | (160,734,888) | – | (151,473,029) | – | – | (151,473,029) | (113,584,379) | (265,057,408) |
| Total comprehensive income (loss) | – | (8,757,849) | 18,019,708 | (160,734,888) | – | (151,473,029) | 509,115,794 | – | 357,642,765 | 456,169,118 | 813,811,883 |
| Redemption of preferred shares | – | – | – | – | – | – | – | – | – | (1,102,514,545) | (1,102,514,545) |
| Capital contribution | – | – | – | – | – | – | – | – | – | 354,583,400 | 354,583,400 |
| Appropriation of retained earnings | – | – | – | – | – | – | (850,000,000) | 850,000,000 | – | – | – |
| Dividends declaration | – | – | – | – | – | – | (62,915,000) | – | (62,915,000) | (716,451,988) | (779,366,988) |
| BALANCES AS AT DECEMBER 31, 2012 | 6,291,500,000 | (3,816,281) | 35,495,598 | 1,093,631,739 | – | 1,125,311,056 | 803,775,342 | 850,000,000 | 9,070,586,398 | 2,134,500,415 | 11,205,086,813 |
| Net income, as previously reported | – | – | – | – | – | – | 466,872,876 | – | 466,872,876 | 370,307,231 | 837,180,107 |
| Prior period adjustment (Note 16) | – | – | – | – | – | – | (71,598,685) | – | (71,598,685) | – | (71,598,685) |
| Net income, as restated | – | – | – | – | – | – | 395,274,191 | – | 395,274,191 | 370,307,231 | 765,581,422 |
| Other comprehensive income (loss) | – | 5,374,648 | (6,741,009) | 172,561,983 | – | 171,195,622 | (9,565,251) | – | 161,630,371 | 36,994,789 | 198,625,160 |
| Total comprehensive income (loss) | – | 5,374,648 | (6,741,009) | 172,561,983 | – | 171,195,622 | 385,708,940 | – | 556,904,562 | 407,302,020 | 964,206,582 |
| Issuance of preferred shares | 55,000,000 | – | – | – | – | – | – | – | 55,000,000 | – | 55,000,000 |
| Subscriptions receivable | (37,216,667) | – | – | – | – | – | – | – | (37,216,667) | – | (37,216,667) |
| Redemption of preferred shares (Note 1) | – | – | – | – | – | – | – | – | – | (119,115,819) | (119,115,819) |
| Acquisition of non-controlling interest (Note 21) | – | – | – | 308,841,072 | 145,480,697 | 454,321,769 | – | – | 454,321,769 | (982,232,166) | (527,910,397) |
| Disposal of a subsidiary (Note 30) | – | – | – | – | – | – | – | – | – | (468,984,103) | (468,984,103) |
| Dividends declaration (Note 21) | – | – | – | – | – | – | (104,697,336) | – | (104,697,336) | (594,924,355) | (699,621,691) |
| BALANCES AS AT DECEMBER 31, 2013 | 6,309,283,333 | 1,558,367 | 28,754,589 | 1,575,034,794 | 145,480,697 | 1,750,828,447 | 1,084,786,946 | 850,000,000 | 9,994,898,726 | 376,545,992 | 10,371,444,718 |
| Net income | – | – | – | – | – | – | 359,040,865 | – | 359,040,865 | 368,102,402 | 727,143,267 |
| Other comprehensive income (loss) | – | 3,929,480 | (86,998,124) | (54,755,323) | – | (137,823,967) | 1,164,602 | – | (136,659,365) | 1,253,839 | (135,405,526) |
| Total comprehensive income (loss) | – | 3,929,480 | (86,998,124) | (54,755,323) | – | (137,823,967) | 360,205,467 | – | 222,381,500 | 369,356,241 | 591,737,741 |
| Collection of subscriptions receivable | 4,400,000 | – | – | – | – | – | – | – | 4,400,000 | – | 4,400,000 |
| Redemption of preferred shares (Note 1) | – | – | – | – | – | – | – | – | – | (72,469,702) | (72,469,702) |
| Appropriation of retained earnings | – | – | – | – | – | – | (850,000,000) | 850,000,000 | – | – | – |
| Dividends declaration (Note 21) | – | – | – | – | – | – | (105,064,000) | – | (105,064,000) | (381,678,496) | (486,742,496) |
| BALANCES AS AT DECEMBER 31, 2014 | ₱6,313,683,333 | ₱5,487,847 | (₱58,243,535) | ₱1,520,279,471 | ₱145,480,697 | ₱1,613,004,480 | ₱489,928,413 | ₱1,700,000,000 | ₱10,116,616,226 | ₱291,754,035 | ₱10,408,370,261 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2014 | 2013 (Note 16) | 2012 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before tax from: | | | |
| Continuing operation | **₱1,089,387,115** | ₱839,509,868 | ₱1,234,595,740 |
| Discontinued operations (Note 30) | – | 206,465,528 | 101,188,404 |
| Adjustments for: | | | |
| Depletion, depreciation and amortization (Note 25) | **814,375,986** | 706,131,285 | 622,842,832 |
| Finance charges (Notes 26 and 30) | **206,568,748** | 121,904,845 | 84,873,519 |
| Unrealized foreign exchange loss (gain) (Note 27) | **(41,876,979)** | 83,993,180 | (8,619,819) |
| Interest income (Notes 7 and 30) | **(22,224,257)** | (27,041,508) | (49,715,083) |
| Income from decrease in asset retirement obligation | **(11,315,962)** | – | – |
| Mark-to-market loss (gain) on derivative liability (Notes 27 and 33) | **(10,328,044)** | 16,377,924 | 11,632,044 |
| Movement in net retirement assets and retirement liabilities (Notes 24 and 28) | **9,096,929** | 12,370,178 | 5,699,612 |
| Recovery of impairment loss on real estate inventories due to sale (Note 10) | **(3,946,795)** | (4,140,694) | (17,108,236) |
| Equity in net losses of associates (Notes 11 and 27) | **1,279,357** | 100,920,763 | 22,850,988 |
| Loss (gain) on sale of property, plant and equipment (Note 28) | **360,839** | (356,577) | (1,023,156) |
| Gain on sale of a subsidiary (Note 30) | – | (71,645,698) | – |
| Operating lease income based on straight-line amortization of deferred lease | – | (1,574,019) | (1,567,108) |
| Provisions for impairment of: | | | |
| Deferred project cost (Notes 15 and 24) | – | 2,849,457 | 2,849,457 |
| Trade and other receivables (Notes 8 and 24) | – | – | 20,000,000 |
| Short-term cash investments (Notes 7 and 24) | – | – | 3,968,330 |
| Reversal of impairment loss on real estate inventories (Notes 10 and 27) | – | – | (72,066,280) |
| Reversal of provisions for liquidation expenses (Notes 1 and 27) | – | – | (956,400) |
| Operating income before working capital changes | **2,031,376,937** | 1,985,764,532 | 1,959,444,844 |
| Decrease (increase) in: | | | |
| Trade and other receivables | **(97,390,460)** | (207,900,503) | 40,574,852 |
| Real estate inventories | **11,022,254** | 26,815,575 | 40,610,481 |
| Spare parts and supplies | **(37,215,015)** | (79,405,302) | 12,138,514 |
| Prepaid expenses and other current assets | **(90,436,532)** | (6,847,721) | (114,291,455) |
| Increase in accounts payable and other current liabilities | **484,196,996** | 640,559,365 | 43,794,292 |
| Cash flows generated from operations | **2,301,554,180** | 2,358,985,946 | 1,982,271,528 |
| Income taxes paid (Note 29) | **(325,009,142)** | (269,250,511) | (242,107,451) |
| Retirement contributions (Note 28) | – | – | (457,519) |
| Net cash flows from operating activities | **1,976,545,038** | 2,089,735,435 | 1,740,164,077 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Property, plant and equipment (Note 12) | **(₱6,645,372,242)** | (₱4,398,985,589) | (₱449,681,050) |
| Computer software (Note 15) | **(16,159,235)** | (3,701,167) | (14,688,552) |
| Investments in associates | **–** | (4,983,000) | – |
| Collections (granting) of advances from (to) related parties | **263,323,852** | (1,209,787,525) | (43,551,124) |
| Decrease (increase) in: | | | |
| Short-term cash investments | **(25,642,688)** | 1,049,459,622 | (307,791,146) |
| Other noncurrent assets | **(117,632,268)** | (97,953,061) | (275,115,177) |
| Disposal of (additions to) investments in real estate | **(50,472,122)** | (90,561,841) | 23,128,693 |
| Interest received | **21,835,016** | 28,169,308 | 61,320,352 |
| Proceeds from disposals of: | | | |
| Property, plant and equipment | **345,967** | 2,480,760 | 2,771,926 |
| Subsidiary, net of cash and cash equivalents acquired (Note 30) | **–** | 952,034,210 | – |
| AFS financial assets | **–** | 1,790,769 | – |
| Associate | **–** | – | 24,546,021 |
| Net cash flows used in investing activities | **(6,569,773,720)** | (3,772,037,514) | (979,060,057) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Availment of loans and debt (Notes 17 and 18) | **9,690,478,476** | 4,871,169,729 | 1,010,617,028 |
| Payments of: | | | |
| Debt (Note 18) | **(1,469,750,572)** | (555,566,654) | (283,920,990) |
| Interest (Note 18) | **(1,036,837,352)** | (71,348,834) | (46,884,571) |
| Loans (Note 17) | **(794,366,639)** | – | (10,156,855) |
| Dividends (Note 21) | **(486,742,496)** | (695,588,358) | (779,366,988) |
| Transaction costs (Note 18) | **(142,039,630)** | (88,718,073) | (84,306,743) |
| Cash outflow from redemption of redeemable preferred shares (Note 1) | **(72,469,702)** | (119,115,819) | (1,102,514,545) |
| Proceeds from issuance of preferred shares (Note 20) | **4,400,000** | 13,750,000 | – |
| Acquisition of noncontrolling interest (Note 1) | **–** | (527,910,397) | – |
| Capital contribution from noncontrolling interest (Note 1) | **–** | – | 354,583,400 |
| Net cash flows provided by (used in) financing activities | **5,692,672,085** | 2,826,671,594 | (941,950,264) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,099,443,403** | 1,144,369,515 | (180,846,244) |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(9,422,813)** | 556,394 | 5,105,995 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** (Note 7) | **1,422,362,785** | 277,436,876 | 453,177,125 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 7) | **₱2,512,383,375** | ₱1,422,362,785 | ₱277,436,876 |

*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 Company's ultimate parent company is Alsons Corporation, a company incorporated in the Philippines.

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:

| | | Percentage of Ownership | | | |
|---|---|---|---|---|---|
| | | **2014** | | 2013 | |
| Subsidiaries | Nature of business | **Direct** | **Indirect** | Direct | Indirect |
| Conal Holdings Corporation (CHC) | Investment holding | **100.00** | – | 100.00 | – |
| 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 Renewable Energy Corporation (AREC) | Investment holding | **100.00** | – | – | – |
| Alsons Power International Limited (APIL) | Power generation | **100.00** | – | 100.00 | – |
| Alsons Land Corporation (ALC) | Real estate | **99.55** | – | 99.55 | – |
| 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 | – |

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 34a).

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

Power and Energy

*CHC and Subsidiaries*. In July 2014, CHC and SPPC redeemed preferred shares of 178,462 and 483,875, respectively, for a total consideration of ₱232 million ($5.2 million). In February and June 2013, CHC redeemed preferred shares of 319,675 for a total consideration of ₱121 million ($2.86 million). In May 2013, SPPC redeemed preferred shares of 483,874 for a total consideration of ₱157 million ($3.63 million). The redeemed preferred shares were retired and are not available for re-issue. The share of the non-controlling interest in the redemption is shown below:

| | **2014** | | |
|---|---|---|---|
| | **Number of Shares** | **Total Amount** | **Share of Non-controlling Interests** |
| CHC | **178,462** | **₱70,858,798** | **₱–** |
| SPPC | **483,875** | **161,042,877** | **72,469,702** |
| | | **₱231,901,675** | **₱72,469,702** |

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

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 2012 consolidated statement of income amounting to ₱1 million (see Note 27). The net distributable assets of NMPC at the end of the three-year liquidation period on November 15, 2012 amounted to ₱81 million. 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 21).

CHC organized and incorporated MPC on July 13, 2010 as a 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 assigned 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 ₱0.3 million ($7,781). MPC entered into Power Supply Agreements (PSAs) with various distribution utilities and electric cooperatives (see Note 34c). 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 a 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 billion of which ₱4 billion is in the form of equity and ₱9 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 2015 (see Note 12). 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 assigned 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 (charges)" in the 2012 consolidated statement of income (see Note 27).

Sarangani has obtained a ₱9 billion project financing facility from a syndicate of domestic banks on December 12, 2012 to finance the construction of Phase 1 project (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 September 2015. As of December 31, 2014, the total project cost of the power plant is now estimated at ₱14 billion.

*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 27, 2015, Siguil and Kalaong have not started commercial operations.

*SRPI.* The Parent Company organized and incorporated SRPI on July 22, 2011 as a 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 billion. As at March 27, 2015, SRPI is still in the process of negotiation with various banks to finance the project.

*AREC.* On September 18, 2014, the Parent Company organized AREC primarily to develop and invest in energy projects with total capital infusion amounting to ₱31 million.

Property Development
*ALC.* On November 25, 1994, the Parent Company incorporated ALC to acquire, develop, sell and hold for investment or otherwise, real estate of all kinds, sublease office spaces and manufacture door and house frames.

*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 27, 2015, KAED has not started commercial operations.

Other Investments
*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 27, 2015, 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 27, 2015, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading 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 34). As at March 27, 2015, 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 12, 2015, were authorized for issue by the BOD on March 27, 2015.

## 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 the 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.

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 of 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 the Group has:

- 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 other comprehensive income (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.

The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as those of the Parent Company.

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 OCI 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 or directly owned entity:

| Name of Subsidiary | Place of Incorporation and Operation | Principal Activity | Proportion Ownership Interest and Voting Rights Held by Non-controlling Interests | | |
|---|---|---|---|---|---|
| | | | **2014** | 2013 | 2012 |
| SPPC | Philippines | Power generation | **45%** | 45% | 45% |
| WMPC | Philippines | Power generation | **45%** | 45% | 45% |
| Saranggani | Philippines | Power generation | **25%** | –* | –* |

**Not yet considered as material partly-owned subsidiary in 2013 and 2012 since there were no significant construction developments yet*

The summarized financial information in respect of the 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, 2014 and 2013 are as follows:

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2014 | | | 2013 | |
| | **SPPC** | **WMPC** | **Saranggani** | SPPC | WMPC |
| | | | *(In Thousands)* | | |
| Current assets | **₱422,425** | **₱993,052** | **₱1,457,842** | ₱521,863 | ₱903,394 |
| Noncurrent assets | **369,432** | **482,484** | **11,158,550** | 586,547 | 833,205 |
| Current liabilities | **160,232** | **351,902** | **572,040** | 186,459 | 363,018 |
| Noncurrent liabilities | **112,247** | **59,209** | **8,392,884** | 213,940 | 300,421 |
| Equity | **₱519,378** | **₱1,064,425** | **₱3,651,468** | ₱708,011 | ₱1,073,160 |
| Equity attributable to: | | | | | |
| Equity holders of the parent | **₱284,598** | **₱573,981** | **₱2,738,601** | ₱388,412 | ₱579,000 |
| Non-controlling interests | **234,780** | **490,444** | **912,867** | 319,600 | 494,294 |
| | **₱519,378** | **₱1,064,425** | **₱3,651,468** | ₱708,011 | ₱1,073,160 |

Summarized statements of income for each of the three years in the period ended December 31, 2014 are as follows:

| | 2014 | | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|---|
| | **SPPC** | **WMPC** | **Saranggani** | SPPC | WMPC | SPPC | WMPC |
| | | | | *(In Thousands)* | | | |
| Revenue | **₱745,196** | **₱1,445,099** | **₱13,877** | ₱714,345 | ₱1,381,296 | ₱716,767 | ₱1,386,144 |
| Expenses | **(400,708)** | **(634,861)** | **(19,481)** | (427,309) | (635,044) | (401,930) | (607,246) |
| Provision for income tax | **(80,552)** | **(185,770)** | **–** | (75,779) | (182,405) | (67,960) | (164,683) |
| Net income (loss) | **263,936** | **624,468** | **(5,604)** | 211,257 | 563,847 | 246,877 | 614,215 |
| Other comprehensive income (loss) | **300** | **1,490** | **–** | (721) | (509) | (3,295) | (4,688) |
| Total comprehensive income (loss) | **₱264,236** | **₱625,958** | **(₱5,604)** | ₱210,536 | ₱563,338 | ₱243,582 | ₱609,527 |
| Total comprehensive income (loss) attributable to: | | | | | | | |
| Equity holders of the parent | **₱145,330** | **₱344,277** | **(₱4,203)** | ₱115,790 | ₱309,821 | ₱133,977 | ₱335,238 |
| Non-controlling interests | **118,906** | **281,681** | **(1,401)** | 94,746 | 253,517 | 109,606 | 274,289 |
| | **₱264,236** | **₱625,958** | **(₱5,604)** | ₱210,536 | ₱563,338 | ₱243,583 | ₱609,527 |

Summarized statements of cash flows for each of the three years in the period ended December 31, 2014:

| | 2014 | | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|---|
| | **SPPC** | **WMPC** | **Saranggani** | SPPC | WMPC | SPPC | WMPC |
| | | | | *(In Thousands)* | | | |
| Operating | **₱554,147** | **₱1,025,743** | **(₱47,124)** | ₱499,799 | ₱1,115,025 | ₱488,606 | ₱970,227 |
| Investing | **(8,918)** | **(350,963)** | **(7,016,723)** | 69,079 | 116,137 | (35,986) | 147,395 |
| Financing | **(522,776)** | **(824,547)** | **7,904,667** | (528,079) | (965,325) | (497,766) | (1,283,052) |
| Net increase (decrease) in cash and cash equivalents | **₱22,453** | **(₱149,789)** | **₱840,820** | ₱40,799 | ₱265,837 | (₱45,146) | (₱165,430) |
| Dividends paid to non-controlling interests | **₱120,744** | **₱261,612** | **₱–** | ₱119,867 | ₱319,644 | ₱110,916 | ₱369,720 |

## 3. Changes in Accounting Policies and Disclosures

<u>New Standards and Interpretations Issued and Effective as at January 1, 2014</u>
The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2014.

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

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)
  These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact to the Group, since none of the entities within the Group qualifies to be an investment entity under PFRS 10.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)
  These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively. These amendments have no impact on the Group.

- 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 and retrospective application is required. These amendments have no impact on the Group as the Group has not entered into hedging arrangements during the current or prior periods.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)
  These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The application of these amendments has no material impact on the disclosure in the Group's consolidated financial statements.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)
  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

- Annual Improvements to PFRSs (2010-2012 cycle)
  In the 2010 - 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment has no impact on the Group.

- Annual Improvements to PFRSs (2011-2013 cycle)
  In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

Standards Issued but not yet Effective

Standards issued and effective after December 31, 2014 are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have a significant impact on its consolidated financial statements.

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version). PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. 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 OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, 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 in respect of the liability's 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 into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

  PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Philippine Board of Accountancy (BOA).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the IASB and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have significant impact on the consolidated financial statements of the Group.

The following new standards and amendments issued by the International Accounting Standards Board (IASB) were already adopted by the FRSC but are still for approval of the BOA:

*Effective in 2015*

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments) PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after January 1, 2015. It is not expected that this amendment would be relevant to the Group since contribution to the individual plans only comes from the each entity in the Group.

*Annual Improvements to PFRSs (2010-2012 cycle)*
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group's consolidated financial statements.

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

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

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets.* The amendments are applied retrospectively and clarify that: an entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

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

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

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

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

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

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

*Effective in 2016*

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

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

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* (Amendments). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact on the Group's consolidated financial statements.

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

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

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

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

*Annual Improvements to PFRSs (2012-2014 cycle)*

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

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

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

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

- PAS 19, *Employee Benefits - Regional Market Issue Regarding Discount Rate*. This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

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

*Effective in 2018*

- PFRS 9, *Financial Instruments - Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version). PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

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

  The adoption of PFRS 9 is not expected to have a significant impact on the Group's consolidated financial statements.

The following new standard issued by the IASB has not yet been adopted by the FRSC:

- IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2014 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

## 4. Summary of Significant Accounting Policies

Current versus Noncurrent Classification
The Group presents assets and liabilities in consolidated balance sheet based on current or noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the 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 the 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 income tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement
The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial and non-financial instruments are disclosed in Note 33.

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 of input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level of 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 of 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.

<u>Categories of Financial Instruments</u>
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 investments as at December 31, 2014 and 2013.

*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 Group'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. 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 are the Group's investments in quoted 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 (e.g., accounts payable and accrued liabilities, excluding withholding taxes and other taxes payable to government agencies) and loans and borrowings. All loans and borrowings are initially recognized at fair value less debt issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and debt issue costs that are an integral part of the effective interest rate method. Gains and losses are recognized in consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are shown as a contra account against long-term debt and are amortized over the terms of the related borrowings using the effective interest rate method.

The portion of the debt issue costs attributable to the undrawn portion is deferred and is being amortized over the commitment period on a straight-line basis. However, if it is probable at inception that the facility will be utilized, the debt issue cost will be amortized over the term of the related borrowings using the effective interest rate method. Debt issue costs pertaining to current portion of the long-term debt are classified as current liabilities; otherwise, these are classified as noncurrent liabilities.

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.

<u>Derivative Financial Instruments</u>
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 in 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.

The Group has embedded derivative arising from its long-term debt which are required to be bifurcated.

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 Group. 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 (charges) 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. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. 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 OCI 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 consolidated 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 (NRV). 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. NRV 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 NRV.

Investments in Real Estate
Investments in real estate comprise land, building and improvements which are not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Cost includes acquisition cost of the land and any other directly attributable costs of bringing the asset to its intended use.

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 five years to 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 its 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:

| | Number of Years |
|---|---|
| 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:

| | Number of Years |
|---|---|
| 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.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

*Initial measurement*

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs incurred such as finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department or business development offices are expensed and included as part of "General and administrative expenses" account in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with the changes in fair value recognized either in the consolidated statement of income or as a change to other comprehensive income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with appropriate PFRS. Contingent consideration that is classified as equity is not remeasured until it is finally settled within equity.

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

If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

*Subsequent measurement*
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's format determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized as income or loss in the consolidated statement of income.

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.

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 issuer'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 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. Under this method, revenue is recognized in full when 25% of sales are collected in the year of sale.

However, where the Group has material obligations under the sales contract to complete the project after the property is sold, the percentage-of-completion method is used to recognize income from sales of projects. 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.

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 Benefits
The Group, excluding SPPC, WMPC and APMC, has an unfunded, noncontributory defined benefit retirement plan covering all qualified employees. SPPC, WMPC, and AMPC 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 the 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. 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 until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs not qualified for capitalization are expensed as incurred.

Income 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 are 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 it 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.

*Value-added tax*
Revenue, expenses, assets and liabilities are recognized net of the amount of value-added tax (VAT), except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of value-added tax recoverable from, or payable to, the taxation authority is included as part of "Input VAT" or "Accounts payable and other current liabilities" in the consolidated balance sheet.

*Input 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.

<u>Provisions</u>
*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 30. 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 the 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 the 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. The carrying value of investment in Indophil amounted to ₱1,213 million and ₱1,215 million as at December 31, 2014 and 2013, 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 on a straight-line basis.

*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 as follows:

- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.

- Investments in real estate comprise land and building which are not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

The carrying values of the Group's investments in real estate and real estate inventories amounted to ₱1,527 million and ₱642 million, respectively, as of December 31, 2014 and ₱1,477 million and ₱649 million, respectively, as of December 31, 2013 (see Note 10).

*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 assessed that its preferred stock met all the features or conditions set out to be classified as equity. On February 4, 2013, all of the Parent Company's preferred shares have been subscribed by Alcorp (see Note 21).

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 33.

*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 ₱4,016 million and ₱4,330 million as at December 31, 2014 and 2013, respectively. Allowance for impairment losses amounted to ₱80 million and ₱98 million as at December 31, 2014 and 2013, respectively (see Note 8).

*Estimation of NRV of inventories*

Inventories are valued at the lower of cost and NRV. 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 ₱242 million and ₱204 million as at December 31, 2014 and 2013, respectively (see Note 9). The carrying values of real estate inventories amounted to ₱642 million and ₱649 million as at December 31, 2014 and 2013, 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 (charges)" in the 2012 consolidated statement of income (see Note 27). Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱4 million in 2014 and 2013 and ₱17 million in 2012 are also recognized as part of "Other income (charges)" in the consolidated statements of income (see Note 27).

*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 2014 and 2013. The carrying values of property, plant and equipment amounted to ₱13,410 million and ₱6,674 million as at December 31, 2014 and 2013, respectively (see Note 12). However, starting 2015, the useful life of components of the power plant complexes will be extended for another10 years based on the Group's forecast of operations after the ECA period. Estimated impact on future annual depreciation expense is as follows (amounts in millions):

| Years ended December 31 | Increase (Decrease) |
|---|---|
| 2015 | (₱472) |
| 2016 | (12) |
| 2017 until 2020 | 55 |
| 2021 until 2025 | 51 |
| 2026 | 8 |

*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 ₱117 million and ₱56 million as at December 31, 2014 and 2013, respectively. No impairment loss was recognized on AFS financial assets in 2014, 2013 and 2012. The Group recognized unrealized loss (gain) on fair valuation of AFS financial assets recognized in OCI amounting to ₱87 million in 2014, ₱7 million in 2013 and (₱18 million) in 2012 (see Notes 13 and 21).

*Impairment of nonfinancial assets (except goodwill)*
An impairment review is performed when certain impairment indicators are present. These factors include, among others:

a. Investments in real estate, property, plant and equipment and deferred project costs
   - Significant underperformance relative to the future sales performance and projected operating results; and
   - Significant negative industry or market trends

b. Investment in associate
   There is 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.

c. Mining rights and deferred exploration costs
   - The period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
   - Substantive expenditures on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
   - Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; and sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the mining rights and deferred project costs asset is unlikely to be recovered in full from successful development or by sale.

The Group is required to make estimates and assumptions that can materially affect the consolidated financial statements when 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. Future events could cause the Group 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 and 2012 (nil in 2014) (see Notes 15 and 23).

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

| | **2014** | 2013 |
|---|---|---|
| | *(In Millions)* | |
| Investments in real estate (see Note 10) | **₱1,527** | ₱1,477 |
| Investments in associates (see Note 11) | **1,218** | 1,220 |
| Property, plant and equipment (see Note 12) | **13,410** | 6,674 |

(Forward)

| | 2014 | 2013 |
|---|---|---|
| Mining rights and deferred exploration costs (see Note 15) | **₱230** | ₱224 |
| Deferred project costs (see Note 15) | **225** | 181 |
| Deferred oil exploration costs (see Note 15) | **63** | 63 |
| Computer software (see Note 15) | **25** | 16 |
| | **₱16,698** | ₱9,855 |

The Group recognized full impairment on the deferred oil exploration costs as of December 31, 2014 and 2013(see Note 15).

*Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired. 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, 2014 and 2013, based on the assessment of the Group, there is no impairment in the carrying value of goodwill. The carrying amount of goodwill amounted to ₱1,002 million and ₱995 million as at December 31, 2014 and 2013, 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 the actuary in calculating such amounts. Those assumptions, which include among others, discount rates and future salary increase, are described in Note 28. 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 2014 and 2013. Total net retirement assets of SPPC, WMPC and APMC amounted to ₱45 million and ₱50 million as at December 31, 2014 and 2013, respectively (see Note 28). Total retirement liabilities of the Parent Company and other subsidiaries amounted to ₱7 million and ₱9 million as at December 31, 2014 and 2013, respectively (see Note 28). Retirement benefits costs recognized in the consolidated statements of income amounted to ₱9 million, ₱12 million and ₱6 million in 2014, 2013 and 2012, respectively (see Notes 24, 28 and 30).

*Estimation of asset retirement obligation*
The asset retirement obligation arises 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 statements of income. Asset retirement obligation as at December 31, 2014 and 2013 amounted to ₱67 million and ₱79 million, respectively (see Note 19).

*Estimation of deferred income tax assets*
The Group's assessment on the recognition of deferred income 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 based on their 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 income tax assets amounted to ₱30 million and ₱42 million as at December 31, 2014 and 2013, respectively. Also, the Group has unrecognized NOLCO, excess MCIT over RCIT and temporary differences as at December 31, 2014 and 2013 as disclosed in Note 29.

*Legal contingencies*
The Group is involved in certain legal proceedings as discussed in Note 35. 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. 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 30.

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

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Energy and Power | Property Development | Other Investments | Total | Eliminations | Consolidated |
| **Earnings Information** | | | | | | |
| Revenues | | | | | | |
| External customer | ₱5,159,454,286 | ₱20,616,802 | ₱– | ₱5,180,071,088 | ₱– | ₱5,180,071,088 |
| Inter-segment | – | – | 499,594,802 | 499,594,802 | (499,594,802) | – |
| Total revenues | 5,159,454,286 | 20,616,802 | 499,594,802 | 5,679,665,890 | (499,594,802) | 5,180,071,088 |
| Interest income | 21,004,323 | 832,732 | 387,202 | 22,224,257 | – | 22,224,257 |
| Finance charges | (90,954,458) | (4,062,696) | (348,816,805) | (443,833,959) | 237,265,211 | (206,568,748) |
| Provision for income tax | (334,882,053) | (1,283,328) | (26,078,468) | (362,243,848) | – | (362,243,848) |
| Net income from continuing operations | 925,137,143 | (48,199,465) | 36,941,507 | 913,879,185 | (186,735,918) | 727,143,267 |
| **Other Information** | | | | | | |
| Investments in associates and due from related parties | 703,006,821 | 1,489,723,618 | 4,113,703,800 | 6,306,434,239 | (2,143,427,743) | 4,163,006,496 |
| Segment assets | 18,380,246,416 | 637,069,475 | 2,155,981,445 | 21,173,297,335 | 4,533,584,961 | 25,706,882,296 |

(Forward)

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Energy and Power | Property Development | Other Investments | Total | Eliminations | Consolidated |
| Segment liabilities | ₱1,486,324,313 | ₱103,570,434 | ₱305,417,192 | ₱1,895,311,939 | ₱13,403,200,096 | ₱15,298,512,035 |
| Depletion, depreciation and amortization | (813,319,545) | (975,384) | (81,057) | (841,375,986) | – | (814,375,986) |
| Reversal of impairment loss | – | (3,946,795) | – | (3,946,795) | – | (3,946,795) |
| Capital expenditures | 7,552,903,786 | 263,673 | 24,946 | 7,553,192,405 | – | 7,553,192,405 |
| Equity in net losses | – | – | – | – | (1,279,357) | (1,279,357) |
| **Cash Flow Information** | | | | | | |
| Net cash flows provided by (used in): | | | | | | |
| Operating activities | 2,056,813,181 | 3,436,871 | (158,153,638) | 1,902,096,414 | 74,448,624 | 1,976,545,038 |
| Investing activities | (7,746,385,659) | (336,042) | (782,806,530) | (8,529,528,231) | 1,959,754,511 | (6,569,773,720) |
| Financing activities | 6,750,778,442 | (32,080,000) | 1,011,222,978 | 7,729,921,420 | (2,037,249,335) | 5,692,672,085 |

| | 2013 (Note 16) | | | | | |
|---|---|---|---|---|---|---|
| | Energy and Power | Property Development | Other Investments | Total | Eliminations | Consolidated |
| **Earnings Information** | | | | | | |
| Revenues | | | | | | |
| External customer | ₱3,316,193,426 | ₱27,343,188 | ₱– | ₱3,343,536,614 | ₱– | ₱3,343,536,614 |
| Inter-segment | – | – | 424,926,000 | 424,926,000 | (424,926,000) | – |
| Total revenues | 3,316,193,426 | 27,343,188 | 424,926,000 | 3,768,462,614 | (424,926,000) | 3,343,536,614 |
| 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 | 271,872,842 | 195,548 | (1,844,336) | 270,224,054 | – | 270,224,054 |
| Net income from continuing operations | 809,020,757 | 473,136,269 | 254,039,997 | 1,536,197,023 | (966,911,209) | 569,285,814 |
| **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 | 10,553,290,231 | 1,960,761,096 | 354,785,698 | 12,868,837,025 | 5,120,292,228 | 17,989,129,253 |
| Segment liabilities | 811,268,617 | 119,959,393 | 76,909,158 | 1,008,137,168 | 6,609,547,367 | 7,617,684,535 |
| Depletion, depreciation and amortization | (699,891,338) | (5,181,518) | (1,058,429) | (706,131,285) | – | (706,131,285) |
| Reversal of (provisions for) impairment losses | (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) |
| **Cash Flow Information** | | | | | | |
| Net cash flows provided by (used in): | | | | | | |
| Operating activities | 1,732,043,776 | (829,281,769) | 71,230,533 | 973,992,540 | 1,115,742,895 | 2,089,735,435 |
| Investing activities | (3,619,728,968) | 1,209,180,121 | (71,398,793) | (2,481,947,640) | (1,290,089,874) | (3,772,037,514) |
| 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 | Eliminations | Consolidated |
| **Earnings Information** | | | | | | |
| Revenues | | | | | | |
| External customer | ₱2,100,705,775 | ₱41,750,362 | ₱– | ₱2,142,456,137 | ₱– | ₱2,142,456,137 |
| 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 | (613,713,322) | (5,463,252) | (3,666,258) | (622,842,832) | – | (622,842,832) |
| 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 |
| **Cash Flow Information** | | | | | | |
| 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) |

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to ₱25 million in 2014, ₱24 million in 2013 and ₱23 million in 2012, 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:

| | 2014 | 2013 (Note 16) | 2012 |
|---|---|---|---|
| **Assets** | | | |
| Total assets for reportable segments | **₱21,173,297,335** | ₱12,868,837,025 | ₱9,730,578,841 |
| Investments in shares of stock and due from related parties | **12,179,485,299** | 11,935,523,259 | 10,126,043,952 |
| Fair value adjustment on real estate inventories | **(552,825,212)** | (552,825,212) | (552,825,212) |
| Goodwill | **(43,139,631)** | (43,139,631) | (43,139,631) |
| Accrued interest | **11,175,192** | 10,709,493 | 11,050,358 |
| Accumulated impairment loss on real estate inventories | **6,299,378** | 10,246,173 | 14,386,867 |
| Eliminations | **(7,048,998,975)** | (6,240,221,854) | (5,262,306,475) |
| Consolidated assets | **₱25,725,293,386** | ₱17,989,129,253 | ₱14,023,788,700 |
| **Liabilities** | | | |
| Total liabilities for reportable segments | ₱1,895,311,939 | ₱1,008,137,168 | ₱628,839,490 |
| Long-term debt | 12,938,691,818 | 5,190,495,041 | 1,681,776,549 |
| Due to related parties | 1,435,592,155 | 1,305,659,082 | 1,857,656,599 |
| Loans payable | 259,999,978 | 794,366,639 | – |
| Deferred tax liabilities - net | 262,899,696 | 257,108,494 | 241,526,251 |
| Income tax payable | 120,268,492 | 100,872,098 | 69,482,159 |
| Accrued interest payable | 161,841,990 | 86,647,869 | 21,294,760 |
| Eliminations | (1,757,682,943) | (1,125,601,856) | (1,681,873,921) |
| Consolidated liabilities | ₱15,316,923,125 | ₱7,617,684,535 | ₱2,818,701,887 |

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

| | 2014 | 2013 |
|---|---|---|
| Cash on hand | **₱59,500** | ₱484,496 |
| Cash in banks | **2,383,157,758** | 1,193,066,876 |
| Cash equivalents | **129,166,117** | 228,811,413 |
| | **₱2,512,383,375** | ₱1,422,362,785 |

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 ₱34 million and ₱9 million as at December 31, 2014 and 2013, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging 3.00% to 4.10%.

Interest income from cash and cash equivalents and short-term cash investments amounted to ₱22 million, ₱25 million and ₱46 million for the years ended December 31, 2014, 2013 and 2012, respectively.

## 8. Trade and Other Receivables

| | 2014 | 2013 |
|---|---|---|
| Trade: | | |
| Power | **₱762,478,325** | ₱610,424,604 |
| Real estate | **83,760,479** | 257,194,970 |
| Product distribution and others | **31,730,458** | 31,730,458 |
| Due from related parties (see Note 20) | **2,944,690,536** | 3,208,014,388 |
| Retention receivables (see Note 30) | **115,393,178** | 162,300,000 |
| Others | **150,573,048** | 148,584,212 |
| | **4,088,626,024** | 4,418,248,632 |
| Less allowance for impairment losses | **80,483,915** | 98,299,163 |
| | **₱4,008,142,109** | ₱4,319,949,469 |

Power
Represent billings to NPC by SPPC and WMPC under existing ECAs (see Note 34). These receivables are noninterest-bearing and are generally on 30 days term. Trade receivables include long-outstanding receivables of SPPC from NPC amounting to ₱110 million ($2.48 million) as at December 31, 2014 and 2013, respectively, representing billings from 2005 to 2006 for additional 5MW installed capacity nominated by SPPC. The allowance provided amounting to ₱30 million ($0.69 million) and ₱28 million ($0.69 million) as at December 31, 2014 and 2013, respectively, is management's best estimate of impairment loss on the long-outstanding receivables from NPC.

Real Estate
This 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 ₱63 million and ₱65 million as at December 31, 2014 and 2013, respectively, which are collectible in monthly installment over a period of two 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 ₱8 million and ₱10 million as at December 31, 2014 and 2013, respectively.

Real estate receivables amounting to ₱52 million and ₱220 million as at December 31, 2014 and 2013, 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 34). In 2012, provision for impairment loss amounting to ₱20 million was recorded under "General and administrative expenses" account in the 2012 consolidated statement of income (see Note 23). In 2014, the Group reclassified a portion of real estate receivables with net carrying value of ₱148 million to AFS investments because management believes that the underlying instruments qualify as equity investments. The prior years' financial statements were not restated since the impact is not material to the consolidated financial statements (see Note 13).

Product Distribution and Others
These pertain 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 amounting to ₱32 million were fully provided with allowance for impairment losses as at December 31, 2014 and 2013.

Retention Receivables

Retention receivable pertains to the outstanding balance from Aboitiz Land, Inc. (Aboitiz) for the sale of Lima Land Inc. (LLI), which will be collected upon accomplishment of certain milestones (see Note 30).

Due from Related Parties and Other Receivables

Due from related parties and other receivables are due on demand. Other receivables primarily include advances to employees, receivables from contractors, receivables from insurance claims and receivables from venturers.

Included in the other receivables is LUC's claim from NPC for advances amounting to ₱3 million as at December 31, 2014 and 2013 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 specifically identified to be potentially uncollectible and thus, fully provided with allowance.

Movements of allowance for impairment losses are as follows:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | Power | Real Estate | Product Distribution | Others | Total |
| Balances at beginning of year | ₱28,343,011 | ₱31,561,222 | ₱31,730,458 | ₱6,664,472 | ₱98,299,163 |
| Reclassification to OCI | – | (20,000,000) | – | – | (20,000,000) |
| Effect of change in foreign exchange rate | 2,172,710 | – | – | 12,042 | 2,184,752 |
| Balances at end of year | ₱30,515,721 | ₱11,561,222 | ₱31,730,458 | ₱6,676,514 | ₱80,483,915 |
| Individually impaired | ₱13,911,185 | ₱– | ₱– | ₱5,074,645 | ₱18,985,830 |
| Collectively impaired | 16,604,536 | 11,561,222 | 31,730,458 | 1,601,869 | 61,498,085 |
| | ₱30,515,721 | ₱11,561,222 | ₱31,730,458 | ₱6,676,514 | ₱80,483,915 |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Power | Real Estate | Product Distribution | Others | Total |
| Balance at beginning of year | ₱28,344,943 | ₱31,561,222 | ₱31,730,458 | ₱6,664,812 | ₱98,301,435 |
| Effect of change in foreign exchange rate | (1,932) | – | – | (340) | (2,272) |
| Balance at end of year | ₱28,343,011 | ₱31,561,222 | ₱31,730,458 | ₱6,664,472 | ₱98,299,163 |
| Individually impaired | ₱13,810,086 | ₱– | ₱– | ₱5,062,603 | ₱18,872,689 |
| Collectively impaired | 14,532,925 | 31,561,222 | 31,730,458 | 1,601,869 | 79,426,474 |
| | ₱28,343,011 | ₱31,561,222 | ₱31,730,458 | ₱6,664,472 | ₱98,299,163 |

## 9. Spare Parts and Supplies

| | 2014 | 2013 |
|---|---|---|
| Spare parts | ₱136,565,220 | ₱148,509,390 |
| Oil, lubricants and chemicals | 104,760,491 | 48,579,791 |
| Operating supplies and consumables | 238,313 | 7,259,828 |
| | ₱241,564,024 | ₱204,349,009 |

## 10. Real Estate Inventories and Investments in Real Estate

Real Estate Inventories

| | 2014 | 2013 |
|---|---|---|
| Eagle Ridge Project (General Trias, Cavite) - at cost (see Note 34) | **₱622,816,151** | ₱623,563,443 |
| Campo Verde Project (Lipa and Malvar, Batangas) - at NRV (see Note 34) | **19,524,685** | 25,852,852 |
| | **₱642,340,836** | ₱649,416,295 |

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

| | 2014 | 2013 |
|---|---|---|
| **Cost** | | |
| Balances at beginning of year | **₱675,541,776** | ₱873,510,997 |
| Cost of real estate sold | **(15,343,214)** | (27,031,571) |
| Cancellation of sale | **4,320,960** | 215,996 |
| Disposal of a subsidiary (see Note 30) | **–** | (171,153,646) |
| Balances at end of year | **664,519,522** | 675,541,776 |
| **Allowance for Impairment Loss** | | |
| Balances as at beginning of year | **26,125,481** | 30,266,175 |
| Recovery of impairment due to sale (see Note 27) | **(3,946,795)** | (4,140,694) |
| Balances at end of year | **22,178,686** | 26,125,481 |
| | **₱642,340,836** | ₱649,416,295 |

In 2013, ALC sold its equity interest in LLI to Aboitiz. The carrying value of disposed real estate inventories due to sale of LLI amounted to ₱171 million (see Note 30).

Due to the improvement in the sale activity of real estate inventories and improvement on the selling price of the Group's real estate inventories, reversal of impairment loss amounting to ₱72 million is recognized as part of "Other income (charges)" in the 2012 consolidated statement of income. Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱4 million in 2014 and 2013 and ₱17 million in 2012 are recognized also as part of "Other income (charges)" in the consolidated statements of income (see Note 27). Accumulated impairment losses on real estate inventories amounted to ₱22 million and ₱26 million as at December 31, 2014 and 2013, respectively.

Included in "Real estate inventories" account are properties with a carrying amount of ₱145 million as at December 31, 2014 and 2013 were used as collateral for the loans availed by ALC, Parent Company and certain affiliates (see Note 18).

Investments in Real Estate

| | 2014 | 2013 |
|---|---|---|
| Lanang Property (Lanang, Davao City) | **₱1,275,631,722** | ₱1,226,174,500 |
| ALC Property (Pasong Tamo, Makati) | **131,810,479** | 131,312,070 |
| Batangas Project (Lipa and Malvar, Batangas) | **115,087,360** | 115,087,360 |
| Laguna Project (Cabuyao, Laguna) | **4,685,936** | 4,685,936 |
| | **₱1,527,215,497** | ₱1,477,259,866 |

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

| | December 31, 2014 | | |
|---|---|---|---|
| | Land | Building and Improvements | Total |
| **Cost** | | | |
| Balances at beginning of year | ₱1,471,367,796 | ₱29,167,170 | ₱1,500,534,966 |
| Additions | 49,269,562 | 1,202,560 | 50,472,122 |
| Balances at end of year | 1,520,637,356 | 30,369,730 | 1,551,007,088 |
| **Accumulated Depreciation** | | | |
| Balances at beginning of year | – | 23,275,100 | 23,275,100 |
| Depreciation (see Note 25) | – | 516,491 | 516,491 |
| Balances at end of year | – | 23,791,591 | 23,791,591 |
| **Net Book Value** | ₱1,520,637,356 | ₱6,578,139 | ₱1,527,215,497 |

| | December 31, 2013 | | |
|---|---|---|---|
| | Land | Building and Improvements | Total |
| **Cost** | | | |
| Balances at beginning of year | ₱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 30) | (1,058,092,614) | (43,599,497) | (1,101,692,111) |
| Reclassification from other noncurrent assets | – | 4,534,718 | 4,534,718 |
| Balances at end of year | 1,471,367,796 | 29,167,170 | 1,500,534,966 |
| **Accumulated Depreciation** | | | |
| Balances at beginning of year | – | 34,020,751 | 34,020,751 |
| Depreciation (see Note 25) | – | 3,403,534 | 3,403,534 |
| Reclassification | – | (14,149,185) | (14,149,185) |
| Balances at end of year | – | 23,275,100 | 23,275,100 |
| **Net Book Value** | ₱1,471,367,796 | ₱5,892,070 | ₱1,477,259,866 |

Lanang Property
On December 27, 2011, the BOD of ACR approved the acquisition of 72% of the outstanding shares (consisting of 2,000,000 common shares and 344,498 preferred shares) of C. Alcantara & Sons, Inc. (CASI) from Aldevinco, a stockholder of ACR and Alcorp, in behalf of Aldevinco, for a total consideration of ₱1,226 million. The acquisition was paid through the reduction of ACR's receivables from Aldevinco equivalent to ₱1,226 million on that date. The total consideration 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.

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, which includes a sole interest in the right to receive in full, as a return of capital, the Lanang landholdings of CASI. 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 landholding and lost its power to participate in the financial and operating policy decisions of CASI by assigning its voting rights to Aldevinco, did not include the assets and liabilities of CASI in the 2013 consolidated financial statements but recognizes only its investment in CASI as part of the "Investments in real estate" account representing CASI's Lanang property. Also, in 2013, ALC reclassified a model house and building improvements from "Other noncurrent assets" account to the "Investments in real estate" account amounting to ₱5 million.

In 2014, CASI filed with the Bureau of Internal Revenue (BIR) and notified the SEC regarding the shortening of its corporate life until March 31, 2014. As a result, ACR received the Lanang property of CASI as liquidating dividend amounting to ₱1,226 million. The transaction costs incurred such as taxes and processing fees to transfer the Lanang property to ACR's name totaling ₱49 million were capitalized as part of "Investments in real estate". Also, ACR incurred input VAT amounting to ₱103 million in 2014 arising from this transaction (see Note 15).

Collateral
Land and buildings and improvements with a carrying amount of ₱125 million as at December 31, 2014 and 2013 are subject to a mortgage trust indenture and serve as collateral for the long-term debt of ALC (see Note 18).

Fair Value
The fair values of Lanang Property and ALC Property, Batangas Project and Laguna Project amounted to ₱1,226 million and ₱599 million based on appraisal of the properties by an independent third party appraiser in 2011 and 2013, respectively. The Group assessed that there were no significant changes in fair values from last appraisal dates up to December 31, 2014 and 2013. The fair values were determined by an independent firm of appraisers using market value approach in previous years. 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 | | | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| At equity: | | | | |
| Acquisition costs: | | | | |
| Indophil | 2.42 | 2.42 | ₱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 (ADC) | 32.80 | 32.80 | 4,983,000 | 4,983,000 |
| Duta, Inc. | 30.00 | 30.00 | 13,725,000 | 13,725,000 |
| | | | 1,481,286,080 | 1,481,286,080 |
| Accumulated equity in net losses: | | | | |
| Balances at beginning of year | | | (100,920,763) | – |
| Equity in net losses for the year (see Note 27) | | | (1,279,357) | (100,920,763) |
| Balances at end of year | | | (102,200,120) | (100,920,763) |
| Accumulated impairment loss - | | | | |
| Balances at beginning and end of year | | | (160,770,000) | (160,770,000) |
| | | | ₱1,218,315,960 | ₱1,219,595,317 |

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 Securities Exchange until January 29, 2015.

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 the equity method in the consolidated financial statements. The Group has determined that the acquisition cost of Indophil includes goodwill amounting to ₱785 million.

On January 23, 2015, Indophil implemented the Scheme of Arrangement between APIC and Indophil shareholders wherein APIC acquired all the outstanding shares from existing shareholders of APIC. Accordingly, Indophil became a subsidiary of APIC starting in 2015. Indophil shares were delisted in the Australian Securities Exchange effective January 30, 2015.

The financial information of Indophil as at and for the years ended December 31, 2014 and 2013 are as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | *(Amounts in Thousands)* | | | |
| Current assets | **AUD208,476** | **₱7,548,916** | AUD216,162 | ₱8,529,342 |
| Noncurrent assets | **169,232** | **6,127,891** | 189,906 | 7,493,330 |
| Current liabilities | **5,846** | **211,684** | 3,018 | 119,085 |
| Noncurrent liabilities | **2,565** | **92,879** | 149 | 5,879 |
| Revenue | **17,933** | **707,636** | 18,804 | 743,636 |
| Income (loss) before income tax | **1,216** | **47,983** | (102,149) | (4,039,657) |
| Income (loss) after income tax | **(1,320)** | **(52,087)** | (105,452) | (4,170,279) |

** Financial information of Indophil is presented at Australian Dollar (AUD). Balance sheet and profit and loss accounts were translated to Philippine peso using closing exchange rate of ₱36.21 and average exchange rate of ₱40.05 in 2014, respectively and ₱39.46 and ₱39.55 in 2013, respectively.*

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

| | **2014** | 2013 |
|---|---|---|
| | *(Amounts in Thousands)* | |
| Current assets | **₱7,548,916** | ₱8,529,342 |
| Noncurrent assets | **6,127,891** | 7,493,330 |
| Current liabilities | **(211,684)** | (119,085) |
| Noncurrent liabilities | **(92,879)** | (5,879) |
| Equity | **13,372,244** | 15,897,708 |
| Equity interest of Parent Company | **2.42%** | 2.42% |
| Share in net assets of Indophil | **323,608** | 384,725 |
| Goodwill | **784,750** | 784,750 |
| Translation adjustments | **104,975** | 45,137 |
| Carrying value of investment in Indophil | **₱1,213,333** | ₱1,214,612 |

The market value per share of Indophil in the Australian Securities Exchange is AUD$ 0.295 and AUD$ 0.165 as at December 31, 2014 and 2013, respectively.

Aviana

On March 21, 2013, Aldevinco and ACIL (collectively referred to 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 Aviana Development Corporation (ADC) to undertake the development of the Lanang property of ACR in Davao City. On September 17, 2013, ADC was incorporated as a joint venture corporation. ACR has subscribed to the 296 preferred shares and 32 common shares for 32.8% ownership in ADC. Accordingly, ACR treats its investment in ADC as "Investment in associate". As at March 27, 2015, ADC has not yet started its commercial operations.

ACR intends to transfer the Lanang property to ADC as part of its capital contribution in 2015.

## 12. Property, Plant and Equipment

As at December 31, 2014:

| | Main Engine, Plant Structures and Others | Plant Mechanical, Electrical, Switchyard & Desulfurization Equipment | Land, Buildings and Leasehold Improvements | Machinery and Other Equipment | Construction in Progress | Cumulative Translation Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balances at beginning of year | ₱7,922,079,384 | ₱4,416,461,487 | ₱718,340,364 | ₱313,685,061 | ₱3,648,617,136 | (₱2,457,724,793) | ₱14,561,458,639 |
| Additions | 152,416,295 | 3,044,493 | 35,471,828 | 32,974,276 | 7,329,285,513 | | 7,553,192,405 |
| Adjustment on decomissioning liability (see Note 19) | (7,887,145) | – | – | – | – | – | (7,887,145) |
| Disposals | (148,479,471) | (2,334,712) | (28,856) | (9,381,422) | – | – | (160,224,461) |
| Reclassifications | 5,417,074 | – | 64,502,868 | – | (69,919,942) | – | – |
| Cumulative translation adjustments | – | – | – | – | – | 11,052,612 | 11,052,612 |
| Balances at end of year | 7,923,546,137 | 4,417,171,268 | 818,286,204 | 337,277,915 | 10,907,982,707 | (2,446,672,181) | 21,957,592,050 |
| **Accumulated Depletion, Depreciation and Amortization and Impairment Loss** | | | | | | | |
| Balances at beginning of year | (5,399,130,496) | (3,387,250,902) | (31,283,032) | (241,943,609) | – | 1,171,913,349 | (7,887,694,690) |
| Depletion, depreciation and amortization for the year (see Note 25) | (504,035,379) | (213,354,051) | (63,589,128) | (25,647,902) | – | – | (806,626,460) |
| Disposals | 148,225,845 | 2,116,690 | 12,786 | 9,162,335 | – | – | 159,517,656 |
| Cumulative translation adjustments | – | – | – | – | – | (12,245,914) | (12,245,914) |
| Balances at end of year | (5,754,940,030) | (3,598,488,263) | (94,859,374) | (258,429,176) | | 1,159,667,435 | (8,547,049,408) |
| **Net Book Value** | ₱2,168,606,107 | ₱818,683,005 | ₱723,426,830 | ₱78,848,739 | ₱10,907,982,707 | (₱1,287,004,746) | ₱13,410,542,642 |

As at December 31, 2013:

| | Main Engine, Plant Structures and Others | Plant Mechanical, Electrical, Switchyard & Desulfurization Equipment | Land, Buildings and Leasehold Improvements | Machinery and Other Equipment | Construction in Progress | Cumulative Translation Adjustments | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balances at beginning of year | ₱7,675,611,791 | ₱3,502,552,074 | ₱508,308,023 | ₱818,217,385 | ₱168,998,204 | (₱3,134,317,766) | ₱9,539,369,711 |
| Additions | 1,191,570,491 | 99,265,798 | 284,747,498 | 47,494,395 | 2,848,590,570 | – | 4,471,668,752 |
| Adjustment on decomissioning liability (see Note 19) | 3,264,462 | – | – | – | – | – | 3,264,462 |
| Disposals | (134,940,257) | – | – | (8,597,642) | – | – | (143,537,899) |
| Disposal of a subsidiary (see Note 30) | – | – | (80,042,447) | (541,427,114) | (8,909,956) | – | (630,379,517) |
| Reclassifications | (813,427,103) | 814,643,615 | 5,327,290 | (2,001,963) | (4,541,839) | – | – |
| Reclassification from deferred project costs (see Note 15) | – | – | – | – | 644,480,157 | – | 644,480,157 |
| Cumulative translation adjustments | – | – | – | – | – | 676,592,973 | 676,592,973 |
| Balances at end of year | 7,922,079,384 | 4,416,461,487 | 718,340,364 | 313,685,061 | 3,648,617,136 | (2,457,724,793) | 14,561,458,639 |
| **Accumulated Depletion, Depreciation and Amortization and Impairment Loss** | | | | | | | |
| Balances at beginning of year | (5,789,224,326) | (2,476,574,328) | (41,221,341) | (462,797,629) | – | 1,747,880,564 | (7,021,937,060) |
| Depletion, depreciation and amortization for the year (see Note 25) | (436,357,384) | (217,374,865) | (8,611,758) | (36,741,630) | – | – | (699,085,637) |
| Disposals | 134,365,972 | – | – | 7,047,744 | – | – | 141,413,716 |
| Disposal of a subsidiary (see Note 30) | – | – | 18,550,067 | 249,331,439 | – | – | 267,881,506 |
| Reclassifications | 692,085,242 | (693,301,709) | – | 1,216,467 | – | – | – |
| Cumulative translation adjustments | – | – | – | – | – | (575,967,215) | (575,967,215) |
| Balances at end of year | (5,399,130,496) | (3,387,250,902) | (31,283,032) | (241,943,609) | – | 1,171,913,349 | (7,887,694,690) |
| **Net Book Value** | ₱2,522,948,888 | ₱1,029,210,585 | ₱687,057,332 | ₱71,741,452 | ₱3,648,617,136 | (₱1,285,811,444) | ₱6,673,763,949 |

Construction in progress in 2014 and 2013 represents the total accumulated costs incurred for the construction of Phase 1 of Sarangani's power-generating project "SM 200". SM 200 is 210MW coal-fired power plant project in Maasim, Sarangani Province with a total project cost of ₱14 billion and is expected to commence operation in September 2015 (see Note 1).

The capitalized borrowing costs are disclosed in Note 18 to the consolidated financial statements.

The capitalized asset retirement costs, net of accumulated depreciation, amounted to ₱15 million in 2013 (nil in 2014).

Property, plant and equipment with a net book value of ₱512 million and ₱812 million as at December 31, 2014 and 2013, 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 presented under "Income from insurance claims" account its claim for reimbursement of losses arising from a machinery breakdown, which was collected in full in 2013 (see Note 27).

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱1,976 million and ₱1,962 million as at December 31, 2014 and 2013, 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:

| | **2014** | 2013 |
|---|---|---|
| **Acquisition Costs:** | | |
| Balances at beginning of year | **₱27,108,103** | ₱28,898,872 |
| Reclassification from trade receivables (see Note 8) | **148,176,395** | – |
| Disposal during the year | – | (1,790,769) |
| Balances at end of year | **175,284,498** | 27,108,103 |
| **Cumulative Unrealized Gain (Loss) on Changes in Fair Value:** | | |
| Balances at beginning of year | **28,754,589** | 35,495,598 |
| Fair value changes recognized in OCI | **(86,998,124)** | (6,741,009) |
| Balances at end of year | **(58,243,535)** | 28,754,589 |
| | **₱117,040,963** | ₱55,862,692 |

## 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 ₱1,002 million and ₱995 million as at December 31, 2014 and 2013, respectively. The movement during the year is due to the effect of foreign exchange rate changes from ₱44.40/$1 as at December 31, 2013 to ₱44.72/$1 as at December 31 2014 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 and BOD.

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 were 9.09% and 9.79% in 2014 and 2013, respectively.

*Terminal values.* Terminal values represent the market values of the power plant complexes upon disposal. In 2014, management changed the assumption on the expected timing of disposal from being at the end of ECA period to 10 years after the ECA period. The terminal values included in the value-in-use computation as at December 31, 2014 amounted to ₱224 million ($5 million) and ₱402 million ($9 million) for SPPC and WMPC, respectively. On the other hand, value-in-use computation as at December 31, 2013 included terminal values of ₱1,243 ($28 million) and ₱2,531 million ($57 million) for SPPC and WMPC, respectively.

*Consumer price index estimates.* The assumptions used for consumer price index are 1% in 2014 and 2013 for US dollar-denominated billings. On the other hand, assumptions used for Philippine peso-denominated billings are 3.00% in 2014 and 2013.

*Exchange rate inflation.* The assumption used to determine foreign exchange rate is appreciating U.S. dollar of 1.00% every year in 2014 and 2013.

Sensitivity to Changes in Assumptions
With regard to the assessment of value-in-use of the CGUs, management believes that a reasonably possible change in the terminal values assumptions would cause the carrying value of the CGUs to materially exceed their recoverable amount.

## 15. Other Assets

Prepaid Expenses and Other Current Assets

| | **2014** | 2013 |
|---|---|---|
| Input VAT | **₱189,155,056** | ₱119,510,603 |
| Creditable withholding taxes | **61,406,425** | 66,227,142 |
| Prepayments and others | **76,103,576** | 50,490,780 |
| | **₱326,665,057** | ₱236,228,525 |

Other Noncurrent Assets

| | 2014 | 2013 |
|---|---|---|
| Mining rights and deferred exploration costs | **₱229,884,041** | ₱223,815,832 |
| Deferred project costs | **225,271,124** | 180,755,986 |
| Deposits (see Note 18) | **98,611,384** | 28,500,000 |
| Deferred oil exploration costs | **63,372,934** | 63,372,934 |
| Computer software | **24,882,924** | 16,001,808 |
| Deferred financing costs | **17,593,143** | 167,475,759 |
| Others | **5,186,210** | 8,022,673 |
| | **664,801,760** | 687,944,992 |
| Less provision for impairment loss | **63,372,934** | 63,372,934 |
| | **₱601,428,826** | ₱624,572,058 |

Mining Rights and Deferred Exploration Costs
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, 2014 and 2013, the participating interests of ACRMC and SECO in the Joint Venture are 75% and 25%, respectively.

Deferred exploration costs pertain to expenses incurred by ACRMC for the mineral deposits in the Manat Claims. Exploration costs incurred amounted to ₱35 million and ₱29 million as at December 31, 2014 and 2013, respectively. As at March 27, 2015, the Manat MPSA is still in the exploration phase.

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

a. *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, 2014 and 2013, costs incurred for this project amounted to ₱225 million and ₱188 million, respectively.

b. *SM 200.* SM 200 is a coal-fired power plant project with a 200MW capacity in Maasim, 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 (see Note 12). This transaction is treated as non-cash investing activity in the 2013 consolidated statement of cash flows.

c. *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, 2014 and 2013, costs incurred for this project pertains mainly to administrative costs, which were recognized as outright expenses.

d. *Others.* Other projects also include the Guam Coal project which was fully provided with allowance for impairment loss. Accumulated provision for impairment loss amounted to ₱14 million as at December 31, 2014 and 2013. Provision for impairment loss recognized amounted to ₱3 million in 2013 and 2012 and which is presented under "General and administrative expenses" account in the consolidated statements of income (see Note 23).

Computer Software

This account pertains to costs incurred to acquire SAP ERP Financials (SAP) which are being used by CHC and its subsidiaries. Movements of this account are shown below:

| | **2014** | 2013 |
|---|---|---|
| **Cost** | | |
| Balances at beginning of year | **₱19,812,630** | ₱14,914,552 |
| Additions | **16,277,678** | 3,701,167 |
| Translation adjustments | **(82,613)** | 1,196,911 |
| Balances at end of year | **36,007,695** | 19,812,630 |
| **Accumulated Amortization** | | |
| Balances at beginning of year | **3,810,822** | – |
| Amortization (see Note 25) | **7,233,035** | 3,642,114 |
| Translation adjustments | **80,914** | 168,708 |
| Balances at end of year | **11,124,771** | 3,810,822 |
| **Net Book Value** | **₱24,882,924** | ₱16,001,808 |

Deferred Financing Costs

As at December 31, 2014 and 2013, the debt issue costs incurred by the Company amounted to ₱229 million. 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, 2014 and 2013, total amount drawn from the facility amounted to ₱8,586 million and ₱2,500 million. Debt issue costs allocated to drawn facility in 2014 and 2013 amounted to ₱150 million and ₱62 million were presented against long-term debt (see Note 18).

Deferred financing costs as at December 31, 2014 and 2013 are shown below:

| | 2014 | 2013 |
|---|---|---|
| Debt issue costs incurred at beginning of year | **₱229,057,135** | ₱90,112,519 |
| Additions during the year | **–** | 138,944,616 |
| Debt issue costs incurred at end of year | **229,057,135** | 229,057,135 |
| Less amount allocated to drawn facility | **149,882,616** | 61,581,376 |
| Deferred financing costs | **₱17,593,143** | ₱167,475,759 |

Deposits
In 2013, ACR paid ₱27.5 million, representing 50% downpayment, to a certain individual for the purchase of land in Davao with related transaction costs amounting to ₱2.8 million and ₱1.0 million in 2014 and 2013, 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:

| | 2014 | 2013 |
|---|---|---|
| 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 |
| | **63,372,934** | 63,372,934 |
| Less provision for impairment loss | **63,372,934** | 63,372,934 |
| | **₱–** | ₱– |

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

## 16. Accounts Payable and Other Current Liabilities

| | 2014 | 2013 |
|---|---|---|
| Trade | **₱581,408,965** | ₱511,255,472 |
| Accrued expenses (Notes 17 and 18) | **351,596,254** | 217,298,346 |
| Payable to customers | **301,443,388** | 102,283,835 |
| Output tax and withholding tax payable | **111,431,676** | 54,079,075 |
| Advances from customers | **23,966,412** | 25,525,647 |
| Other current liabilities | **94,371,909** | 69,579,232 |
| | **₱1,464,218,604** | ₱980,021,607 |

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

Accrued expenses represent accruals for vacation and sick leaves, interest, overhead fees and utilities. Accrued expenses are normally settled within a year

In December 2014, the Group determined that the energy fees billed to and collected from customers for the period May 2013 to December 2014 were overstated. The restatement resulted in decrease in energy fees by ₱102 million, decrease in provision for deferred income tax by ₱31 million, decrease in consolidated net income by ₱72 million in 2013, decrease in earnings per share by ₱0.01 per share and recognition of "Payable to customers" amounting to ₱102 million as at December 31, 2013. Retained earnings as at January 1, 2014 was also adjusted for the impact of the adjustment in the 2013 net income.

Other accrued expenses and other current liabilities are noninterest-bearing and have an average term of 30 days.

## 17. Loans Payable

*Parent Company*
In February 12, 2013, ACR obtained peso and dollar-denominated unsecured short-term loans from APHC amounting to ₱249 million and US$12.0 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 ₱4 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 ₱0.4 million in 2014 and ₱3.5 million in 2013 is presented as part of "Finance charges" (see Note 26).

Outstanding loans payable to APHC amounted to ₱794 million as at December 31, 2013, net of unamortized transaction cost of ₱0.4 million. The loans payable were fully settled in 2014.

*MPC*
In 2014, MPC availed of a short-term, unsecured bank loans amounting to ₱260 million ($5.8 million). The loans were availed for the purpose of servicing MPC's operating requirements, collection and distribution of electricity. Prevailing market rates of the loans ranged from 4.0% to 4.3%. Outstanding loan balance amounted ₱260 million as of December 31, 2014.

## 18. Long-term Debt

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

| | **2014** | 2013 |
|---|---|---|
| **Parent Company** | | |
| U.S. dollar-denominated debt - | | |
| Four-year floating rate corporate note | **₱3,286,920,000** | ₱– |
| Four-year fixed rate corporate note | **58,141,114** | 426,146,391 |
| Four-year fixed rate note | **–** | 577,135,000 |
| Philippine peso-denominated debt: | | |
| Five-year fixed rate restructured debt | **27,699,000** | 49,199,000 |
| Five-year fixed rate accommodated and restructured debt | **–** | 6,164,556 |

(Forward)

| | 2014 | 2013 |
|---|---|---|
| **CHC's Subsidiaries** | | |
| *WMPC* | | |
| Three and half-year U.S. dollar-denominated floating rate note | **₱204,434,286** | ₱405,897,116 |
| Seven-year U.S. dollar-denominated floating rate note | **19,165,714** | 44,395,000 |
| *SPPC* | | |
| Seven-year U.S. dollar-denominated floating rate note | **100,620,000** | 156,968,075 |
| Three and half-year U.S. dollar-denominated floating rate note | **52,173,331** | 81,390,833 |
| *MPC* | | |
| Six-year peso-denominated fixed rate debt | **846,450,000** | 900,000,000 |
| **ALC** | | |
| Five-year peso-denominated fixed rate restructured debt | **53,564,035** | 85,644,035 |
| **Sarangani** | | |
| Thirteen and half year peso-denominated floating rate debt | **8,585,696,599** | 2,500,279,215 |
| **MADE** | | |
| Five-year peso-denominated fixed rate restructured debt | **53,706,125** | 85,826,125 |
| | **13,288,570,204** | 5,319,045,346 |
| Less unamortized transaction costs | **349,878,386** | 128,550,305 |
| | **12,938,691,818** | 5,190,495,041 |
| Less current portion | **590,427,513** | 454,022,139 |
| Noncurrent portion | **₱12,348,264,305** | ₱4,736,472,902 |

Movement in the unamortized transaction costs is as follows:

| | 2014 | 2013 |
|---|---|---|
| Balances at beginning of year | **₱128,550,305** | ₱73,180,108 |
| Additions | **310,988,013** | 88,718,073 |
| Amortization (see Note 26) | **(89,659,932)** | (33,347,876) |
| Balances at end of year | **₱349,878,836** | ₱128,550,305 |

Parent Company

The loans of the Parent company consist of the following:

a. *US$73.5 million Loan Facility Agreement* - On October 24, 2014, the Parent Company entered into a US$73.5 million Loan Facility Agreement with various banks with an intention to finance payment of the Parent Company's existing indebtedness and to fund general business expenses and working capital requirement. Total proceeds from the loan amounted to US$70 million in 2014. The loan bears interest equivalent to a percentage rate per annum which is the aggregate of the applicable Margin and LIBOR. The following are the salient features of the loan:

   - *Maturity Date* - Principal is payable in full at maturity which is three years from the date of the loan facility agreement.

- *Mandatory Prepayment* - Prior to maturity date, the Parent Company shall pay the loan, in full or in part (as applicable), upon happening of any of the following:
  - Change of control when: (i) AC, APHC and ADIC (collectively called "Sponsors" in the loan facility agreement) collectively ceasing to legally and beneficially own, directly or indirectly at least 51% of the issued share capital of the Company; (ii) Sponsors collectively ceasing to have the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to: (A) cast, or control the casting of, more than 51% of the maximum number of votes that might be cast at a general meeting of the Parent Company; (B) appoint or remove all, or the majority of, the directors or other equivalent officers of the Parent Company; (C) give directions with respect to the operating and financial policies of the Parent Company with which the directors or other equivalent officers of the Parent Company are obliged to comply; (iii) the Parent Company ceasing to legally and beneficially own, directly or indirectly (A) 100% of the issued share capital of CHC; and (B) at least 20% of the issued share capital of APHI and (iv) CHC ceasing to legally and beneficially own, directly or indirectly (A) at least 80% of the issued share capital of APHI; and (B) at least 51% of the issued share capital of MPC.

  - Material asset sale which means: (i) any sale, transfer or other disposal of shares in Sarangani by the Parent Company to Toyota, so long as the consideration received is solely used to finance other power projects in material subsidiaries which the Parent Company controls and of which the Parent Company beneficially owns, directly or indirectly, more than half the issued share capital; and (ii) any sale, lease, transfer or other disposal not permitted by the loan facility agreement.

- The loan has embedded derivatives arising from voluntary prepayment option where 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 written notice to The Bank of New York Mellions, Singapore Branch not less than 10 days prior to proposed prepayment date; and (ii) the loan may be prepaid only after the last day of the period from and including the date of the loan facility agreement to and including the date falling 150 days from and including the date of the loan facility agreement. The embedded derivative in the loan was assessed by the Parent Company to be closely related, thus was not qualified for bifurcation based on the provisions of PAS 39.

- The Parent Company shall maintain the following financial ratios:

  - Leverage ratio, ratio of total debt to tangible net worth, in respect of any relevant period shall not at any time exceed 2.33:1.00.

  - EBITDA/ interest ratio in respect of any relevant period shall not be less than the ratio set out against the corresponding calculation date below:

| Calculation Date | Ratio |
|---|---|
| Each Calculation Date falling between the period commencing on the date of this Agreement and ending on and including 31 December 2014 | 4.50:1.00 |
| Each Calculation Date falling after 31 December 2014 until and including 31 December 2015 | 3.50:1.00 |
| Each Calculation Date falling after 31 December 2015 | 2.50:1.00 |

As required in the loan agreement, the Parent Company deposited ₱48.2 million into an interest reserve account in 2014 (see Note 15). Throughout the term of the loan, the interest reserve account is required to have a balance of not less than the aggregate amount of interest falling due for payment in the next interest payment date.

In 2014, the transaction costs representing fees, taxes and other charges incurred in obtaining the loan amounting to ₱155 million were deferred and amortized over 36 months using the effective interest rate. These transaction costs are presented as contra account to the principal balance of the loan. Amortization of transaction costs amounting to ₱11 million in 2014 is presented as part of "Finance charges" (see Note 26).

Outstanding loan from the loan facility agreement amounted to ₱3,143 million (net of unamortized transaction costs of ₱144 million) as at December 31, 2014.

b. *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 six months from the initial drawdown date up to maturity date of the loan. The 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. The Parent Company assessed that the commercial operation date of Sarangani will be the earliest among the three dates. The commercial operation 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 Parent Company; (ii) initial public offering or trade sale of the investee companies of Parent Company, which shall include Sarangani or any investee that may in the future, be created or owned by Parent Company; or (iii) dividends are received by Parent Company from the investee companies mentioned in (ii), unless APHC may allow Parent Company 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 Parent Company 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.

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 Parent Company recognized derivative liability from compound embedded derivatives amounting to ₱28 million and ₱38 million as at December 31, 2014 and 2013, respectively. Mark-to market gain of ₱10 million in 2014 and mark-to market loss of ₱16 million in 2013 are recognized in the consolidated statements of income as component of "Other income (charges) " (see Note 27). The derivative liability is presented as part of the current liabilities in the consolidated balance sheets.

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 ₱44 million and ₱22 million in 2014 and 2013, respectively, and is presented as part of "Finance charges" (see Note 26).

In 2014 and 2013, additional drawdown by the Parent Company amounted to US$1.3 million (₱58 million) and US$2.5 million (₱110 million), respectively. No related transaction cost was recognized in 2014 and 2013.

In compliance with PAS 39, the loan was initially recognized at fair value. Accretion on the loan using effective interest rate amounted to ₱6 million and ₱2 million in 2014 and 2013, respectively, were recognized to bring the loan at the amount at the expected settlement date (see Note 26).

Loans payable to APHC amounted to ₱58 million and ₱380 million (net of unamortized transaction costs of ₱44 million) as at December 31, 2014 and 2013, respectively.

As at December 31, 2014 and 2013, the Parent Company is in compliance with the terms of its loan covenants.

c. 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. 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 amounting to ₱8 million were deferred and amortized over 48 months using the effective interest rate. Amortization of transaction costs amounted to ₱7 million and ₱1 million in 2014 and 2013, respectively, is presented as part of "Finance charges" (see Note 26). 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.

d. 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: (i) ₱85 million of which is restructured to be paid quarterly over five years until September 2015 with 6% interest per annum, and (ii) 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. Outstanding balance of restructured loan amounted to ₱28 million and ₱49 million as at December 31, 2014 and 2013, respectively.

e. Bank loans of ₱6 million as at December 31, 2013 which were accommodated for and on behalf of an affiliated Parent Company and were restructured in 2008, are payable in twenty (20) quarterly amortizations up to 2014 with annual interest rate fixed at 8%. The loan was paid in full in 2014.

f. Bank loans of ₱181 million as at December 31, 2012, which 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.

Accrued interest of the Parent Company's loans amounted to ₱33.9 million and ₱20.1 million as at December 31, 2014 and 2013, respectively (see Note 16).

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. Outstanding balance of this loan amounted to ₱19 million (US$0.4 million) and ₱44 million (US$1.0 million) as at December 31, 2014 and 2013, 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. Outstanding balance of this loan amounted to ₱204 million (US$4.6 million) and ₱406 million (US$9.1 million) as at December 31, 2014 and 2013, respectively.

*SPPC.* On July 15, 2009, SPPC obtained a U.S. dollar-denominated loan amounting to US$9.0 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. Outstanding balance of this loan amounted to ₱101 million (US$2.3 million) and ₱157 million (US$3.5 million) as at December 31, 2014 and 2013, respectively.

On January 31, 2012, SPPC obtained additional US dollar-denominated loan amounting to $3.0 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. Outstanding balance of this loan amounted to ₱52 million (US$1.2 million) and ₱81 million (US$1.8 million) as at December 31, 2014 and 2013, respectively.

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, 2014 and 2013, 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, 2014 and 2013.

*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, 2014 and 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, 2014.

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. The carrying amount of the property, plant and equipment mortgaged as collateral amounted to ₱493 million ($11 million) and ₱1,833 million ($41 million) as at December 31, 2014 and 2013, respectively (see Note 12).

Outstanding balance of the loan amounted to ₱846 million and ₱900 million as at December 31, 2014 and 2013 as at December 31, 2014 and 2013, respectively.

ALC

ALC's 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 ₱54 million and ₱86 million as at December 31, 2014 and 2013, 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 2014 and 2013.

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, 2014 and 2013 (see Note 10). Outstanding balance of the loan amounted to ₱54 million and ₱86 million as at December 31, 2014 and 2013 as at December 31, 2014 and 2013, respectively.

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 (see Note 1). Sarangani 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 is shown below:

As at December 31, 2014:

| | Series I | Series II | Total |
|---|---|---|---|
| Long-term debt | **₱7,782,830,796** | **₱802,865,803** | **₱8,585,696,599** |
| Less unamortized debt issue costs | **154,681,103** | **38,131,850** | **192,812,953** |
| | **₱7,628,149,693** | **₱764,733,953** | **₱8,392,883,646** |

As at December 31, 2013:

| | 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 |

Interest expense and amortization of debt issue costs were capitalized as part of "Construction-in-progress" under the property and equipment account (see Note 12). The rates used to determine the amount of borrowing costs eligible for capitalization were 7.98% to 8.00% in 2014 and 7.96% to 7.99% in 2013, which are the effective interest rates of the specific borrowings. Accrued interest as at December 31, 2014 and 2013 amounted to ₱128 million and ₱37 million.

The following are the capitalized interest expense and amortization:

| | **2014** | 2013 |
|---|---|---|
| Interest expense | **₱677,657,271** | ₱113,445,812 |
| Amortization of debt issue costs | **15,762,998** | 2,888,041 |
| | **₱693,420,269** | ₱116,333,853 |

As at December 31, 2014 and 2013, Sarangani is in compliance with the terms of its loan covenant.

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 million was restructured to be payable quarterly in five years until 2015. Interest is fixed at 5% p. a. payable quarterly in arrears. The balance of the restructured loan amounted to ₱54 million and ₱86 million as at December 31, 2014 and 2013, respectively. The loan is collateralized by mortgage agreements on real estate properties of ALC (see Note 10).

## 19. Asset Retirement Obligation

Under their ECC, SPPC and WMPC 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, SPPC and WMPC established a provision to recognize their estimated liability for the dismantlement of their power plant complex. Movements in asset retirement obligation follow:

| | **2014** | 2013 |
|---|---|---|
| Balances at beginning of year | **₱78,801,367** | ₱69,558,363 |
| Effects of change in estimate and discount rate | **(18,964,355)** | 3,264,462 |
| Accretion (see Note 26) | **7,332,562** | 5,978,542 |
| Balances at end of year | **₱67,169,574** | ₱78,801,367 |

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 on an annual basis. The changes in estimate resulted to a decrease in asset retirement obligation by ₱19 million in 2014 and an increase by ₱3 million in 2013.

## 20. 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 to the Group or under common control.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses. Outstanding related party balances are generally settled in cash. The table below shows the details of the Group's transactions with related parties.

| Related Party | | Advances | Due from Related Parties (see Note 8) | Terms | Conditions |
|---|---|---|---|---|---|
| Major stockholders | **2014** | **₱179,218,128** | **₱2,626,965,900** | 30 days, noninterest-bearing | Partly secured, no impairment |
| | 2013 | 1,337,417,112 | 2,899,051,932 | | |
| | 2012 | 189,859,037 | 1,561,634,820 | | |
| Subsidiaries of major stockholders | **2014** | **59,739,376** | **49,654,432** | 30 days, noninterest-bearing | Unsecured, no impairment |
| | 2013 | 18,186,855 | 42,945,048 | | |
| | 2012 | 36,163,212 | 26,626,478 | | |
| Affiliates | **2014** | **29,869,688** | **268,070,204** | 30 days, noninterest-bearing | Unsecured, no impairment |
| | 2013 | 91,621,071 | 266,017,408 | | |
| | 2012 | 51,789,517 | 421,826,247 | | |
| Total | **2014** | **₱268,827,192** | **₱2,944,690,536** | | |
| | 2013 | 1,447,225,038 | 3,208,014,388 | | |
| | 2012 | 277,811,766 | 2,010,087,545 | | |

The outstanding advances to major stockholders include accommodated loans entered into by the Group in favor of the stockholders, which amounted to ₱54 million and ₱92 million as at December 31, 2014 and 2013, respectively.

The 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 SPPC and WMPC may incur in connection with the said Performance Bonds.

Compensation of Key Management Personnel

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Salaries and wages | **₱38,398,515** | ₱46,225,562 | ₱43,836,816 |
| Retirement benefits costs | **3,510,296** | 1,478,007 | 1,966,864 |
| | **₱41,908,811** | ₱47,703,569 | ₱45,803,680 |

## 21. Equity

Capital Stock

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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** | 5,500,000,000 | 55,000,000 |
| Subscriptions receivable | | **(32,816,667)** | | (37,216,667) |
| | | **₱6,313,683,333** | | ₱6,309,283,333 |

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.

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, 2014 and 2013, subscriptions receivable from Alcorp amounted to ₱32.8 million and ₱37.2 million, net of the 8% dividends declared for preferred shares in 2014 and 2013, respectively.

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, 2014 and 2013, the Parent Company has 470 and 482 stockholders, respectively.

Retained Earnings

On May 4, 2012, the BOD approved the appropriation of ₱850.0 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 1 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 ₱850.0 million of the Parent Company's retained earnings as at December 31, 2013 for its 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 | ₱600 | 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 |
| | | ₱850 | |

The ₱200 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 dividends 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 ₱0.016 per share equivalent to ₱101 million in 2014 and 2013 payable to all stockholders are as follows:

| Year | Date of Declaration | Date of Record | Date of Payment |
|---|---|---|---|
| 2014 | May 23, 2014 | June 30, 2014 | July 24, 2014 |
| 2013 | March 21, 2013 | May 23, 2013 | June 14, 2013 |

Dividends on preferred shares amounting to ₱4 million in 2014 and 2013 were applied against the Parent Company's subscriptions receivable from Alcorp.

The share of non-controlling interests on the dividends declared by subsidiaries amounted to ₱382 million and ₱595 million in 2014 and 2013, respectively.

The retained earnings is further restricted for dividend declaration to the extent of the following:

- Undistributed earnings of subsidiaries amounting to ₱222 million and ₱218 million as at December 31, 2014 and 2013, respectively.
- Mark-to-market gain on embedded derivatives amounting to ₱10 million in 2014

Other Equity Reserves – Acquisition of Non-controlling Interest

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 ₱528 million (US$12.16 million). The carrying value of the net assets of CHC was ₱2,456 million (US$38.97 million). Following is the schedule of additional interest acquired in CHC in 2013:

| | |
|---|---|
| Carrying value of the additional interest in CHC | ₱982,232,166 |
| Cash consideration paid to non-controlling interest | (527,910,397) |
| Excess of book value of non-controlling interest acquired over acquisition cost | ₱454,321,769 |

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

| | |
|---|---|
| Absorbed cumulative translation adjustment from acquired non-controlling interest | ₱308,841,072 |
| Included as part of other equity reserves | 145,480,697 |
| | ₱454,321,769 |

As at December 31, 2014 and 2013, other equity reserves consist of the following:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | **Remeasurement Gains (Losses) on Defined Benefit Plan** | **Unrealized Gains (Losses) on AFS Financial Assets** | **Cumulative Translations Adjustments** | **Equity Reserves – Acquisition of Non-controlling Interest** | **Total** |
| Balances at beginning of year | **₱1,558,367** | **₱28,754,589** | **₱1,575,034,794** | **₱145,480,697** | **₱1,750,828,447** |
| Actuarial gains, net of tax | **3,929,480** | – | – | – | **3,929,480** |
| Loss on fair valuation of AFS financial assets, net of tax | – | **(86,998,124)** | – | – | **(86,998,124)** |
| Translation adjustments | – | – | **(54,755,323)** | – | **(54,755,323)** |
| Balances at end of year | **₱5,487,847** | **(₱58,243,535)** | **₱1,520,279,471** | **₱145,480,697** | **₱1,613,004,480** |

| | 2013 | | | | |
|---|---|---|---|---|---|
| | Remeasurement Gains (Losses) on Defined Benefit Plan | Unrealized Gains (Losses) on AFS Financial Assets | Cumulative Translations Adjustments | Equity Reserves – Acquisition of Non-controlling Interest | Total |
| Balances at beginning of year | (₱3,816,281) | ₱35,495,598 | ₱1,093,631,739 | ₱– | ₱1,125,311,056 |
| Acquisition of non-controlling interest | – | – | 308,841,072 | 145,480,697 | 454,321,769 |
| Disposal of a subsidiary | 9,565,251 | – | – | – | 9,565,251 |
| Actuarial losses, net of tax | (4,190,603) | – | – | – | (4,190,603) |
| Loss on fair valuation of AFS financial assets, net of tax | – | (6,741,009) | – | – | (6,741,009) |
| Translation adjustments | – | – | 172,561,983 | – | 172,561,983 |
| Balances at end of year | ₱1,558,367 | ₱28,754,589 | ₱1,575,034,794 | ₱145,480,697 | ₱1,750,828,447 |

Earnings Per Share (EPS) Attributable to Equity Holders of the Parent

| | **2014** | 2013 (Note 16) | 2012 |
|---|---|---|---|
| Net income attributable to equity holders of the parent | **₱359,040,865** | ₱395,274,191 | ₱509,115,794 |
| Divided by the average number of common shares outstanding during the year | **6,291,500,000** | 6,291,500,000 | 6,291,500,000 |
| Basic/Diluted EPS | **₱0.057** | ₱0.063 | ₱0.081 |

## 22. Cost of Services

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Spare parts | **₱2,510,512,188** | ₱1,175,951,709 | ₱169,476,985 |
| Depletion, depreciation and amortization (see Note 25) | **779,980,202** | 657,826,244 | 580,630,542 |
| Insurance expense | **76,337,222** | 62,985,643 | 46,366,771 |
| Personnel costs (see Notes 24 and 28) | **66,996,869** | 55,142,427 | 45,811,998 |
| Repairs and maintenance | **48,536,775** | 16,219,386 | 15,570,586 |
| Contracted services (see Note 34) | **2,901,365** | 2,759,941 | 3,432,544 |
| Property administration | **1,992,553** | 1,947,062 | 2,189,303 |
| Purchased power and utilities (see Note 34) | – | 335,754 | 279,777 |
| Others | **49,676,200** | 5,308,870 | 11,520,183 |
| | **₱3,536,933,374** | ₱1,978,477,036 | ₱875,278,689 |

## 23. General and Administrative Expenses

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Personnel costs (see Notes 24 and 28) | **₱130,983,353** | ₱121,986,495 | ₱89,614,782 |
| Taxes and licenses | **112,095,106** | 29,585,818 | 37,126,682 |
| Outside services | **49,375,668** | 55,575,128 | 44,548,238 |
| Depreciation and amortization (see Note 25) | **34,395,784** | 22,802,261 | 13,412,671 |
| Customer relations | **19,146,369** | 11,225,289 | 10,546,587 |
| Transportation and travel | **17,386,575** | 22,013,011 | 15,285,526 |
| Deficiency taxes | **16,972,467** | – | – |
| Utilities | **15,851,149** | 58,529,586 | 55,397,498 |
| Telephone, telegraph and postage | **8,723,736** | 5,898,156 | 4,345,382 |
| Supplies | **7,348,282** | 2,313,423 | 1,256,534 |
| Directors and executive fees and bonuses | **3,099,000** | 6,546,843 | 6,571,947 |
| Commissions | **1,089,983** | 1,391,839 | 3,049,240 |
| Insurance | **997,569** | 917,236 | 877,581 |
| Representation | **599,460** | 2,813,998 | 978,332 |
| Gas and oil | **486,958** | 245,714 | 162,737 |
| Management fees | – | – | 53,568,600 |
| Provisions for impairment on: | | | |
| Deferred project costs (see Note 15) | – | 2,849,457 | 2,849,457 |
| Trade and other receivables (see Note 8) | – | – | 20,000,000 |
| Short-term cash investments (see Note 7) | – | – | 3,968,330 |
| Others | **48,760,795** | 18,180,992 | 9,880,555 |
| | **₱467,312,254** | ₱362,875,246 | ₱373,440,679 |

Management fees in 2012 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.

## 24. Personnel Costs

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

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cost of services (see Note 22) | **₱66,996,869** | ₱55,142,427 | ₱45,811,998 |
| General and administrative expenses (see Note 23) | **130,983,353** | 121,986,495 | 89,614,782 |
| | **₱197,980,222** | ₱177,128,922 | ₱135,426,780 |

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Salaries, wages and bonuses | **₱156,990,170** | ₱136,987,000 | ₱116,230,531 |
| Retirement benefits costs (see Note 28) | **8,918,489** | 12,370,178 | 6,157,131 |
| Other employee benefits | **32,071,563** | 27,771,744 | 13,039,118 |
| | **₱197,980,222** | ₱177,128,922 | ₱135,426,780 |

## 25. Depletion, Depreciation and Amortization

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Cost of services (see Note 22) | **₱779,980,202** | ₱657,826,244 | ₱580,630,542 |
| General and administrative expenses (see Note 23) | **34,395,784** | 22,802,261 | 13,412,671 |
| Discontinued operations (Note 30) | **–** | 25,502,780 | 28,799,619 |
| | **₱814,375,986** | ₱706,131,285 | ₱622,842,832 |

| | | | |
|---|---|---|---|
| Property, plant and equipment (see Note 12) | **₱806,626,460** | ₱699,085,637 | ₱618,353,329 |
| Amortization of software costs (see Note 15) | **7,233,035** | 3,642,114 | – |
| Investments in real estate (see Note 10) | **516,491** | 3,403,534 | 4,489,503 |
| | **₱814,375,986** | ₱706,131,285 | ₱622,842,832 |

## 26. Finance Charges

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Interest on long-term debt and loans payable (see Notes 17 and 18) | **₱103,034,700** | ₱74,042,967 | ₱62,751,817 |
| Accretion of discount on: | | | |
| Asset retirement obligation (see Note 19) | **7,332,562** | 5,978,542 | 4,094,618 |
| Long-term debt (see Note 18) | **6,112,193** | 2,471,199 | 1,330,420 |
| Customers' deposit | **–** | – | 245,976 |
| Amortization of transaction costs (see Notes 17 and 18) | **90,089,293** | 36,880,089 | 15,502,662 |
| | **₱206,568,748** | ₱119,372,797 | ₱84,290,660 |

## 27. Other Income (Charges)

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Input VAT income | **₱98,505,580** | ₱92,511,632 | ₱85,133,033 |
| Foreign exchange gain (loss) - net | **(14,043,712)** | (46,485,190) | 13,756,787 |
| Mark-to-market gain (loss) on derivative liability (see Note 33) | **10,328,044** | (16,377,924) | (11,632,044) |
| Recovery of impairment losses on real estate inventories due to sale (see Note 10) | **3,946,795** | 4,140,694 | 17,108,236 |
| Equity in net losses of an associate (see Note 11) | **(1,279,357)** | (100,920,763) | – |
| Dividend income | **566,720** | 566,720 | 567,070 |
| Gain on sale of equipment | **416,910** | 356,577 | 362,956 |
| 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 Note 12) | – | – | 4,415,689 |
| Income from reversal of estimated liquidation expenses (see Note 1) | – | – | 956,400 |
| Others | **10,861,583** | 17,226,305 | 4,714,742 |
| | **₱109,302,563** | (₱48,981,949) | ₱423,544,149 |

## 28. Retirement Plans

The Parent Company and ALC have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and AMPC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. Retirement benefits are dependent on the years of service and the respective employee's compensation. The Group's latest actuarial valuation report is as at December 31, 2014.

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

The following table summarizes the movements in net retirement assets of SPPC, WMPC and AMPC:

As at December 31, 2014:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|---|---|---|---|---|
| At January 1, 2014 | ₱100,095,784 | ₱164,103,262 | (₱14,041,626) | ₱49,965,852 |
| Retirement benefits cost recognized in profit or loss: | | | | |
| Current service cost | 9,880,063 | – | – | (9,880,063) |
| Net interest income | 4,326,076 | 7,200,849 | – | 2,874,773 |
| | 14,206,139 | 7,200,849 | – | (7,005,290) |

(Forward)

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|---|---|---|---|---|
| Remeasurements gains (losses) recognized in OCI: | | | | |
| Return on plan assets (excluding amount included in net interest) | ₱– | (₱2,083,754) | ₱– | (₱2,083,754) |
| Arising from changes in financial assumptions | (12,000,393) | – | – | 12,000,393 |
| Due to experience adjustment | (9,188,710) | – | – | 9,188,710 |
| Changes in the effect of asset ceiling | – | – | (16,238,612) | (16,238,612) |
| | (21,189,103) | (2,083,754) | (16,238,612) | 2,866,737 |
| Benefits paid and translation adjustments | (987,026) | (987,026) | (626,738) | (626,738) |
| At December 31, 2014 | ₱92,125,794 | ₱168,233,331 | (₱30,906,976) | ₱45,200,561 |

As at December 31, 2013:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|---|---|---|---|---|
| At January 1, 2013 | ₱79,724,190 | ₱146,772,535 | (₱6,494,258) | ₱60,554,087 |
| Retirement benefits cost recognized in profit or loss: | | | | |
| Current service cost | 8,150,198 | – | – | (8,150,198) |
| Net interest income | 3,963,945 | 6,935,254 | – | 2,971,309 |
| | 12,114,143 | 6,935,254 | – | (5,178,889) |
| Remeasurements gains (losses) recognized in OCI: | | | | |
| Return on plan assets (excluding amount included in net interest) | – | 10,395,473 | – | 10,395,473 |
| Arising from changes in financial assumptions | 6,766,512 | – | – | (6,766,512) |
| Due to experience adjustment | 1,490,939 | – | – | (1,490,939) |
| 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 |

The Retirement Funds of SPPC, WMPC and APMC are 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 Retirement Plans by each class:

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | **₱14,213,134** | ₱15,643,466 |
| Investments in unit investment trust fund (UITF) | **16,904,831** | 15,314,765 |
| Investments in debt and other securities | **28,720,526** | 31,276,054 |
| Investments in government securities | **107,131,500** | 98,926,574 |
| Investments in shares of stock | – | 1,128,698 |
| Others | **1,263,340** | 1,813,705 |
| | **₱168,233,331** | ₱164,103,262 |

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 shares of stock 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 Retirement Funds consists primarily interest and dividends receivable.

Actual return on plan assets amounted to ₱2 million in 2014, ₱7 million in 2013 and ₱9 million in 2012.

SPPC, WMPC and APMC expect to contribute a total of ₱18 million to the Retirement Plans in 2015.

ACR and ALC

The following tables summarize the movements in retirement liabilities of the Parent Company and ALC:

| | **2014** | 2013 |
|---|---|---|
| Balances at beginning of year | **(₱9,488,962)** | (₱38,500,438) |
| Retirement benefits cost charged in profit or loss: | | |
| Current service cost | **(1,421,890)** | (5,224,924) |
| Interest cost | **(491,309)** | (1,966,365) |
| | **(1,913,199)** | (7,191,289) |
| Remeasurements gains (losses) recognized in OCI: | | |
| Arising from changes in demographic assumptions | **3,781,517** | 1,382,480 |
| Arising from changes in financial assumptions | **147,964** | (5,527,990) |
| Due to experience adjustment | **–** | 12,913 |
| | **3,929,481** | (4,132,597) |
| Disposal of a subsidiary (Note 30) | **–** | 40,335,362 |
| Balances at end of year | **(₱7,472,680)** | (₱9,488,962) |

Actuarial Assumptions

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

SPPC, WMPC and APMC

| | **2014** | 2013 |
|---|---|---|
| Discount rates | **3.74%-4.62%** | 3.98%-4.68% |
| Future salary increases | **1.60%** | 5.00% |

ACR and ALC

| | 2014 | 2013 |
|---|---|---|
| Discount rates | **5.52%-5.60%** | 5.00%-5.90% |
| Future salary increases | **10%-12%** | 10.00-12.00% |

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 obligations as at December 31, 2014, assuming if all other assumptions were held constant:

As of December 31, 2014:

| | SPPC, WMPC and APMC | | ACR and ALC | |
|---|---|---|---|---|
| | Increase (Decrease) | Amount | Increase (Decrease) | Amount |
| Discount rates | +0.5% | (₱2,493,274) | +1.0% | (₱1,211,954) |
| | -0.5% | 2,761,997 | -1.0% | 1,488,522 |
| Salary increase rates | +1.0% | 5,756,627 | +1.0% | 1,310,003 |
| | -1.0% | (4,784,190) | -1.0% | (1,106,306) |

As of December 31, 2013:

| | SPPC, WMPC and APMC | | ACR and ALC | |
|---|---|---|---|---|
| | Increase (Decrease) | Amount | Increase (Decrease) | Amount |
| Discount rates | +0.5% | (₱5,292,436) | +1.0% | (₱1,421,631) |
| | -0.5% | 5,927,222 | -1.0% | 1,717,592 |
| Salary increase rates | +1.0% | 12,048,783 | +1.0% | 1,496,832 |
| | -1.0% | (9,841,571) | -1.0% | (1,284,922) |

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

| | 2014 | 2013 |
|---|---|---|
| Less than 1 year | **₱35,110,656** | ₱16,599,157 |
| More than 1 year to 5 years | **6,047,003** | 12,462,959 |
| More than 5 years to 10 years | **44,736,457** | 41,986,749 |
| More than 10 years to 15 years | **25,320,196** | 50,383,886 |
| More than 15 years to 20 years | **76,351,932** | 126,922,908 |
| More than 20 years | **230,223,882** | 671,444,719 |

## 29. Income Taxes

The major components of income tax expense in 2014, 2013 and 2012 are as follows:

Consolidated statements of income:

| | **2014** | 2013 (Note 16) | 2012 |
|---|---|---|---|
| Continuing operations: | | | |
| Current income tax | **₱345,191,757** | ₱294,235,703 | ₱232,099,888 |
| Deferred income tax | **17,052,091** | (24,011,649) | 9,054,613 |
| | **362,243,848** | 270,224,054 | 241,154,501 |
| Discontinued operations (see Note 30): | | | |
| Current income tax | – | 10,849,428 | 15,131,375 |
| Deferred income tax | – | (679,508) | 628,977 |
| | – | 10,169,920 | 15,760,352 |
| Total | **₱362,243,848** | ₱280,393,974 | ₱256,914,853 |

Consolidated statements of comprehensive income:

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Deferred tax related to items charged or credited directly to equity during the year - actuarial losses (gains) | **(₱448,297)** | ₱1,380,343 | ₱704,767 |

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| Statutory income tax rate | **30.0%** | 30.0% | 30.0% |
| Increase (decrease) in income tax rate resulting from: | | | |
| Unrecognized deferred tax assets | **0.9** | 0.5 | 3.3 |
| Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays, interest income already subjected to final tax and others - net | **2.3** | 0.7 | (15.6) |
| Write-off of NOLCO and MCIT | – | 1.0 | 1.5 |
| Effective income tax rate | **33.2%** | 32.2% | 19.2% |

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

| | **2014** | 2013 (Note 16) |
|---|---|---|
| **Net Deferred Tax Assets** | | |
| Payable to customers | **₱18,411,090** | ₱30,685,150 |
| Accrued vacation and sick leaves | **4,311,947** | 4,557,191 |
| Impairment losses on deferred projects costs | **4,137,271** | 4,107,203 |
| NOLCO | **1,629,572** | – |
| Allowance for doubtful accounts | **1,518,870** | 1,518,886 |
| Retirement plan assets | **(1,483,988)** | (2,091,981) |

(Forward)

| | 2014 | 2013 (Note 16) |
|---|---|---|
| Unamortized past service cost | **₱838,187** | ₱1,022,151 |
| Unrealized foreign exchange losses | **635,049** | 2,182,148 |
| Excess MCIT over RCIT | **117,748** | – |
| Translation of nonmonetary assets | **153,031** | 335,137 |
| | **₱30,268,777** | ₱42,315,885 |
| **Net Deferred Tax Liabilities** | | |
| Fair value adjustment on real estate inventories, net of impairment | **(₱166,716,734)** | (₱163,405,786) |
| Capitalized interest | **(148,677,237)** | (148,586,147) |
| Equity in undistributed net earnings of a foreign subsidiary | **(37,320,808)** | (30,999,341) |
| Translation of nonmonetary assets | **(35,631,153)** | (68,003,304) |
| Unamortized capitalized major repairs and maintenance costs | **(22,347,165)** | (36,096,731) |
| Difference between tax and financial amortization of transaction costs | **(18,456,037)** | (18,793,597) |
| Retirement plan assets | **(2,037,443)** | (4,090,422) |
| Accrued retirement costs | **(1,961,240)** | – |
| Accrued vacation and sick leaves | **1,560,281** | 1,561,106 |
| Unamortized past service cost | **1,479,338** | 1,799,906 |
| Unrealized foreign exchange gains - net | **(1,398,045)** | (6,480,604) |
| Difference between financial and tax depreciation | **–** | 49,148,595 |
| Capitalized asset related to decommissioning liability | **–** | (2,978,860) |
| Actuarial gains recognized in equity | **–** | 1,210,144 |
| | **(₱431,506,243)** | (₱425,715,041) |

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 as summarized in the following table:

| | 2014 | 2013 |
|---|---|---|
| NOLCO | **₱660,244,793** | ₱131,032,885 |
| Impairment losses on: | | |
| Property, plant and equipment (see Note 12) | **149,244,117** | 154,190,500 |
| Real estate properties (see Note 10) | **–** | 33,163,091 |
| Inventories | **–** | 1,669,870 |
| Allowance for doubtful accounts (see Note 8) | **33,163,091** | 31,730,458 |
| Unrealized foreign exchange losses | **15,795,997** | 33,117,069 |
| Excess of MCIT over RCIT | **7,869,406** | 6,782,728 |
| Others | **11,825,436** | 11,072,415 |

Movements of NOLCO and MCIT follow:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **NOLCO** | **MCIT** | NOLCO | MCIT |
| Balances at beginning of year | **₱131,032,885** | **₱9,035,694** | ₱133,864,017 | ₱6,544,206 |
| Additions | **567,449,062** | **26,533** | 29,456,295 | 2,507,033 |
| Utilization and expiration | **(32,805,247)** | **(1,075,073)** | (32,287,427) | (15,545) |
| Balances at end of year | **₱665,676,700** | **₱7,987,154** | ₱131,032,885 | ₱9,035,694 |

As at December 31, 2014, NOLCO and MCIT that can be claimed as deduction from RCIT due are as follows:

| Years Incurred | Expiry Dates | NOLCO | MCIT |
|---|---|---|---|
| December 31, 2012 | December 31, 2015 | ₱68,771,343 | ₱5,453,588 |
| December 31, 2013 | December 31, 2016 | 29,456,295 | 2,507,033 |
| December 31, 2014 | December 31, 2017 | 567,449,062 | 26,533 |
| | | ₱665,676,700 | ₱7,987,154 |

## 30. 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 ₱1,364 million. Gain on sale recognized as part of net income from discontinued operations attributable to equity holders of the parent amounted to ₱72 million, net of capital gains tax of ₱82 million.

Analysis of cash flows from disposal is shown below:

| | Amounts in millions |
|---|---|
| Selling price | ₱1,364 |
| Capital gains tax | (82) |
| Retention receivable (see Note 8) | (162) |
| Cash of disposal group | (168) |
| Net proceeds from disposal included in cash flows from investing activities | ₱952 |

The results generated from discontinued operations of LLI for the years ended December 31, 2013 and 2012 re as follows:

| | 2013 | 2012 |
|---|---|---|
| **SALES OF SERVICES:** | | |
| Power sales and service income | ₱691,612,638 | ₱814,633,773 |
| Management fees | 36,648,872 | – |
| Rental income and others | 6,908,858 | 3,013,365 |
| | 735,170,368 | 817,647,138 |
| **REAL ESTATES SALES** | 15,551,757 | 112,946,667 |
| **TOTAL REVENUE** | 750,722,125 | 930,593,805 |
| **COSTS AND EXPENSES** | | |
| Cost of services | (582,120,298) | (649,229,078) |
| Cost of real estate sold | (7,525,331) | (120,254,814) |
| General and administrative expenses | (37,269,816) | (45,581,560) |
| **OTHER INCOME (CHARGES)** | | |
| Finance charges | (2,532,048) | (582,859) |
| Interest income | 1,854,986 | 3,271,966 |
| Equity in net losses of an associate | – | (22,850,988) |
| Other income (charges) - net | 83,335,910 | 5,821,932 |
| | (544,256,597) | (829,405,401) |
| **INCOME BEFORE INCOME TAX** | 206,465,528 | 101,188,404 |

(Forward)

| | 2013 | 2012 |
|---|---|---|
| **PROVISION FOR INCOME TAX** | | |
| Current | ₱10,849,428 | ₱15,131,375 |
| Deferred | (679,508) | 628,977 |
| | 10,169,920 | 15,760,352 |
| **NET INCOME FROM DISCONTINUED OPERATIONS** | 196,295,608 | 85,428,052 |
| **OTHER COMPREHENSIVE LOSS** | | |
| Item that will not be reclassified subsequently to profit or loss - remeasurement loss on defined benefit obligation | (5,541,956) | (6,420,320) |
| **TOTAL COMPREHENSIVE INCOME** | ₱190,753,652 | ₱79,007,732 |
| Income from discontinued operations attributable to: | | |
| Equity holders of the parent | ₱146,348,389 | ₱51,197,032 |
| Non-controlling interests | 49,947,219 | 34,231,020 |
| | ₱196,295,608 | ₱85,428,052 |
| Total comprehensive income attributable to: | | |
| Equity holders of the parent | ₱143,027,095 | ₱47,349,334 |
| Non-controlling interests | 47,726,557 | 31,658,398 |
| | ₱190,753,652 | ₱79,007,732 |

The net cash flows of LLI and subsidiaries are as follows:

| | 2013 | 2012 |
|---|---|---|
| Net cash flows from operating activities | ₱359,431,067 | ₱192,818,667 |
| Net cash flows provided by (used in) investing activities | (57,036,229) | 16,867,277 |
| Net cash flows used in financing activities | (218,061,078) | (194,156,855) |

Cost of services consists of the following:

| | 2013 | 2012 |
|---|---|---|
| Purchased power and utilities | ₱514,105,215 | ₱554,767,488 |
| Depletion, depreciation and amortization (Note 25) | 22,394,994 | 24,816,450 |
| Personnel costs | 11,796,250 | 14,839,407 |
| Taxes and licenses | 10,835,099 | 23,897,483 |
| Repairs and maintenance | 4,228,571 | 6,076,132 |
| Utilities | 545,046 | 766,254 |
| Representation | 518,625 | 1,382,821 |
| Contracted services | 176,120 | 12,182,829 |
| Property administration | 173,250 | 237,175 |
| Others | 17,347,128 | 10,263,039 |
| | ₱582,120,298 | ₱649,229,078 |

General and administrative expenses consist of the following:

| | 2013 | 2012 |
|---|---|---|
| Personnel costs | ₱14,949,525 | ₱18,403,780 |
| Rent and utilities | 11,617,966 | 13,806,597 |
| Outside services | 3,430,976 | 3,901,079 |
| Depreciation and amortization (Note 25) | 3,107,786 | 3,983,169 |
| Transportation and travel | 1,306,045 | 1,507,284 |
| Representation | 1,127,551 | 2,426,088 |
| Taxes and licenses | 890,865 | 576,120 |
| Supplies | 433,185 | 463,748 |
| Commissions | 320,370 | 346,600 |
| Insurance | 45,547 | 167,095 |
| Others | 40,000 | – |
| | ₱37,269,816 | ₱45,581,560 |

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

| | 2013 | 2012 |
|---|---|---|
| Net income from discontinued operations | ₱146,348,389 | ₱51,197,032 |
| Divided by the average number of common shares outstanding during the year | 6,291,500,000 | 6,291,500,000 |
| Basic/Diluted EPS | ₱0.023 | ₱0.008 |

31. **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 million and provides for escalation of rent at a rate of 5% every other year. The lease contract was accounted for using the straight-line method over the term of the lease contract.

As at December 31, 2014 and 2013, the future minimum rental payable under an operating lease contract follows:

| | **2014** | 2013 |
|---|---|---|
| Within one year | **₱1,276,035** | ₱1,314,536 |
| After one year but not more than five years | **2,679,691** | 2,532,735 |
| | **₱3,955,726** | ₱3,847,271 |

In 2014, 2013 and 2012, 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 using the straight-line method over the term of the lease contract. The lease contract expired in 2013. Total rental income from these lease agreements amounted to ₱7 million and ₱14 million in 2013 and 2012, respectively.

## 32. 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, 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).

Management reviews and BOD approves policies for managing each of these risks which 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.

The table below shows the gross maximum exposure to credit risk of the Group as at December 31, 2014 and 2013, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

| | **2014** | 2013 |
|---|---|---|
| **Loans and receivables** | | |
| Cash and cash equivalents* | **₱2,512,323,875** | ₱1,421,878,289 |
| Short-term cash investments | **34,444,998** | 8,802,310 |
| Trade and other receivables | | |
| Trade receivables | | |
| Power | **731,962,604** | 582,081,593 |
| Real estate** | **80,042,969** | 235,390,647 |
| Due from related parties | **2,944,690,536** | 3,208,014,388 |
| Retention receivables | **115,393,178** | 162,300,000 |
| Other receivables*** | **127,908,926** | 112,271,414 |
| | **₱6,546,767,086** | ₱5,730,738,641 |

**Excludes cash on hand*
***Includes noncurrent portion of installment receivables*
****Excluding advances to suppliers and contractors*

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

| | 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired 1–6 Months | Over 6 Months | Subtotal | Impaired | Total |
| Cash and cash equivalents* | ₱2,512,323,875 | ₱– | ₱– | ₱– | ₱– | ₱2,512,323,875 |
| Short-term cash investments | 34,444,998 | – | – | – | – | 34,444,998 |
| Trade and other receivables: | | | | | | |
| Trade receivables | | | | | | |
| Power | 658,191,866 | 73,770,738 | – | 73,770,738 | 30,515,721 | 762,478,325 |
| Real estate** | 10,719,517 | 7,002,558 | 62,320,894 | 69,323,452 | 11,561,222 | 91,604,191 |
| Product distribution and others | – | – | – | – | 31,730,458 | 31,730,458 |
| Due from related parties | 286,975,562 | 2,724,521 | 2,654,990,453 | 2,657,714,974 | – | 2,944,690,536 |
| Others*** | 127,254,314 | 33,679,078 | 82,368,712 | 116,047,790 | 6,676,514 | 249,978,618 |
| | ₱3,629,910,132 | ₱117,176,895 | ₱2,799,680,059 | ₱2,916,856,954 | ₱80,483,915 | ₱6,627,251,001 |

** Excludes cash on hand*
*** Includes noncurrent portion of installment receivables*
**** Excludes advances to suppliers and contractors*

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due but not Impaired 1–6 Months | Over 6 Months | Subtotal | Impaired | Total |
| Cash and cash equivalents* | ₱1,421,878,289 | ₱– | ₱– | ₱– | ₱– | ₱1,421,878,289 |
| 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 | 295,604,536 | 7,738,332 | 2,904,671,520 | 2,912,409,852 | – | 3,208,014,388 |
| Others*** | 11,352,364 | 213,268,364 | 49,950,686 | 263,219,050 | 6,664,472 | 281,235,886 |
| | ₱2,197,904,779 | ₱326,096,751 | ₱3,206,737,111 | ₱3,532,833,862 | ₱98,299,163 | ₱5,829,037,804 |

** Excludes cash on hand*
*** Includes noncurrent portion of installment receivables*
**** Excludes advances to suppliers and contractors*

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.

| | 2014 | | | |
|---|---|---|---|---|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | ₱2,512,323,875 | ₱– | ₱– | ₱2,512,323,875 |
| Short-term cash investments | 34,444,998 | – | – | 34,444,998 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 637,143,011 | 21,048,855 | – | 658,191,866 |
| Real estate* | 10,719,517 | – | – | 10,719,517 |
| Due from related parties | – | 53,706,125 | 233,269,437 | 286,975,562 |
| Other receivables | 874,321 | 126,379,993 | – | 127,254,314 |
| | ₱3,195,505,722 | ₱201,134,973 | ₱233,269,437 | ₱3,629,910,132 |

**Includes noncurrent portion of installment receivables*

| | 2013 | | | |
|---|---|---|---|---|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | ₱1,421,878,289 | ₱– | ₱– | ₱1,421,878,289 |
| Short-term cash investments | 8,802,310 | – | – | 8,802,310 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 225,952,204 | 213,719,578 | – | 439,671,782 |
| Real estate* | 20,595,498 | – | – | 20,595,498 |
| Due from related parties | – | 85,826,125 | 209,778,411 | 295,604,536 |
| Other receivables | 11,352,364 | – | – | 11,352,364 |
| | ₱1,688,580,665 | ₱299,545,703 | ₱209,778,411 | ₱2,197,904,779 |

**Includes noncurrent portion of installment receivables*

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:

| | 2014 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **< 1 Year** | **1–3 Years** | **> 3 Years** | **Total** |
| Accounts payable and other current liabilities* | **₱1,183,074,679** | **₱169,712,249** | **₱–** | **₱–** | **₱1,352,786,928** |
| Loans payable** | **–** | **270,399,977** | **–** | **–** | **270,399,977** |
| Long-term debt** | **–** | **707,165,780** | **4,859,149,285** | **8,988,778,492** | **14,555,093,557** |
| | **₱1,183,074,679** | **₱1,147,278,006** | **₱4,859,149,285** | **₱8,988,778,492** | **₱16,178,280,462** |

** Excluding statutory payables and other payable to government agencies*
*** Including interest payable computed using prevailing rate as at December 31, 2014*

| | 2014 | | | | |
|---|---|---|---|---|---|
| | **On Demand** | **< 1 Year** | **1–3 Years** | **> 3 Years** | **Total** |
| Cash and cash equivalents | **₱2,512,383,375** | **₱–** | **₱–** | **₱–** | **₱2,512,383,375** |
| Short-term cash investments* | **–** | **34,703,336** | **–** | **–** | **34,703,336** |
| Trade receivables | **143,094,190** | **661,067,671** | **7,843,712** | **–** | **812,005,573** |
| AFS financial assets | **117,040,963** | **–** | **–** | **–** | **117,040,963** |
| | **₱2,772,518,528** | **₱695,771,008** | **₱7,843,712** | **₱–** | **₱3,476,133,247** |

**Including interest income computed using prevailing rate as at December 31, 2014*

| | 2013 | | | | |
|---|---|---|---|---|---|
| | On Demand | < 1 Year | 1–3 Years | > 3 Years | Total |
| Accounts payable and other current liabilities* | ₱574,067,984 | ₱351,874,548 | ₱– | ₱– | ₱925,942,532 |
| 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 |
| | ₱574,067,984 | ₱2,068,416,646 | ₱2,517,490,792 | ₱3,705,353,980 | ₱8,865,329,402 |

* *Excluding statutory payables and other payable to government agencies*
** *Including interest payable computed using prevailing rate as at December 31, 2013*

| | 2013 | | | | |
|---|---|---|---|---|---|
| | On Demand | < 1 Year | 1–3 Years | > 3 Years | Total |
| Cash and cash equivalents | ₱1,422,362,785 | ₱– | ₱– | ₱– | ₱1,422,362,785 |
| 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 |
| | ₱1,478,225,477 | ₱816,830,133 | ₱9,756,899 | ₱– | ₱2,304,812,509 |

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

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 8:92 and 40:60 as at December 31, 2014 and 2013, respectively.

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

| | | | **2014** | | | |
|---|---|---|---|---|---|---|
| | **Interest Terms (p.a.)** | **Rate Fixing Period** | **<1 Year** | **1–3 Years** | **>3 Years** | **Total** |
| Long-term debt | | | | | | |
| U.S. dollar-denominated borrowing | **LIBOR +2.00% to 3.375%** | **Quarterly to Semi-annually** | **₱309,752,635** | **₱66,640,696** | **₱–** | **₱376,393,331** |
| Peso-denominated borrowing | **PDST-F +3.50% for the first 5 years and +2.75% thereafter** | **Semi-annually** | **–** | **–** | **8,585,696,599** | **8,585,696,599** |

| | | | 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 +2.00% to 3.375% | Quarterly to Semi-annually | ₱314,993,095 | ₱373,657,917 | ₱– | ₱688,651,012 |
| Peso-denominated borrowing | PDST-F +3.50% for the first 5 years and +2.75% thereafter | Semi-annually | – | – | 2,500,279,215 | 2,500,279,215 |

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax, through the impact 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 statements of income.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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) in income before income tax | **(₱89,620,899)** | **₱89,620,899** | (₱15,886,510) | ₱15,886,510 |

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 stock. The Group's exposure to equity price risk relates primarily to the Group's quoted AFS investments. The Group's policy requires it to manage such risk by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector. 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 assets listed in the Philippine Stock Exchange and secondary or broker market (for golf club shares) is as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Increase in Equity Price** | **Decrease in Equity Price** | Increase in Equity Price | Decrease in Equity Price |
| Change in equity price | **+1%** | **-1%** | +1% | -1% |
| Increase (decrease) on equity | **₱1,122,410** | **(₱1,122,410)** | ₱497,128 | (₱497,128) |

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. The Group closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risk associated with its financial instruments.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱44.72 to US$1.0 and ₱43.84 to US$1.0 for December 31, 2014 and 2013, 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.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **In U.S. Dollar** | **In Philippine Peso** | In U.S. Dollar | In Philippine Peso |
| Financial assets - | | | | |
| Cash and cash equivalents | **$41,292,890** | **₱1,846,618,041** | $5,007,955 | ₱222,328,109 |
| Short-term cash investments | **824,514** | **36,872,266** | – | – |
| Trade and other receivables | **5,925,666** | **264,995,784** | 11,363,931 | 504,501,717 |
| | **48,043,070** | **2,148,486,091** | 16,371,886 | 726,829,826 |
| Financial liabilities - | | | | |
| Long-term debt | **(83,216,781)** | **(3,721,454,429)** | (41,882,035) | (1,859,352,955) |
| | **($35,173,711)** | **(₱1,572,968,338)** | ($25,510,149) | (₱1,132,523,129) |

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 income before income tax. The reasonably possible change in exchange rate was based on forecasted exchange rate change using historical date within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented.

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **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 | **(₱18,748,364)** | **₱18,748,364** | (₱16,370,248) | ₱16,370,248 |

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

There is no other impact on the Group's equity other those already affecting the consolidated statements of income.

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 considers its total equity and debt reflected in the consolidated balance sheet as its capital. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and raise additional. No changes were made in the objectives, policies or processes in 2014 and 2013, respectively.

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 adjustments. The Group's current ratio and debt-to-equity ratio as at December 31, 2014 and 2013 follow:

Current Ratio

| | **2014** | 2013 |
|---|---|---|
| Current assets | **₱7,765,540,399** | ₱6,841,108,393 |
| Current liabilities | **2,462,510,323** | 2,367,206,263 |
| | **3.2:1** | 2.9:1 |

Debt-to-Equity Ratio

| | **2014** | 2013 |
|---|---|---|
| Long-term debt (net of unamortized transaction costs) | **₱12,938,691,818** | ₱5,190,495,041 |
| Loans payable | **259,999,978** | 794,366,639 |
| Total debt | **13,198,691,796** | 5,984,861,680 |
| Equity attributable to equity holders of the parent | **10,116,616,226** | 9,994,898,726 |
| Other equity reserves | **(1,613,004,480)** | (1,750,828,447) |
| Adjusted equity | **₱8,503,611,746** | ₱8,244,070,279 |
| | **1.55:1** | 0.73:1 |

## 33. Financial and Non-financial Instruments

As at December 31, 2014 and 2013, the Group held the following financial and non-financial instruments carried at fair value or fair value is required to be disclosed:

As of December 31, 2014:

| | Carrying Value | Fair Value | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Measured at fair value - Available-for-sale (AFS) | ₱117,040,963 | ₱117,040,963 | ₱112,240,963 | ₱– | ₱4,800,000 |
| Non-financial Assets | | | | | |
| Fair value is disclosed - Investments in real estate | 1,527,215,497 | 1,825,000,000 | – | – | 1,825,000,000 |
| Investment in an associate | 1,213,332,960 | 311,368,160 | 311,368,160 | – | – |
| | ₱2,857,589,420 | ₱2,253,409,123 | ₱423,609,123 | ₱– | ₱1,829,800,000 |
| Financial Liabilities | | | | | |
| Fair value is disclosed - Long-term debt | ₱12,938,691,818 | ₱12,971,880,405 | ₱– | ₱– | ₱12,971,880,405 |
| Measured at fair value - Derivative liability | 27,595,736 | 27,595,736 | – | – | 27,595,736 |
| | ₱12,966,287,554 | ₱12,999,476,141 | ₱– | ₱– | ₱12,999,476,141 |

As of December 31, 2013:

| | Carrying Value | Fair Value Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|
| Financial Assets | | | | | |
| Measured at fair value - | | | | | |
| Available-for-sale (AFS) | ₱55,862,692 | ₱55,862,692 | ₱51,062,692 | ₱– | ₱4,800,000 |
| Non-financial Assets | | | | | |
| Fair value is disclosed - | | | | | |
| Investments in real estate | 1,477,259,866 | 1,825,000,000 | – | – | 1,825,000,000 |
| Investment in an associate | 1,214,612,317 | 189,786,224 | 189,786,224 | – | – |
| | ₱2,747,734,875 | ₱2,070,648,916 | ₱240,848,916 | ₱– | ₱1,829,800,000 |
| Financial Liabilities | | | | | |
| Fair value is disclosed - | | | | | |
| Long-term debt | ₱5,190,495,041 | ₱5,190,495,041 | ₱– | ₱– | ₱5,190,495,041 |
| Measured at fair value - | | | | | |
| Derivative liability | 37,923,780 | 37,923,780 | – | – | 37,923,780 |
| | ₱5,228,418,821 | ₱5,228,418,821 | ₱– | ₱– | ₱5,228,418,821 |

During the years ended December 31, 2014 and 2013, 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:

| | **2014** | 2013 |
|---|---|---|
| Derivative liability at beginning of year | **₱37,923,780** | ₱21,545,856 |
| Net change in fair value (Note 27) | **(10,328,044)** | 16,377,924 |
| Derivative liability at end of year | **₱27,595,736** | ₱37,923,780 |

The fair value changes during the years ended December 31, 2014 and 2013 were recognized as "Mark-to-market gain (loss)" under "Other income (charges)" account in the consolidated statements of income (see Notes 18 and 27).

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 |
|---|---|---|
| **2014** | **100 bps** | **(₱3,435,287)** |
| | **(100 bps)** | **3,506,018** |
| 2013 | 100 bps | (₱3,435,287) |
| | (100 bps) | 3,506,018 |

*Underlying Unquoted Share Price*

| | Increase (Decrease) in Underlying Share Price | Effect on Income before Income Tax |
|---|---|---|
| **2014** | **1%** | **(₱566,784)** |
| | **(1%)** | **₱492,249** |
| 2013 | 1% | (₱566,784) |
| | (1%) | ₱492,249 |

*Volatility of the Underlying Unquoted Share*

| | Increase (Decrease) in Volatility of the Underlying Unquoted Share | Effect on Income Before Income Tax |
|---|---|---|
| 2014 | **100 bps** | **(₱23,865)** |
| | **(100 bps)** | **44,548** |
| 2013 | 100 bps | (₱23,865) |
| | (100 bps) | 44,548 |

The following methods and assumptions are used to estimate the fair value of each class of financial and non-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 3.50% to 6.00% and 4.00% to 6.68% for the years ended December 31, 2014 and 2013, respectively.

*AFS financial assets*
The Company's AFS financial assets include investments in quoted and unquoted securities and golf club shares. The fair value of investment in quoted securities is determined based on the closing market rate in PSE as at balance sheet dates. The fair value of investment in golf club shares which are traded in organized financial markets is determined based on quoted market bid prices at the close of business at reporting date. Investment in unquoted securities are carried at cost in the absence of a reliable basis of determining its fair values due to unpredictable nature of future cash flows and lack of suitable method in arriving at a reliable fair value.

*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*
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.

*Long-term debt*
The fair value of long-term debt with variable interest rates approximates its carrying amounts due to quarterly or semi-annually 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%.

*Investments in real estate*
Please see Note 10 for the basis of fair value.

*Investment in an associate*
The fair value of investment in Indophil is based on quoted market price as at balance sheet dates.

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

| | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Fair Value through Profit or Loss** | | | |
| Mark-to-market gain (loss) on derivative liability (see Note 27) | **₱10,328,044** | (₱16,377,924) | (₱11,632,044) |
| **Loans and Receivables** | | | |
| Interest income from cash and cash equivalents and short-term cash investments (see Notes 7 and 30) | **22,224,257** | 27,041,508 | 49,715,083 |
| Provision for impairment losses (see Notes 8 and 23) | **–** | – | (23,968,330) |
| | **22,224,257** | 27,041,508 | 25,746,753 |
| **AFS Financial Assets** | | | |
| Gain (loss) on fair valuation of AFS taken to consolidated statements comprehensive income (see Note 13) | **(86,998,124)** | (6,741,009) | 18,019,708 |
| **Other Financial Liabilities** | | | |
| Interest on loans payable and long-term debt (see Notes 17, 18, 26 and 30) | **(103,034,700)** | (82,578,427) | (63,699,843) |
| Amortization of transaction costs (see Notes 18 and 26) | **(90,089,293)** | (36,880,089) | (15,502,662) |
| Accretion of customers' deposit (see Note 26) | **–** | – | (245,976) |
| Amortization of discount (see Notes 18 and 26) | **(6,112,193)** | (2,471,199) | (1,330,420) |
| | **(199,236,186)** | (121,929,715) | (80,778,901) |
| | **(₱253,682,009)** | (₱118,007,140) | (₱48,644,484) |

## 34. 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, 2014 and 2013 are as follows (in millions):

| | 2014 | 2013 |
|---|---|---|
| Within one year | ₱2,171 | ₱1,237 |
| After one year but not more than five years | 246 | 1,392 |

Energy fees earned on the ECAs amounted to ₱2,182 million ($49 million) in 2014, ₱2,075 million ($49 million) in 2013 and ₱2,069 million ($49 million) in 2012.

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 April 2015.

Total billings to PTMP amounted to ₱25 million ($0.56 million) in 2014, ₱24 million ($0.56 million) in 2013 and ₱23 million ($0.55 million) in 2012.

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 27, 2015, 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 SPRI and Sarangani and three (3) years for MPC from start of their commercial operations.

Contracted capacities are shown below:

Sarangani

| Contracting Party | Contracted Capacity (in Mega Watts) |
|---|---|
| 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

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

MPC

| Contracting Party | Contracted Capacity (in Mega Watts) |
|---|---|
| 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 "Sales of real estate" and "Cost of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots and golf shares is included under "Real estate inventories" account in the consolidated balance sheets. The Group recorded sales from Eagle Ridge amounting to ₱0.5 million in 2014, ₱5 million in 2013 and ₱2 million in 2012.

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 "Sales of real estate" and "Cost 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 ₱11 million in 2014, ₱13 million in 2013 and ₱29 million in 2012.

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, ADC was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in ADC. As at March 27, 2015, 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, SRPI 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 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. On January 27, 2014, SRPI received billing from ZAMBOECOZONE covering period October 1, 2013 to December 31, 2013. However, SRPI requested for the deferment of the recognition of its rental obligations to ZAMBOECOZONE for the three (3) months period ended December 31, 2013 pending resolution of the certain conditions requisite for the start of rental payments. SRPI requested for revised billing to reflect the three-month deferment of the full rental rates.

On April 2, 2014, ZAMBOECOZONE issued revised billing to SRPI amounting to ₱10.2 million for period starting January 1, 2014 to March 2015. In response to the revised billing, SRPI wrote to ZAMBOECOZONE on October 24, 2014 communicating that while the plant site was cleared of informal settlers, the conflicting positions taken by the Department of Agrarian Reform and the Office of the Government Corporate Counsel on land use conversion have made the use of the land for industrial purposes uncertain. Despite the issue on land use conversion, SRPI tendered payment of ₱10.2 million to show good faith and willingness to continue with the contract. As at March 27, 2015, SRPI has not yet received response from ZAMBOECOZONE. Meanwhile, the payment ₱10.2 million is recorded as security deposits under "Other noncurrent assets" account as at December 31, 2014.

## 35. 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 and consolidated financial statements.

## 36. 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.