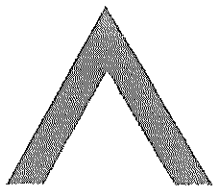


**AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2015 AND 2014  
And Years Ended December 31, 2015, 2014 and 2013**



# 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, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

**TOMAS I. ALCANTARA**  
Chairman and President

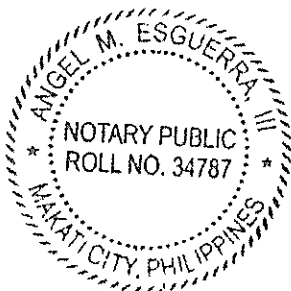
**TIRSO G. SANTILLAN, JR.**  
Executive Vice-President

**LUIS R. YMSON, JR.**  
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 11 2016 of        affiants exhibiting to me their Identifications, as follows:

| <u>Name</u>             | <u>Identification No.</u> | <u>Date</u> | <u>Place of Issue</u> |
|-------------------------|---------------------------|-------------|-----------------------|
| Tomas I. Alcantara      | PP#EB8610644              | 07-09-13    | DFA Manila            |
| Tirso G. Santillan, Jr. | DL#N17-72-000977          | 02-13-15    | LTO Q.C.              |
| Luis R. Ymson, Jr.      | PP#EC4476947              | 06-23-15    | DFA NCR South         |

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Page No. 73  
Book No. 11  
Series of 2016



ANGEL M. ESGUERRA, III  
Commission No. M-234  
Notary Public for Makati City, Until December 31, 2017  
Roll No. 34787; 06/01/87  
IBP Lifetime No. 00259; 06/01/95; Pasay Chapter  
PTR OR No. 5330716; 01/08/16; Makati City  
Alsons Bldg., 2286 Chino Roces Ave., Makati City

# Alsons Consolidated Resources, Inc. and Subsidiaries

Consolidated Financial Statements  
December 31, 2015 and 2014  
and Years Ended December 31, 2015, 2014 and 2013

and

Independent Auditors' Report

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number
5 9 3 6 6

COMPANY NAME
ALSONS CONSOLIDATED RESOURCES,
INC. AND SUBSIDIARIES

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)
2286 Don Chino Roces Ave.
Extension, Makati City

Form Type: A A F S
Department requiring the report: SEC
Secondary License Type, If Applicable: N A

COMPANY INFORMATION
Company's Email Address: legal@alcantaragroup.com
Company's Telephone Number: 982 - 3000
Mobile Number: N/A
No. of Stockholders: 466
Annual Meeting (Month / Day): 05/23
Fiscal Year (Month / Day): 12/31

CONTACT PERSON INFORMATION
The designated contact person MUST be an Officer of the Corporation
Name of Contact Person: Luis R. Ymson, Jr.
Email Address: lry@alcantaragroup.com
Telephone Number/s: 982-3000
Mobile Number:

CONTACT PERSON'S ADDRESS
Alsons Building, 2286 Chino Roces Avenue, Makati City

NOTE 1 : 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.
2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

## **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, 2015 and 2014, 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, 2015, and a summary of significant accounting policies and other explanatory information.

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

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

### ***Auditors' Responsibility***

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),  
August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2015,  
February 27, 2015, valid until February 26, 2018

PTR No. 5321643, January 4, 2016, Makati City

March 18, 2016



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

|                                                                         | December 31            |                        |
|-------------------------------------------------------------------------|------------------------|------------------------|
|                                                                         | 2015                   | 2014                   |
| <b>ASSETS</b>                                                           |                        |                        |
| <b>Current Assets</b>                                                   |                        |                        |
| Cash and cash equivalents (Notes 7, 32 and 33)                          | ₱3,939,847,554         | ₱2,512,383,375         |
| Short-term cash investments (Notes 7, 32 and 33)                        | 172,944,935            | 34,444,998             |
| Trade and other receivables (Notes 8, 20, 32 and 33)                    | 1,763,100,597          | 4,008,142,109          |
| Spare parts and supplies - at cost (Note 9)                             | 496,350,993            | 241,564,024            |
| Real estate inventories (Notes 10 and 18)                               | 636,575,584            | 642,340,836            |
| Prepaid expenses and other current assets (Notes 15 and 18)             | 894,177,645            | 374,818,778            |
| <b>Total Current Assets</b>                                             | <b>7,902,997,308</b>   | <b>7,813,694,120</b>   |
| <b>Noncurrent Assets</b>                                                |                        |                        |
| Noncurrent portion of installment receivables<br>(Notes 8, 32 and 33)   | 6,758,473              | 7,843,712              |
| Investments in real estate (Notes 10 and 18)                            | 1,463,639,767          | 1,527,215,497          |
| Investments in associates (Note 11)                                     | 1,275,633,260          | 1,218,315,960          |
| Property, plant and equipment (Notes 12, 18 and 19)                     | 15,676,131,842         | 13,410,542,642         |
| Available-for-sale (AFS) financial assets (Notes 13 and 33)             | 2,345,573,271          | 117,040,963            |
| Goodwill (Note 14)                                                      | 1,052,063,536          | 1,001,896,049          |
| Net retirement assets (Note 28)                                         | 28,746,272             | 45,200,561             |
| Deferred income tax assets - net (Note 29)                              | 13,690,764             | 30,268,777             |
| Other noncurrent assets (Note 15)                                       | 401,189,408            | 553,275,105            |
| <b>Total Noncurrent Assets</b>                                          | <b>22,263,426,593</b>  | <b>17,911,599,266</b>  |
| <b>TOTAL ASSETS</b>                                                     | <b>₱30,166,423,901</b> | <b>₱25,725,293,386</b> |
| <b>LIABILITIES AND EQUITY</b>                                           |                        |                        |
| <b>Current Liabilities</b>                                              |                        |                        |
| Accounts payable and other current liabilities<br>(Notes 16, 32 and 33) | ₱1,348,533,548         | ₱1,464,218,604         |
| Loans payable (Notes 17, 32 and 33)                                     | 300,000,017            | 259,999,978            |
| Income tax payable                                                      | 64,901,390             | 120,268,492            |
| Current portion of long-term debt (Notes 18, 32 and 33)                 | 311,720,556            | 590,427,513            |
| Derivative liability (Notes 18 and 33)                                  | —                      | 27,595,736             |
| <b>Total Current Liabilities</b>                                        | <b>2,025,155,511</b>   | <b>2,462,510,323</b>   |
| <b>Noncurrent Liabilities</b>                                           |                        |                        |
| Long-term debt - net of current portion (Notes 18, 32 and 33)           | 16,868,288,633         | 12,348,264,305         |
| Deferred income tax liabilities - net (Note 29)                         | 596,994,524            | 431,506,243            |
| Retirement benefits liabilities (Note 28)                               | 6,488,611              | 7,472,680              |
| Asset retirement obligation (Notes 12 and 19)                           | 69,380,652             | 67,169,574             |
| <b>Total Noncurrent Liabilities</b>                                     | <b>17,541,152,420</b>  | <b>12,854,412,802</b>  |
| <b>Total Liabilities</b>                                                | <b>19,566,307,931</b>  | <b>15,316,923,125</b>  |

(Forward)

|                                              | December 31            |                        |
|----------------------------------------------|------------------------|------------------------|
|                                              | 2015                   | 2014                   |
| <b>Equity (Note 21)</b>                      |                        |                        |
| Capital stock                                | ₱6,318,083,333         | ₱6,313,683,333         |
| Other equity reserves                        | 1,767,643,490          | 1,613,004,480          |
| Retained earnings:                           |                        |                        |
| Unappropriated                               | 797,647,185            | 489,928,413            |
| Appropriated                                 | 1,300,000,000          | 1,700,000,000          |
| Attributable to equity holders of the parent | 10,183,374,008         | 10,116,616,226         |
| Non-controlling interests (Notes 1 and 21)   | 416,741,962            | 291,754,035            |
| <b>Total Equity</b>                          | <b>10,600,115,970</b>  | <b>10,408,370,261</b>  |
| <b>TOTAL LIABILITIES AND EQUITY</b>          | <b>₱30,166,423,901</b> | <b>₱25,725,293,386</b> |

*See accompanying Notes to Consolidated Financial Statements.*



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

|                                                                                                | Years Ended December 31 |                      |                      |
|------------------------------------------------------------------------------------------------|-------------------------|----------------------|----------------------|
|                                                                                                | 2015                    | 2014                 | 2013                 |
| <b>SALES OF SERVICES:</b>                                                                      |                         |                      |                      |
| Energy fees (Note 34)                                                                          | ₱4,977,252,644          | ₱5,134,628,826       | ₱3,289,130,401       |
| Management fees (Note 34)                                                                      | 25,443,600              | 24,825,460           | 27,063,025           |
| Rental income (Note 31)                                                                        | 10,724,872              | 8,643,774            | 9,827,272            |
|                                                                                                | 5,013,421,116           | 5,168,098,060        | 3,326,020,698        |
| <b>REAL ESTATE SALES (Note 34)</b>                                                             | <b>8,275,233</b>        | <b>11,973,028</b>    | <b>17,515,916</b>    |
| <b>TOTAL REVENUE</b>                                                                           | <b>5,021,696,349</b>    | <b>5,180,071,088</b> | <b>3,343,536,614</b> |
| <b>COSTS AND EXPENSES</b>                                                                      |                         |                      |                      |
| Cost of services (Note 22)                                                                     | (3,065,882,264)         | (3,536,933,374)      | (1,978,477,036)      |
| Cost of real estate sold (Note 10)                                                             | (6,150,862)             | (11,396,417)         | (19,506,240)         |
| General and administrative expenses (Note 23)                                                  | (434,114,967)           | (467,312,254)        | (362,875,246)        |
| <b>OTHER INCOME (CHARGES)</b>                                                                  |                         |                      |                      |
| Finance charges (Note 26)                                                                      | (324,360,188)           | (206,568,748)        | (119,372,797)        |
| Interest income (Note 7)                                                                       | 24,034,525              | 22,224,257           | 25,186,522           |
| Other income (charges) - net (Note 27)                                                         | (83,857,875)            | 109,302,563          | (48,981,949)         |
|                                                                                                | (3,890,331,631)         | (4,090,683,973)      | (2,504,026,746)      |
| <b>INCOME BEFORE INCOME TAX</b>                                                                | <b>1,131,364,718</b>    | <b>1,089,387,115</b> | <b>839,509,868</b>   |
| <b>PROVISION FOR (BENEFIT FROM)</b>                                                            |                         |                      |                      |
| <b>INCOME TAX (Notes 16 and 29)</b>                                                            |                         |                      |                      |
| Current                                                                                        | 272,708,907             | 345,191,757          | 294,235,703          |
| Deferred                                                                                       | 167,719,203             | 17,052,091           | (24,011,649)         |
|                                                                                                | 440,428,110             | 362,243,848          | 270,224,054          |
| <b>NET INCOME FROM CONTINUING OPERATIONS</b>                                                   | <b>690,936,608</b>      | <b>727,143,267</b>   | <b>569,285,814</b>   |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS (Note 30)</b>                                       | <b>—</b>                | <b>—</b>             | <b>196,295,608</b>   |
| <b>NET INCOME</b>                                                                              | <b>₱690,936,608</b>     | <b>₱727,143,267</b>  | <b>₱765,581,422</b>  |
| <b>Attributable to:</b>                                                                        |                         |                      |                      |
| Equity holders of the parent:                                                                  |                         |                      |                      |
| Net income from continuing operations                                                          | ₱188,141,930            | ₱359,040,865         | ₱248,925,802         |
| Net income from discontinued operations                                                        | —                       | —                    | 146,348,389          |
|                                                                                                | 188,141,930             | 359,040,865          | 395,274,191          |
| Non-controlling interests:                                                                     |                         |                      |                      |
| Net income from continuing operations                                                          | 502,794,678             | 368,102,402          | 320,360,012          |
| Net income from discontinued operations                                                        | —                       | —                    | 49,947,219           |
|                                                                                                | 502,794,678             | 368,102,402          | 370,307,231          |
|                                                                                                | ₱690,936,608            | ₱727,143,267         | ₱765,581,422         |
| <b>Basic/diluted earnings per share attributable to equity holders of the parent (Note 21)</b> | <b>₱0.030</b>           | <b>₱0.057</b>        | <b>₱0.063</b>        |

*See accompanying Notes to Consolidated Financial Statements.*

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

|                                                                               | Years Ended December 31 |                      |                     |
|-------------------------------------------------------------------------------|-------------------------|----------------------|---------------------|
|                                                                               | 2015                    | 2014                 | 2013                |
| <b>NET INCOME</b>                                                             | <b>₱690,936,608</b>     | <b>₱727,143,267</b>  | <b>₱765,581,422</b> |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                                      |                         |                      |                     |
| <i>Items that will not be reclassified to profit or loss:</i>                 |                         |                      |                     |
| Actuarial gains (losses) and effect of changes in asset ceiling (Note 28)     | (4,754,693)             | 6,796,218            | (9,541,943)         |
| Tax effect (Note 29)                                                          | 2,373,179               | (448,297)            | 1,380,343           |
|                                                                               | (2,381,514)             | 6,347,921            | (8,161,600)         |
| <i>Items that may be reclassified subsequently to profit or loss:</i>         |                         |                      |                     |
| Unrealized gains (losses) on fair valuation of AFS financial assets (Note 13) | 7,263,540               | (86,998,124)         | (6,741,009)         |
| Translation adjustments                                                       | 147,110,294             | (54,755,323)         | 213,527,769         |
|                                                                               | 154,373,834             | (141,753,447)        | 206,786,760         |
| <b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>                    | <b>151,992,320</b>      | <b>(135,405,526)</b> | <b>198,625,160</b>  |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                             | <b>₱842,928,928</b>     | <b>₱591,737,741</b>  | <b>₱964,206,582</b> |
| <b>Attributable to:</b>                                                       |                         |                      |                     |
| Equity holders of the parent:                                                 |                         |                      |                     |
| Total comprehensive income from continuing operations                         | ₱340,874,763            | ₱222,381,500         | ₱413,877,467        |
| Total comprehensive income from discontinued operations                       | —                       | —                    | 143,027,095         |
|                                                                               | 340,874,763             | 222,381,500          | 556,904,562         |
| Non-controlling interests:                                                    |                         |                      |                     |
| Total comprehensive income from continuing operations                         | 502,054,165             | 369,356,241          | 359,575,463         |
| Total comprehensive income from discontinued operations                       | —                       | —                    | 47,726,557          |
|                                                                               | 502,054,165             | 369,356,241          | 407,302,020         |
|                                                                               | ₱842,928,928            | ₱591,737,741         | ₱964,206,582        |

*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, 2015, 2014 AND 2013

Attributable to Equity Holders of the Parent

| Other Equity Reserves                                       |                                                                        |                                                                     |                                    |                                                                     |                                     |                                  |                                |                                    |                 |                |                 |       |
|-------------------------------------------------------------|------------------------------------------------------------------------|---------------------------------------------------------------------|------------------------------------|---------------------------------------------------------------------|-------------------------------------|----------------------------------|--------------------------------|------------------------------------|-----------------|----------------|-----------------|-------|
|                                                             | 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) | Retained Earnings (Notes 16 and 21) |                                  |                                | Non-controlling Interests (Note 1) | Total           |                |                 |       |
|                                                             |                                                                        |                                                                     |                                    |                                                                     | Total                               | Unappropriated Retained Earnings | Appropriated Retained Earnings |                                    |                 |                |                 |       |
|                                                             |                                                                        |                                                                     |                                    |                                                                     |                                     |                                  |                                |                                    |                 |                |                 |       |
| BALANCES AS AT DECEMBER 31, 2012                            | P6,291,500,000                                                         | P3,816,281                                                          | P35,495,598                        | P1,093,631,739                                                      | P-                                  | P1,125,311,056                   | P803,775,342                   | P850,000,000                       | P9,070,586,398  | P2,134,500,415 | P11,205,086,813 | Total |
| Net income                                                  | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | 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      | -              | -               |       |
| 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)           | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | -               | (982,232,166)  | (982,232,166)   |       |
| Disposal of a subsidiary (Note 30)                          | -                                                                      | -                                                                   | -                                  | 308,841,072                                                         | 145,480,697                         | 454,321,769                      | -                              | -                                  | 454,321,769     | (327,910,397)  | (577,910,397)   |       |
| Cash dividends declaration (Note 21)                        | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | -               | (468,984,103)  | (468,984,103)   |       |
| 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                                                  | -                                                                      | 3,929,480                                                           | (86,998,124)                       | (54,755,323)                                                        | -                                   | (137,823,967)                    | 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)                    | 1,164,802                      | -                                  | (136,659,165)   | 1,253,839      | (135,405,326)   |       |
| Total comprehensive income (loss)                           | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | 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                        | -               | -              | -               |       |
| Cash 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  |       |
| Net income                                                  | -                                                                      | 265,176                                                             | 7,263,540                          | 147,110,294                                                         | -                                   | 154,639,010                      | 188,141,930                    | -                                  | 188,141,930     | 502,794,678    | 690,936,608     |       |
| Other comprehensive income (loss)                           | -                                                                      | 265,176                                                             | 7,263,540                          | 147,110,294                                                         | -                                   | 154,639,010                      | (1,906,177)                    | -                                  | 152,732,833     | (740,513)      | 151,992,320     |       |
| Total comprehensive income                                  | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | 186,235,753                    | -                                  | 340,874,763     | 502,054,165    | 842,928,928     |       |
| Collection of subscriptions receivable                      | 4,400,000                                                              | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | 4,400,000       | -              | 4,400,000       |       |
| Investment in a subsidiary (Note 1)                         | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | -               | 21,600         | 21,600          |       |
| Disposal of subsidiaries without loss of control (Note 1)   | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | -               | -              | -               |       |
| Disposal of a subsidiary through property dividend (Note 1) | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | -                              | -                                  | -               | 12,563,402     | 12,563,402      |       |
| Cash dividends declaration (Note 21)                        | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | (208,056,231)                  | -                                  | (208,056,231)   | -              | (208,056,231)   |       |
| Reversal of appropriation                                   | -                                                                      | -                                                                   | -                                  | -                                                                   | -                                   | -                                | 400,000,000                    | (400,000,000)                      | -               | (389,651,240)  | (460,111,990)   |       |
| BALANCES AS AT DECEMBER 31, 2015                            | P6,318,083,333                                                         | P5,753,023                                                          | (P50,979,995)                      | P1,667,389,765                                                      | P145,480,697                        | P1,767,643,490                   | P797,647,185                   | P1,300,000,000                     | P10,183,374,008 | P416,741,962   | P10,600,115,970 |       |

See accompanying Notes to Consolidated Financial Statements.

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

|                                                                                               | Years Ended December 31 |                 |                 |
|-----------------------------------------------------------------------------------------------|-------------------------|-----------------|-----------------|
|                                                                                               | 2015                    | 2014            | 2013            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                   |                         |                 |                 |
| Income before tax from:                                                                       |                         |                 |                 |
| Continuing operations                                                                         | ₱1,131,364,718          | ₱1,089,387,115  | ₱839,509,868    |
| Discontinued operations (Note 30)                                                             | —                       | —               | 206,465,528     |
| Adjustments for:                                                                              |                         |                 |                 |
| Depletion, depreciation and amortization (Note 25)                                            | 348,954,644             | 814,375,986     | 706,131,285     |
| Finance charges (Notes 26 and 30)                                                             | 324,360,188             | 206,568,748     | 121,904,845     |
| Unrealized foreign exchange loss (gain) - net (Note 27)                                       | 143,965,908             | (41,876,979)    | 83,993,180      |
| Loss (gain) on sale of property, plant and equipment and investments in real estate (Note 27) | 35,649,469              | 360,839         | (356,577)       |
| Mark-to-market loss (gain) on derivative liability (Notes 27 and 33)                          | (27,595,736)            | (10,328,044)    | 16,377,924      |
| Interest income (Notes 7 and 30)                                                              | (24,034,525)            | (22,224,257)    | (27,041,508)    |
| Movements in net retirement assets and retirement benefits liabilities (Notes 24 and 28)      | 13,088,469              | 9,096,929       | 12,370,178      |
| Income from decrease in asset retirement obligation (Note 27)                                 | (5,933,564)             | (11,315,962)    | —               |
| Recovery of impairment loss on real estate inventories due to sale (Note 10)                  | (1,112,121)             | (3,946,795)     | (4,140,694)     |
| Equity in net losses of an associate (Notes 11 and 27)                                        | —                       | 1,279,357       | 100,920,763     |
| 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)     |
| Provisions for impairment of deferred project cost (Notes 15 and 24)                          | —                       | —               | 2,849,457       |
| Operating income before working capital changes                                               | 1,938,707,450           | 2,031,376,937   | 1,985,764,532   |
| Decrease (increase) in:                                                                       |                         |                 |                 |
| Trade and other receivables                                                                   | 169,064,975             | (97,390,460)    | (207,900,503)   |
| Real estate inventories                                                                       | 6,877,373               | 11,022,254      | 26,815,575      |
| Spare parts and supplies                                                                      | (254,786,969)           | (37,215,015)    | (79,405,302)    |
| Prepaid expenses and other current assets                                                     | (20,589,716)            | (90,436,532)    | (6,847,721)     |
| Increase (decrease) in accounts payable and other current liabilities                         | (118,271,723)           | 484,196,996     | 640,559,365     |
| Cash flows generated from operations                                                          | 1,721,001,390           | 2,301,554,180   | 2,358,985,946   |
| Income taxes paid including creditable withholding taxes                                      | (352,781,304)           | (325,009,142)   | (269,250,511)   |
| Net cash flows from operating activities                                                      | 1,368,220,086           | 1,976,545,038   | 2,089,735,435   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                   |                         |                 |                 |
| Additions to:                                                                                 |                         |                 |                 |
| Property, plant and equipment (Note 12)                                                       | (1,589,833,820)         | (6,645,372,242) | (4,398,985,589) |
| Investments in associates (Note 11)                                                           | (57,317,300)            | —               | (4,983,000)     |
| Investments in real estate (Note 10)                                                          | (559,426)               | (50,472,122)    | (90,561,841)    |
| Computer software (Note 15)                                                                   | (60,697)                | (16,159,235)    | (3,701,167)     |
| Decrease (increase) in:                                                                       |                         |                 |                 |
| Short-term cash investments                                                                   | (138,499,937)           | (25,642,688)    | 1,049,459,622   |
| Other noncurrent assets                                                                       | (55,143,340)            | (69,478,547)    | (97,953,061)    |

(Forward)



|                                                                             | Years Ended December 31 |                       |                       |
|-----------------------------------------------------------------------------|-------------------------|-----------------------|-----------------------|
|                                                                             | 2015                    | 2014                  | 2013                  |
| Collections (granting) of advances from (to) related parties                | (P109,853,804)          | P263,323,852          | (P1,209,787,525)      |
| Interest received                                                           | 23,535,345              | 21,835,016            | 28,169,308            |
| Proceeds from disposals of:                                                 |                         |                       |                       |
| Investment in real estate                                                   | 23,946,931              | —                     | —                     |
| Property, plant and equipment                                               | 1,678,359               | 345,967               | 2,480,760             |
| Subsidiary, net of cash and cash equivalents acquired (Note 30)             | —                       | —                     | 952,034,210           |
| AFS financial assets                                                        | —                       | —                     | 1,790,769             |
| Net cash flows used in investing activities                                 | (1,902,107,689)         | (6,521,619,999)       | (3,772,037,514)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                 |                         |                       |                       |
| Availment of loans and long-term debt (Notes 17 and 18)                     | 9,678,853,418           | 9,690,478,476         | 4,871,169,729         |
| Payments of:                                                                |                         |                       |                       |
| Loans and long-term debt (Notes 17 and 18)                                  | (5,428,392,395)         | (2,264,117,211)       | (555,566,654)         |
| Interest and transaction costs (Note 18)                                    | (1,331,956,527)         | (1,178,876,982)       | (160,066,907)         |
| Dividends (Note 21)                                                         | (456,966,240)           | (486,742,496)         | (695,588,358)         |
| Increase in interest reserve account                                        | (507,870,487)           | (48,153,721)          | —                     |
| Proceeds from issuance of preferred shares (Note 21)                        | 4,400,000               | 4,400,000             | 13,750,000            |
| Cash outflow from redemption of redeemable preferred shares (Note 1)        | —                       | (72,469,702)          | (119,115,819)         |
| Acquisition of noncontrolling interest (Note 1)                             | —                       | —                     | (527,910,397)         |
| Net cash flows from financing activities                                    | 1,958,067,769           | 5,644,518,364         | 2,826,671,594         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                            | <b>1,424,180,166</b>    | <b>1,099,443,403</b>  | <b>1,144,369,515</b>  |
| <b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b> | <b>3,284,013</b>        | <b>(9,422,813)</b>    | <b>556,394</b>        |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)</b>              | <b>2,512,383,375</b>    | <b>1,422,362,785</b>  | <b>277,436,876</b>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>                    | <b>P3,939,847,554</b>   | <b>P2,512,383,375</b> | <b>P1,422,362,785</b> |

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:

| Subsidiaries                                                   | Nature of business     | Percentage of Ownership |          |        |          |
|----------------------------------------------------------------|------------------------|-------------------------|----------|--------|----------|
|                                                                |                        | 2015                    |          | 2014   |          |
|                                                                |                        | 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   |
| FGN Northern Power Corp. (FGNPC)                               | Power generation       | —                       | 60.00    | —      | —        |
| Sarangani Energy Corporation (Sarangani)                       | Power generation       | 75.00                   | —        | 75.00  | —        |
| Alsons Renewable Energy Corporation (AREC)                     | Investment holding     | 80.00                   | —        | 100.00 | —        |
| Siguil Hydro Power Corporation (Siguil)                        | Power generation       | —                       | 80.00    | 100.00 | —        |
| Kalaong Power Corporation (Kalaong)                            | Power generation       | —                       | 80.00    | 100.00 | —        |
| Alsons Thermal Energy Corporation (ATEC)                       | Power generation       | 100.00                  | —        | —      | —        |
| San Ramon Power, Inc. (SRPI)                                   | Power generation       | 100.00                  | —        | 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 | 9.00                    | —        | 100.00 | —        |
| MADE (Markets Developers), Inc.                                | Distribution           | 80.44                   | —        | 80.44  | —        |
| Kamanga Agro-Industrial Ecozone Development Corporation (KAED) | Real estate            | 100.00                  | —        | 100.00 | —        |
| ACES Technical Services Corporation (ACES)                     | Management services    | 100.00                  | —        | 100.00 | —        |

\*The Parent Company declared its 91% interest in ACRMC as property dividend in 2015. The Group thereafter accounts for its remaining 9% interest in ACRMC as Available-for-sale (AFS) investment.

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 34).



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 no longer available for re-issue. The share of the non-controlling interests in the redemptions in 2014 and 2013 is shown below:

|      | 2014                |              |                                           | 2013                |              |                                           |
|------|---------------------|--------------|-------------------------------------------|---------------------|--------------|-------------------------------------------|
|      | Number of<br>Shares | Total Amount | Share of Non-<br>controlling<br>Interests | Number of<br>Shares | Total Amount | Share of Non-<br>controlling<br>Interests |
| CHC  | 178,462             | ₱70,858,798  | ₱—                                        | 319,675             | ₱120,638,388 | ₱48,240,147                               |
| SPPC | 483,875             | 161,042,877  | 72,469,702                                | 483,875             | 157,501,313  | 70,875,672                                |
|      |                     | ₱231,901,675 | ₱72,469,702                               |                     | ₱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 was 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. 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 the 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 completed the rehabilitation and operates the balance of 5 MW in 2014.

On July 7, 2015, CHC subscribed and paid 60% of FGNPC's outstanding common shares amounting to ₱0.04 million (\$832). Investment of non-controlling interest amounted to ₱0.02 million (\$459) in 2015.

*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 2016 (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.

Sarangani obtained a ₱9 billion project financing facility from a syndicate of domestic banks to finance the construction of Phase 1 project (see Note 18). As of December 31, 2015, the total project cost of the power plant is estimated at ₱14 billion.

*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's expected construction of the power plant that was previously forecasted to commence in the later part of 2013, has been deferred at a later time. The total project cost is estimated at ₱13 billion. As at March 18, 2016, SRPI has not yet started the construction of the power plant.

*AREC and Subsidiaries.* The Parent Company organized and incorporated Siguil Hydro Power Corporation (Siguil) and Kalaong Power Corporation (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 22MW 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 18, 2016, Siguil and Kalaong have not yet started commercial operations.

On September 18, 2014, the Parent Company organized AREC primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱31 million.

On July 10, 2015, the Parent Company and AREC executed an assignment of share agreement wherein the Parent Company assigned and transferred its ownership interests in Siguil and Kalaong to AREC. Accordingly, Siguil and Kalaong became wholly owned subsidiaries of AREC. The Group recognized increase in non-controlling interests by ₱13 million in 2015 due to the reduction in the Parent Company's interest in AREC from 100% in 2014 to 80% in 2015.

*ATEC.* On November 23, 2015, the Parent Company organized and incorporated ATEC as a wholly owned subsidiary. ATEC was incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. As at March 18, 2016, ATEC has not yet started commercial operations.

#### 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 provides 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 18, 2016, KAED has not yet started commercial operations.

Other Investments

*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 terminated 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 18, 2016, 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 primarily to provide operations and maintenance services to the Company's coal power plants (see Note 34). As at March 18, 2016, ACES has not yet started commercial operations.

*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 province of Compostela Valley (see Note 15). On October 25, 2012, the Declaration of Mining Project Feasibility was submitted to the Mines and Geosciences Bureau.

In May 2015, the Parent Company declared its 91% investment in ACRMC as property dividend amounting to ₱208 million. The Parent Company's remaining 9% interest in ACRMC amounting to ₱21 million is recognized as AFS financial asset (see Note 13).

Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements upon recommendation for approval by the Audit Committee on March 10, 2016, were authorized for issue by the BOD on March 18, 2016.

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## **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 Parent Company.

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 consolidated financial statements 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 Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

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 |      |      |
|--------------------|--------------------------------------|--------------------|-----------------------------------------------------------------------------------|------|------|
|                    |                                      |                    | 2015                                                                              | 2014 | 2013 |
| SPPC               | Philippines                          | Power generation   | 45%                                                                               | 45%  | 45%  |
| WMPC               | Philippines                          | Power generation   | 45%                                                                               | 45%  | 45%  |
| Sarangani          | Philippines                          | Power generation   | 25%                                                                               | 25%  | —*   |

\*Not yet considered as material partly-owned subsidiary 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, 2015 and 2014 are as follows:

|                              | December 31            |            |             |           |            |             |
|------------------------------|------------------------|------------|-------------|-----------|------------|-------------|
|                              | 2015                   |            |             | 2014      |            |             |
|                              | SPPC                   | WMPC       | Sarangani   | SPPC      | WMPC       | Sarangani   |
|                              | (Amounts in Thousands) |            |             |           |            |             |
| Current assets               | ₱529,902               | ₱1,256,744 | ₱1,225,670  | ₱422,425  | ₱993,052   | ₱1,457,842  |
| Noncurrent assets            | 351,948                | 414,139    | 13,203,612  | 369,432   | 482,484    | 11,158,550  |
| Current liabilities          | (123,326)              | (266,259)  | (1,522,995) | (160,232) | (351,902)  | (572,040)   |
| Noncurrent liabilities       | (69,638)               | (93,108)   | (8,939,088) | (112,247) | (59,209)   | (8,392,884) |
| Equity                       | ₱688,886               | ₱1,311,516 | ₱3,967,199  | ₱519,378  | ₱1,064,425 | ₱3,651,468  |
| Equity attributable to:      |                        |            |             |           |            |             |
| Equity holders of the parent | ₱378,887               | ₱721,334   | ₱2,975,399  | ₱284,598  | ₱573,981   | ₱2,738,601  |
| Non-controlling interests    | 309,999                | 590,182    | 991,800     | 234,780   | 490,444    | 912,867     |
|                              | ₱688,886               | ₱1,311,516 | ₱3,967,199  | ₱519,378  | ₱1,064,425 | ₱3,651,468  |

Summarized statements of comprehensive income for each of the three years in the period ended December 31, 2015 are as follows:

|                                   | 2015                   |            |           | 2014      |            |           | 2013      |            |
|-----------------------------------|------------------------|------------|-----------|-----------|------------|-----------|-----------|------------|
|                                   | SPPC                   | WMPC       | Sarangani | SPPC      | WMPC       | Sarangani | SPPC      | WMPC       |
|                                   | (Amounts in Thousands) |            |           |           |            |           |           |            |
| Revenue and other income          | ₱742,145               | ₱1,485,698 | ₱17,717   | ₱745,196  | ₱1,445,099 | ₱13,877   | ₱714,345  | ₱1,381,296 |
| Expenses                          | (278,933)              | (503,644)  | (6,586)   | (400,708) | (634,861)  | (19,481)  | (427,309) | (635,044)  |
| Provision for income tax          | (97,802)               | (207,776)  | —         | (80,552)  | (185,770)  | —         | (75,779)  | (182,405)  |
| Net income (loss)                 | 365,410                | 774,278    | 11,131    | 263,936   | 624,468    | (5,604)   | 211,257   | 563,847    |
| Other comprehensive income (loss) | (359)                  | 2,268      | —         | 300       | 1,490      | —         | (721)     | (509)      |
| Total comprehensive income (loss) | ₱365,051               | ₱776,546   | ₱11,131   | ₱264,236  | ₱625,958   | (₱5,604)  | ₱210,536  | ₱563,338   |

|                                                    | 2015     |          |           | 2014     |          |           | 2013     |          |
|----------------------------------------------------|----------|----------|-----------|----------|----------|-----------|----------|----------|
|                                                    | SPPC     | WMPC     | Sarangani | SPPC     | WMPC     | Sarangani | SPPC     | WMPC     |
| Total comprehensive income (loss) attributable to: |          |          |           |          |          |           |          |          |
| Equity holders of the parent                       | P200,778 | P427,100 | P8,348    | P145,330 | P344,277 | (P4,203)  | P115,790 | P309,821 |
| Non-controlling interests                          | 164,273  | 349,446  | 2,783     | 118,906  | 281,681  | (1,401)   | 94,746   | 253,517  |
|                                                    | P365,051 | P776,546 | P11,131   | P264,236 | P625,958 | (P5,604)  | P210,536 | P563,338 |

Summarized statements of cash flows for each of the three years in the period ended December 31, 2015 are as follows:

|                                                      | 2015                          |            |             | 2014      |            |             | 2013      |            |
|------------------------------------------------------|-------------------------------|------------|-------------|-----------|------------|-------------|-----------|------------|
|                                                      | SPPC                          | WMPC       | Sarangani   | SPPC      | WMPC       | Sarangani   | SPPC      | WMPC       |
|                                                      | <i>(Amounts in Thousands)</i> |            |             |           |            |             |           |            |
| Operating                                            | P487,480                      | P1,034,800 | (P111,076)  | P554,147  | P1,025,743 | (P47,124)   | P499,799  | P1,115,025 |
| Investing                                            | (42,501)                      | 64,841     | (2,008,205) | (8,918)   | (350,963)  | (7,016,723) | 69,079    | 116,137    |
| Financing                                            | (326,469)                     | (822,323)  | 1,696,358   | (522,776) | (824,547)  | 7,904,667   | (528,079) | (965,325)  |
| Net increase (decrease) in cash and cash equivalents | P118,510                      | P277,318   | (P422,923)  | P22,453   | (P149,789) | P840,820    | P40,799   | P265,837   |
| Dividends paid to non-controlling interests          | P122,850                      | P266,175   | P-          | P120,744  | P261,612   | P-          | P119,867  | P319,644   |

### 3. Changes in Accounting Policies and Disclosures

#### New Standards and Interpretations Issued and Effective as at January 1, 2015

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

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

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

#### *Annual Improvements to PFRSs (2010-2012 cycle)*

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the consolidated financial statements. These amendments are either not relevant or have no impact on the Group's consolidated financial statements.

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*

- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
- PAS 24, *Related Party Disclosures - Key Management Personnel*

*Annual Improvements to PFRSs (2011-2013 cycle)*

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in the consolidated financial statements. These amendments are either not relevant or have no impact on the Group's consolidated financial statements:

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*
- PFRS 13, *Fair Value Measurement - Portfolio Exception*
- PAS 40, *Investment Property - Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property*

Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of the issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

*Deferred*

- 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 Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have significant impact on the consolidated financial statements of the Group.

*Effective January 1, 2016*

- Amendments to PAS 1, *Presentation of Financial Statements - Disclosure Initiative*, clarifies the materiality requirements as shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions. The amendments also clarify that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated and entities have flexibility as to the order in which they present the notes to financial statements. In addition, the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. For additional subtotals presented in the statement of profit or loss and other comprehensive income, line items should be presented to reconcile any such subtotals with the subtotals or totals currently required in PFRS for such statement.

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS, does not affect recognition and measurement, and facilitate enhanced disclosure effectiveness. The amendments are effective

for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have significant impact on the consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception* (Amendments), clarifies the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity ("IE") that measures all of its subsidiaries at fair value. The amendments also clarify that only a subsidiary of an IE that is not an IE itself and that provides support services to the IE is consolidated. In addition, it allows an investor, when applying the equity method, to retain the fair value measurement applied by the IE associate or joint venture to its interests in subsidiaries.

The amendments are intended to provide helpful clarifications that will assist preparers in applying the standards more consistently. 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.

- 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 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.

- 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.

*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 January 1, 2018*

- PFRS 9, *Financial Instruments*. 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 (2009, 2010 and 2013) 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.

- International Financial Reporting Standard (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.

*Effective January 1, 2019*

- IFRS 16, *Leases*. On January 13, 2016, the IASB issued its new standard, IFRS 16, which replaces International Accounting Standard (IAS) 17, *Leases*, the current leases standard, and the related Interpretations.



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

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

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15. When adopting IFRS 16, an entity is permitted to use either full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2015 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.

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#### 4. Summary of Significant Accounting Policies

##### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheets 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 by the Group.

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

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.

### Categories of Financial Instruments

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

The Group has no HTM investments as at December 31, 2015 and 2014.

*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 as of December 31, 2014.

*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 and unquoted equity securities.

*Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or designated as FVPL upon inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These include liabilities arising from operations (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 and long-term debt.

#### Derivative Financial Instruments

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

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

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

#### *Embedded derivatives*

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not measured at fair value with changes in fair value reported in the consolidated statement of income. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

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.

#### 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 it equals the share of net losses not recognized.

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

#### 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<br>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,<br>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 acquirer. 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 as at December 31, 2014) 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.

##### *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.

### Retirement Benefits

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

Defined benefit costs comprise the following:

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

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

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

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

#### 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*

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 excess MCIT over RCIT 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.

#### Provisions

##### *General*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated 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.

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**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 which is the Philippine peso. 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. CHC and its subsidiaries, except MPC and FGNPC, have assessed that their 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*

In prior years, the Parent Company exercised significant influence on its interest in Indophil Resources, NL (IRNL) despite owning less than 20% interest by virtue of an Agreement for the Joint Voting of IRNL shares entered into with Alsons Prime Investment Corporation (APIC) and Alsons Corporation (Alcorp), companies under the Alcantara Group, through the Alcantara

Group's representation in the BOD of IRNL. Accordingly, the Parent Company accounted for its investment in IRNL as part of "Investments in associates" with carrying value amounting to ₱1,213 million as at December 31, 2014 (see Note 11).

In 2015, the Parent Company acquired an interest in Indophil Resources Philippines, Inc. (IRPI) through the swap of its interest in IRNL with an interest in IRPI. While the Parent Company holds less than 20% interest in IRPI, the Parent Company assessed that it exercises significant influence over IRPI in 2015 because of its representations in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, the Parent Company accounts for its investment in IRPI as part of "Investments in associates", with carrying value amounting to ₱1,213 million as at December 31, 2015 (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 ₱1,464 million and ₱637 million, respectively, as of December 31, 2015 and ₱1,527 million and ₱642 million, respectively, as of December 31, 2014 (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 ₱1,770 million and ₱4,016 million as at December 31, 2015 and 2014, respectively. Allowance for impairment losses amounted to ₱80 million as at December 31, 2015 and 2014 (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 ₱496 million and ₱242 million as at December 31, 2015 and 2014, respectively (see Note 9). The carrying values of real estate inventories amounted to ₱637 million and ₱642 million as at December 31, 2015 and 2014, respectively (see Note 10).

*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.

In 2014, management assessed that the useful life of components of certain power plant complexes will be extended for another 10 years after the ECA period. However, in 2015, management re-assessed that the useful life of these power plant complexes will be extended to 17 years after the ECA period. Impact on the 2015 depreciation expense and the estimated impact on future annual depreciation expense are as follows (amounts in millions):

| Years ended December 31 | Increase (Decrease) |
|-------------------------|---------------------|
| 2015                    | (₱472)              |
| 2016                    | (12)                |
| 2017 until 2020         | 55                  |
| 2021 until 2025         | 51                  |
| 2026 until 2032         | 8                   |

The carrying values of property, plant and equipment amounted to ₱15,676 million and ₱13,411 million as at December 31, 2015 and 2014, respectively (see Note 12).

*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 ₱2,346 million and ₱117 million as at December 31, 2015 and 2014, respectively. The Group recognized unrealized gain of ₱7 million in 2015 and unrealized loss of ₱87 million and ₱7 million in 2014 and 2013, respectively (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 (nil in 2015 and 2014) (see Notes 15 and 23).

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

|                                                               | 2015                 | 2014           |
|---------------------------------------------------------------|----------------------|----------------|
|                                                               | <i>(In Millions)</i> |                |
| Property, plant and equipment (see Note 12)                   | ₱15,676              | ₱13,411        |
| Investments in real estate (see Note 10)                      | 1,464                | 1,527          |
| Investments in associates (see Note 11)                       | 1,276                | 1,218          |
| Deferred project costs (see Note 15)                          | 323                  | 225            |
| Computer software (see Note 15)                               | 13                   | 25             |
| Mining rights and deferred exploration costs<br>(see Note 15) | —                    | 230            |
|                                                               | <b>₱18,752</b>       | <b>₱16,636</b> |

*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, 2015 and 2014, the Group has assessed that there is no impairment of goodwill. The carrying amount of goodwill amounted to ₱1,052 million and ₱1,002 million as at December 31, 2015 and 2014, respectively (see Note 14).

*Estimation of retirement benefits cost and obligation and accrued compensation absences*

The determination of the retirement benefits cost and obligation and accrued compensated absences 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 and accrued compensated absences.

The Group obtained actuarial valuation reports in 2015 and 2014. Total net retirement assets of SPPC, WMPC and APMC amounted to ₱29 million and ₱45 million as at December 31, 2015 and 2014, respectively (see Note 28). Total retirement benefits liabilities of the Parent Company and other subsidiaries amounted to ₱6 million and ₱7 million as at December 31, 2015 and 2014, respectively (see Note 28). Retirement benefits costs recognized in the consolidated statements of income amounted to ₱16 million, ₱9 million and ₱12 million in 2015, 2014 and 2013, respectively (see Notes 24 and 28). Accrued compensated absences amounted to ₱12 million and ₱32 million as of December 31, 2015 and 2014, respectively (see Note 28).

*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, 2015 and 2014 amounted to ₱69 million and ₱67 million, respectively (see Note 19).

*Estimation and recognition 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 ₱34 million and ₱58 million as at December 31, 2015 and 2014, respectively. Also, the Group has unrecognized NOLCO, excess MCIT over RCIT and temporary differences as at December 31, 2015 and 2014 as disclosed in Note 29.

*Legal contingencies*

The Group is involved in certain legal proceedings. 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 (see Note 35).

## 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:

|                                                        | 2015                   |                      |                   |             |              |              |
|--------------------------------------------------------|------------------------|----------------------|-------------------|-------------|--------------|--------------|
|                                                        | Energy and Power       | Property Development | Other Investments | Total       | Eliminations | Consolidated |
|                                                        | (Amounts in Thousands) |                      |                   |             |              |              |
| <b>Earnings Information</b>                            |                        |                      |                   |             |              |              |
| Revenues                                               |                        |                      |                   |             |              |              |
| External customer                                      | ₱5,002,696             | ₱23,635              | ₱-                | ₱5,026,331  | (₱4,635)     | ₱5,021,696   |
| Inter-segment                                          | -                      | -                    | 534,538           | 534,538     | (534,538)    | -            |
| Total revenues                                         | 5,002,696              | 23,635               | 534,538           | 5,560,869   | (539,173)    | 5,021,696    |
| Interest income                                        | 20,378                 | 254                  | 3,403             | 24,035      | -            | 24,035       |
| Finance charges                                        | 64,886                 | 1,584                | 580,778           | 647,248     | (322,888)    | 324,360      |
| Provision for income tax                               | 334,770                | 173                  | 8,619             | 343,562     | 96,866       | 440,428      |
| Net income (loss) from continuing operations           | 1,296,948              | (47,697)             | (373,257)         | 875,994     | (185,057)    | 690,937      |
| <b>Other Information</b>                               |                        |                      |                   |             |              |              |
| Investments in associates and due from related parties | 663,210                | 899,941              | 3,847,486         | 5,410,637   | (3,267,874)  | 2,142,763    |
| Segment assets                                         | 20,338,419             | 1,147,128            | 2,335,632         | 23,821,179  | 6,345,244    | 30,166,424   |
| Segment liabilities                                    | 1,223,815              | 122,020              | 83,540            | 1,429,375   | 18,136,467   | 19,565,842   |
| Depletion, depreciation and amortization               | (347,859)              | (975)                | (121)             | (348,955)   | -            | (348,955)    |
| Reversal of impairment losses                          | -                      | 1,112                | -                 | 1,112       | -            | 1,112        |
| Capital expenditures                                   | 2,564,077              | 845                  | 172               | 2,565,094   | -            | 2,565,094    |
| <b>Cash Flow Information</b>                           |                        |                      |                   |             |              |              |
| Net cash flows provided by (used in):                  |                        |                      |                   |             |              |              |
| Operating activities                                   | 1,562,983              | 25,096               | (586,140)         | 1,001,939   | 366,281      | 1,368,220    |
| Investing activities                                   | (535,018)              | 17,425               | (1,108,572)       | (1,626,165) | (275,943)    | (1,902,108)  |
| Financing activities                                   | (1,104,820)            | (55,602)             | 3,210,009         | 2,049,587   | (91,519)     | 1,958,068    |

| 2014                                                   |                        |                         |                      |             |              |              |
|--------------------------------------------------------|------------------------|-------------------------|----------------------|-------------|--------------|--------------|
|                                                        | Energy<br>and<br>Power | Property<br>Development | Other<br>Investments | Total       | Eliminations | Consolidated |
| (Amounts in Thousands)                                 |                        |                         |                      |             |              |              |
| <b>Earnings Information</b>                            |                        |                         |                      |             |              |              |
| Revenues                                               |                        |                         |                      |             |              |              |
| External customer                                      | P5,159,454             | P20,617                 | P-                   | P5,180,071  | P-           | P5,180,071   |
| Inter-segment                                          | -                      | -                       | 499,595              | 499,595     | (499,595)    | -            |
| Total revenues                                         | 5,159,454              | 20,617                  | 499,595              | 5,679,666   | (499,595)    | 5,180,071    |
| Interest income                                        | 21,004                 | 833                     | 387                  | 22,224      | -            | 22,224       |
| Finance charges                                        | (90,954)               | (4,063)                 | (348,817)            | (443,834)   | 237,265      | (206,569)    |
| Provision for income tax                               | (334,882)              | (1,283)                 | (26,078)             | (362,243)   | -            | (362,243)    |
| Net income (loss) from continuing operations           | 925,137                | (48,199)                | 36,941               | 913,879     | (186,736)    | 727,143      |
| <b>Other Information</b>                               |                        |                         |                      |             |              |              |
| Investments in associates and due from related parties | 703,007                | 1,489,724               | 4,113,704            | 6,306,435   | (2,143,428)  | 4,163,007    |
| Segment assets                                         | 18,380,246             | 637,069                 | 2,155,981            | 21,173,296  | 4,551,997    | 25,725,293   |
| Segment liabilities                                    | 1,486,324              | 103,570                 | 305,417              | 1,895,311   | 13,421,612   | 15,316,923   |
| Depletion, depreciation and amortization               | (813,320)              | (975)                   | (81)                 | (814,376)   | -            | (814,376)    |
| Reversal of impairment losses                          | -                      | 3,947                   | -                    | 3,947       | -            | 3,947        |
| Capital expenditures                                   | 7,552,904              | 264                     | 25                   | 7,553,193   | -            | 7,553,193    |
| Equity in net losses                                   | -                      | -                       | -                    | -           | (1,279)      | (1,279)      |
| <b>Cash Flow Information</b>                           |                        |                         |                      |             |              |              |
| Net cash flows provided by (used in):                  |                        |                         |                      |             |              |              |
| Operating activities                                   | 2,056,813              | 3,437                   | (158,154)            | 1,902,096   | 74,449       | 1,976,545    |
| Investing activities                                   | (7,746,386)            | (336)                   | (782,807)            | (8,529,529) | 2,007,909    | (6,521,620)  |
| Financing activities                                   | 6,750,778              | (32,080)                | 1,011,223            | 7,729,921   | (2,085,403)  | 5,644,518    |
| 2013                                                   |                        |                         |                      |             |              |              |
|                                                        | Energy<br>and<br>Power | Property<br>Development | Other<br>Investments | Total       | Eliminations | Consolidated |
| (Amounts in Thousands)                                 |                        |                         |                      |             |              |              |
| <b>Earnings Information</b>                            |                        |                         |                      |             |              |              |
| Revenues                                               |                        |                         |                      |             |              |              |
| External customer                                      | P3,316,193             | P27,343                 | P-                   | P3,343,536  | P-           | P3,343,536   |
| Inter-segment                                          | -                      | -                       | 424,926              | 424,926     | (424,926)    | -            |
| Total revenues                                         | 3,316,193              | 27,343                  | 424,926              | 3,768,462   | (424,926)    | 3,343,536    |
| Interest income                                        | 32,238                 | 483                     | 623                  | 33,344      | (8,157)      | 25,187       |
| Finance charges                                        | (67,568)               | (6,064)                 | (104,868)            | (178,500)   | 59,127       | (119,373)    |
| Provision for income tax                               | 271,873                | 195                     | (1,844)              | 270,224     | -            | 270,224      |
| Net income from continuing operations                  | 809,021                | 473,136                 | 254,040              | 1,536,197   | (966,911)    | 569,286      |
| <b>Other Information</b>                               |                        |                         |                      |             |              |              |
| Investments in associates and due from related parties | 457,759                | 922,683                 | 4,307,183            | 5,687,625   | (1,260,015)  | 4,427,610    |
| Segment assets                                         | 10,553,290             | 1,960,761               | 354,786              | 12,868,837  | 5,120,292    | 17,989,129   |
| Segment liabilities                                    | 811,269                | 119,959                 | 76,909               | 1,008,137   | 6,609,547    | 7,617,684    |
| Depletion, depreciation and amortization               | (699,891)              | (5,182)                 | (1,058)              | (706,131)   | -            | (706,131)    |
| Reversal of (provisions for) impairment losses         | (2,849)                | 4,141                   | -                    | 1,292       | -            | 1,292        |
| Capital expenditures                                   | 4,445,225              | 26,366                  | 78                   | 4,471,669   | -            | 4,471,669    |
| Equity in net losses                                   | -                      | -                       | -                    | -           | (100,921)    | (100,921)    |
| <b>Cash Flow Information</b>                           |                        |                         |                      |             |              |              |
| Net cash flows provided by (used in):                  |                        |                         |                      |             |              |              |
| Operating activities                                   | 1,732,044              | (829,282)               | 71,231               | 973,993     | 1,115,745    | 2,089,738    |
| Investing activities                                   | (3,619,729)            | 1,209,180               | (71,399)             | (2,481,948) | (1,290,090)  | (3,772,038)  |
| Financing activities                                   | 2,785,897              | (189,221)               | 505,134              | 3,101,810   | (275,138)    | 2,826,672    |

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to P25 million in 2015 and 2014 and P27 million in 2013, 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:

|                                                                                            | 2015                          | 2014               | 2013               |
|--------------------------------------------------------------------------------------------|-------------------------------|--------------------|--------------------|
|                                                                                            | <i>(Amounts in Thousands)</i> |                    |                    |
| <b>Assets</b>                                                                              |                               |                    |                    |
| Total assets for reportable segments                                                       | ₱23,821,179                   | ₱21,173,297        | ₱12,868,837        |
| Investments in shares of stock of subsidiaries and associates and due from related parties | 11,267,227                    | 12,179,485         | 11,935,523         |
| Goodwill                                                                                   | (43,140)                      | (43,140)           | (43,140)           |
| Eliminations                                                                               | (4,878,842)                   | (7,584,349)        | (6,772,091)        |
| <b>Consolidated assets</b>                                                                 | <b>₱30,166,424</b>            | <b>₱25,725,293</b> | <b>₱17,989,129</b> |
| <b>Liabilities</b>                                                                         |                               |                    |                    |
| Total liabilities for reportable segments                                                  | ₱1,429,375                    | ₱1,895,312         | ₱1,008,137         |
| Long-term debt                                                                             | 17,180,010                    | 12,938,691         | 5,190,495          |
| Due to related parties                                                                     | 2,464,839                     | 1,435,592          | 1,305,659          |
| Loans payable                                                                              | 300,000                       | 260,000            | 794,367            |
| Deferred tax liabilities - net                                                             | 331,522                       | 262,900            | 57,108             |
| Income tax payable                                                                         | 64,901                        | 120,268            | 100,872            |
| Accrued interest payable                                                                   | 183,925                       | 161,842            | 86,648             |
| Eliminations                                                                               | (2,057,208)                   | (1,757,682)        | (925,601)          |
| <b>Consolidated liabilities</b>                                                            | <b>₱19,565,842</b>            | <b>₱15,316,923</b> | <b>₱7,617,685</b>  |

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

|                  | 2015                  | 2014                  |
|------------------|-----------------------|-----------------------|
| Cash on hand     | ₱438,565              | ₱59,500               |
| Cash in banks    | 3,422,014,549         | 2,383,157,758         |
| Cash equivalents | 517,394,440           | 129,166,117           |
|                  | <b>₱3,939,847,554</b> | <b>₱2,512,383,375</b> |

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 ₱173 million and ₱34 million as at December 31, 2015 and 2014, 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 ₱24 million, ₱22 million and ₱25 million for the years ended December 31, 2015, 2014 and 2013, respectively.

#### 8. Trade and Other Receivables

|                                 | 2015         | 2014         |
|---------------------------------|--------------|--------------|
| Trade:                          |              |              |
| Power                           | ₱682,845,454 | ₱762,478,325 |
| Real estate                     | 86,276,518   | 83,760,479   |
| Product distribution and others | 31,730,458   | 31,730,458   |
| (Forward)                       |              |              |

|                                                | 2015           | 2014           |
|------------------------------------------------|----------------|----------------|
| Due from related parties (see Notes 13 and 20) | ₱867,129,580   | ₱2,944,690,536 |
| Retention receivables (see Note 30)            | 47,364,378     | 115,393,178    |
| Others                                         | 128,156,128    | 150,573,048    |
|                                                | 1,843,502,516  | 4,088,626,024  |
| Less allowance for impairment losses           | 80,401,919     | 80,483,915     |
|                                                | ₱1,763,100,597 | ₱4,008,142,109 |

#### 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 ₱117 million as at December 31, 2015 and ₱111 million as at December 31, 2014, representing billings from 2005 to 2006 for additional 5MW installed capacity nominated by SPPC. The allowance provided amounting to ₱30 million and ₱31 million as at December 31, 2015 and 2014, 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 as at December 31, 2015 and 2014, 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 ₱7 million and ₱8 million as at December 31, 2015 and 2014, respectively.

Real estate receivables include 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 2014, the Group reclassified a portion of real estate receivables with net carrying value of ₱148 million to AFS financial assets because management believes that the underlying instruments qualify as equity investments (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, 2015 and 2014.

#### 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

Other receivables primarily include advances to employees, receivables from contractors, receivables from insurance claims and receivables from venturers. Terms and conditions of the "Due from related parties" are disclosed in Note 20.

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:

| 2015                                      |             |             |                      |            |             |
|-------------------------------------------|-------------|-------------|----------------------|------------|-------------|
|                                           | Power       | Real Estate | Product Distribution | Others     | Total       |
| Balances at beginning of year             | P30,515,721 | P11,561,222 | P31,730,458          | P6,676,514 | P80,483,915 |
| Effect of change in foreign exchange rate | (81,996)    | -           | -                    | -          | (81,996)    |
| Balances at end of year                   | P30,433,725 | P11,561,222 | P31,730,458          | P6,676,514 | P80,401,919 |
| Individually impaired                     | P30,433,725 | P-          | P31,730,458          | P5,074,645 | P67,238,828 |
| Collectively impaired                     | -           | 11,561,222  | -                    | 1,601,869  | 13,163,091  |
|                                           | P30,433,725 | P11,561,222 | P31,730,458          | P6,676,514 | P80,401,919 |

| 2014                                      |             |              |                      |            |              |
|-------------------------------------------|-------------|--------------|----------------------|------------|--------------|
|                                           | Power       | Real Estate  | Product Distribution | Others     | Total        |
| Balance at beginning of year              | P28,343,011 | P31,561,222  | P31,730,458          | P6,664,472 | P98,299,163  |
| Reclassification to OCI                   | -           | (20,000,000) | -                    | -          | (20,000,000) |
| Effect of change in foreign exchange rate | 2,172,710   | -            | -                    | 12,042     | 2,184,752    |
| Balance at end of year                    | P30,515,721 | P11,561,222  | P31,730,458          | P6,676,514 | P80,483,915  |
| Individually impaired                     | P30,515,721 | P-           | P31,730,458          | P5,074,645 | P67,320,824  |
| Collectively impaired                     | -           | 11,561,222   | -                    | 1,601,869  | 13,163,091   |
|                                           | P30,515,721 | P11,561,222  | P31,730,458          | P6,676,514 | P80,483,915  |

#### 9. Spare Parts and Supplies - at cost

|                                    | 2015         | 2014         |
|------------------------------------|--------------|--------------|
| Spare parts                        | P112,531,781 | P136,565,220 |
| Oil, lubricants and chemicals      | 183,717,833  | 104,760,491  |
| Operating supplies and consumables | 200,101,379  | 238,313      |
|                                    | P496,350,993 | P241,564,024 |

#### 10. Real Estate Inventories and Investments in Real Estate

##### Real Estate Inventories

|                                                                           | 2015         | 2014         |
|---------------------------------------------------------------------------|--------------|--------------|
| Eagle Ridge Project (General Trias, Cavite) -<br>at cost (see Note 34)    | P620,497,880 | P622,816,151 |
| Campo Verde Project (Lipa and Malvar, Batangas) -<br>at NRV (see Note 34) | 16,077,704   | 19,524,685   |
|                                                                           | P636,575,584 | P642,340,836 |

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

|                                                          | 2015         | 2014         |
|----------------------------------------------------------|--------------|--------------|
| <b>Cost</b>                                              |              |              |
| Balances at beginning of year                            | ₱664,519,522 | ₱675,541,776 |
| Cost of real estate sold, net of cancellations           | (6,877,373)  | (11,022,254) |
| Balances at end of year                                  | 657,642,149  | 664,519,522  |
| <b>Allowance for Impairment Loss</b>                     |              |              |
| Balances at beginning of year                            | 22,178,686   | 26,125,481   |
| Recovery of impairment loss due to sale<br>(see Note 27) | (1,112,121)  | (3,946,795)  |
| Balances at end of year                                  | 21,066,565   | 22,178,686   |
|                                                          | ₱636,575,584 | ₱642,340,836 |

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).

Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱1 million in 2015 and ₱4 million in 2014 and 2013 are recognized also as part of "Other income (charges) - net" in the consolidated statements of income (see Note 27). Accumulated impairment losses on real estate inventories amounted to ₱21 million and ₱22 million as at December 31, 2015 and 2014, respectively.

Included in "Real estate inventories" account are properties with a carrying amount of ₱145 million as at December 31, 2015 and 2014 that were used as collateral for the loans availed by ALC, Parent Company and certain affiliates (see Note 18).

#### Investments in Real Estate

|                                              | 2015           | 2014           |
|----------------------------------------------|----------------|----------------|
| Lanang Property (Lanang, Davao City)         | ₱1,275,631,722 | ₱1,275,631,722 |
| ALC Property (Pasong Tamo, Makati)           | 131,577,641    | 131,810,479    |
| Batangas Project (Lipa and Malvar, Batangas) | 51,744,468     | 115,087,360    |
| Laguna Project (Cabuyao, Laguna)             | 4,685,936      | 4,685,936      |
|                                              | ₱1,463,639,767 | ₱1,527,215,497 |

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

|                                 | December 31, 2015 |                           |                |
|---------------------------------|-------------------|---------------------------|----------------|
|                                 | Land              | Building and Improvements | Total          |
| <b>Cost</b>                     |                   |                           |                |
| Balances at beginning of year   | ₱1,520,637,358    | ₱30,369,730               | ₱1,551,007,088 |
| Additions                       | 483,533           | 75,893                    | 559,426        |
| Disposal                        | (63,638,759)      | —                         | (63,638,759)   |
| Balances at end of year         | 1,457,482,132     | 30,445,623                | 1,487,927,755  |
| <b>Accumulated Depreciation</b> |                   |                           |                |
| Balances at beginning of year   | —                 | 23,791,591                | 23,791,591     |
| Depreciation (see Note 25)      | —                 | 496,397                   | 496,397        |
| Balances at end of year         | —                 | 24,287,988                | 24,287,988     |
| <b>Net Book Value</b>           | ₱1,457,482,132    | ₱6,157,635                | ₱1,463,639,767 |



|                                 | December 31, 2014 |                           |                |
|---------------------------------|-------------------|---------------------------|----------------|
|                                 | Land              | Building and Improvements | Total          |
| <b>Cost</b>                     |                   |                           |                |
| 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         | 1,520,637,358     | 30,369,730                | 1,551,007,088  |
| <b>Accumulated Depreciation</b> |                   |                           |                |
| 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     |
| <b>Net Book Value</b>           | ₱1,520,637,358    | ₱6,578,139                | ₱1,527,215,497 |

#### 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.

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 in 2014. 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, 2015 and 2014 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 value of investment properties amounted to ₱1,867 million and ₱1,825 million as at December 31, 2015 and 2014, respectively, were based on appraisal of the properties by independent appraisers in 2015 and 2011, using sales comparison approach, which is a comparative approach to value properties that considers the sales of similar assets or related market data and establishes a value estimate.

Significant increases (decreases) in estimated selling prices of the property within the same location would result in a significantly higher (lower) fair value.

## 11. Investments in Associates

|                                                 | Percentage of Ownership |       | 2015           | 2014           |
|-------------------------------------------------|-------------------------|-------|----------------|----------------|
|                                                 | 2015                    | 2014  |                |                |
| At equity:                                      |                         |       |                |                |
| Acquisition costs:                              |                         |       |                |                |
| Indophil Resources Philippines, Inc. (IRPI)     | 2.00                    | –     | ₱1,213,332,960 | P–             |
| RCPHI                                           | 31.24                   | 31.24 | 80,851,701     | 80,851,701     |
| T'boli Agro-Industrial Development, Inc.        | 22.32                   | 22.32 | 66,193,299     | 66,193,299     |
| Aviana Development Corporation (Aviana)         | 34.00                   | 32.80 | 62,300,300     | 4,983,000      |
| Duta, Inc.                                      | 30.00                   | 30.00 | 13,725,000     | 13,725,000     |
| Indophil Resources NL (IRNL)                    | –                       | 2.42  | –              | 1,315,533,080  |
|                                                 |                         |       | 1,436,403,260  | 1,481,286,080  |
| Accumulated equity in net losses:               |                         |       |                |                |
| Balances at beginning of year                   |                         |       | (102,200,120)  | (100,920,763)  |
| Equity swap of IRNL shares with IRPI shares     |                         |       | 102,200,120    | –              |
| Equity in net losses for the year (see Note 27) |                         |       | –              | (1,279,357)    |
| Balances at end of year                         |                         |       | –              | (102,200,120)  |
| Accumulated impairment loss -                   |                         |       |                |                |
| Balances at beginning and end of year           |                         |       | (160,770,000)  | (160,770,000)  |
|                                                 |                         |       | ₱1,275,633,260 | ₱1,218,315,960 |

### IRNL and IRPI

The Parent Company purchased 29,149,000 shares of IRNL in the amount of ₱1,316 million in 2010. Together with the ownership interests of Alsons Prime Investment Corporation (APIC) and Alsons Corporation (AC) through a series of subscription agreements, the Alcantara Group was the largest shareholder of IRNL at 19.99%. By virtue of the Agreement for the Joint Voting of IRNL shares with APIC and AC, the Parent Company has concluded that it has significant influence over IRNL through its representation in the BOD of IRNL. Accordingly, the Parent Company treated its investment in IRNL as part of “Investments in associates” using the equity method in the 2014 consolidated financial statements. The Parent Company had determined that the acquisition cost of IRNL includes goodwill amounting to ₱785 million.

On January 23, 2015, IRNL implemented the Scheme of Arrangement between APIC and IRNL shareholders wherein APIC acquired all of the remaining outstanding shares from existing shareholders of IRNL. Accordingly, IRNL became a subsidiary of APIC starting January 2015.

In July 2015, APIC was no longer part of the Alcantara Group as it was bought by a third party. Accordingly, the Joint Voting Agreement of IRNL shares between the Parent Company, APIC and AC was deemed terminated.

On December 11, 2015, the Parent Company and AC entered into Deed of Assignment of Shares (share swap) agreements with APIC, whereby the Parent Company and AC assigned and transferred to APIC all their interests in IRNL in exchange for ownership interests in IRPI. Accordingly, the Parent Company recognized the investment in IRPI amounting to ₱1,213 million representing the carrying value of the investment at the date of the share swap agreement.

The transfer of the Parent Company’s investment in IRNL to investment in IRPI resulted in the Parent Company still exercising significant influence over IRPI due to its representations in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, ACR treats its investment in IRPI as part of “Investments in associates” using the equity method in the 2015 consolidated financial statements.

The financial information of IRPI as at and for the year ended December 31, 2015 and IRNL as at and for the year ended December 31, 2014 are as follows:

|                                   | 2015*                  | 2014**     |
|-----------------------------------|------------------------|------------|
|                                   | (Amounts in Thousands) |            |
| Current assets                    | ₱145,196               | ₱7,548,916 |
| Noncurrent assets                 | 26,348,043             | 6,127,891  |
| Current liabilities               | 91,109                 | 211,684    |
| Noncurrent liabilities            | 16,722,253             | 92,879     |
| Revenue and other income          | 1,572,718              | 707,636    |
| Net income (loss)                 | 1,173,594              | (4,104)    |
| Total comprehensive income (loss) | 1,174,916              | (4,104)    |

\* The Group did not recognize its share in net earnings of associate for the year ended December 31, 2015 because the amount is not material to the consolidated financial statements.

\*\* Financial information of IRNL 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 as of December 31, 2014 and average exchange rate of ₱40.05 in 2014.

Summarized financial information of IRPI as at December 31, 2015 and IRNL as at December 31, 2014 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

|                                                                     | 2015                   | 2014       |
|---------------------------------------------------------------------|------------------------|------------|
|                                                                     | (Amounts in Thousands) |            |
| Current assets                                                      | ₱145,196               | ₱7,548,916 |
| Noncurrent assets                                                   | 26,348,043             | 6,127,891  |
| Current liabilities                                                 | (91,109)               | (211,684)  |
| Noncurrent liabilities                                              | (16,722,253)           | (92,879)   |
| Equity                                                              | 9,679,877              | 13,372,244 |
| Deposits for future stock subscriptions<br>(presented as liability) | 10,857,603             | —          |
| Adjusted equity                                                     | 20,537,480             | 13,372,244 |
| Equity interest of the Parent Company                               | 2.00%                  | 2.42%      |
| Share in net assets of the acquiree                                 | 410,750                | 323,608    |
| Goodwill, translation adjustments and others                        | 802,583                | 889,725    |
| Carrying value of investment                                        | ₱1,213,333             | ₱1,213,333 |

#### Aviana

On March 21, 2013, Aldevinco and ACIL (collectively referred to as “AG”) and Ayala Land, Inc. (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 (Aviana) to undertake the development of the Lanang property of the Parent Company in Davao City. On September 17, 2013, Aviana was incorporated as a joint venture corporation. The Parent Company subscribed to the 296 preferred shares and 32 common shares for 32.8% ownership in Aviana. In December 2015, the Parent Company subscribe to additional 332,200 preferred shares and 35,800 common shares of Aviana through the conversion of the Parent Company’s advances amounting to ₱36 million. In August 2015, the Parent Company subscribed to additional 261,450 preferred shares and 29,050 common shares of Aviana for ₱22 million. The additional subscription to shares of Aviana in 2015 increased the Parent Company’s interest in Aviana to 34%. Accordingly, the Parent Company treats its investment in Aviana as “Investment in associate”. As at March 18, 2016, Aviana has not yet started its commercial operations.

ACR intends to transfer the Lanang property to Aviana as part of its capital contribution in 2016.

12. Property, Plant and Equipment

As at December 31, 2015:

| Cost                                                                        | Main Engine,<br>Plant Structures<br>and Others | Plant<br>Mechanical,<br>Electrical,<br>Switchyard &<br>Desulfurization<br>Equipment | Land, Buildings<br>and Leasehold<br>Improvements | Machinery<br>and Other<br>Equipment | Construction<br>in Progress | Cumulative<br>Translation<br>Adjustments | Total           |
|-----------------------------------------------------------------------------|------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------|-----------------------------|------------------------------------------|-----------------|
| Balances at beginning 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 |
| Additions                                                                   | 107,927,545                                    | -                                                                                   | 52,880,381                                       | 13,489,875                          | 2,390,795,961               | -                                        | 2,565,093,762   |
| Disposals                                                                   | (134,280,110)                                  | -                                                                                   | (42,260)                                         | (5,839,158)                         | -                           | -                                        | (140,161,528)   |
| Reclassifications                                                           | -                                              | -                                                                                   | 954,706                                          | -                                   | (954,706)                   | -                                        | -               |
| Cumulative translation adjustments                                          | -                                              | -                                                                                   | -                                                | -                                   | -                           | 33,403,586                               | 33,403,586      |
| Balances at end of year                                                     | 7,897,193,572                                  | 4,417,171,268                                                                       | 872,079,031                                      | 344,928,632                         | 13,297,823,962              | (2,413,268,595)                          | 24,415,927,870  |
| Accumulated Depletion, Depreciation and<br>Amortization and Impairment Loss |                                                |                                                                                     |                                                  |                                     |                             |                                          |                 |
| Balances at beginning of year                                               | (5,754,940,030)                                | (3,598,488,263)                                                                     | (94,859,374)                                     | (258,429,176)                       | -                           | 1,159,667,435                            | (8,547,049,408) |
| Depreciation and amortization for the year:<br>Expensed (see Note 25)       | (199,604,132)                                  | (34,787,435)                                                                        | (79,982,163)                                     | (21,908,762)                        | -                           | -                                        | (336,282,492)   |
| Capitalized                                                                 | -                                              | -                                                                                   | -                                                | (5,527,714)                         | -                           | -                                        | (5,527,714)     |
| Disposals                                                                   | 133,812,381                                    | -                                                                                   | 42,260                                           | 5,649,082                           | -                           | -                                        | 139,503,723     |
| Cumulative translation adjustments                                          | -                                              | -                                                                                   | -                                                | -                                   | -                           | 9,559,863                                | 9,559,863       |
| Balances at end of year                                                     | (5,820,731,781)                                | (3,633,275,698)                                                                     | (174,799,277)                                    | (280,216,570)                       | -                           | 1,169,227,298                            | (8,739,796,028) |
| Net Book Value                                                              | ₱2,076,461,791                                 | ₱783,895,570                                                                        | ₱697,279,754                                     | ₱64,712,062                         | ₱13,297,823,962             | (₱1,244,041,297)                         | ₱15,676,131,842 |

As at December 31, 2014:

|                                                                                     | Plant<br>Mechanical,<br>Electrical,<br>Switchyard &<br>Desulfurization<br>Equipment |                 |              |               |                 | Land, Buildings<br>and Leasehold<br>Improvements | Machinery<br>and Other<br>Equipment | Construction<br>in Progress | Cumulative<br>Translation<br>Adjustments | Total |
|-------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|-----------------|--------------|---------------|-----------------|--------------------------------------------------|-------------------------------------|-----------------------------|------------------------------------------|-------|
| <b>Cost</b>                                                                         |                                                                                     |                 |              |               |                 |                                                  |                                     |                             |                                          |       |
| 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 decommissioning 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                          |                             |                                          |       |
| 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                      |                             |                                          |       |
| <b>Accumulated Depletion, Depreciation and Amortization<br/>and Impairment Loss</b> |                                                                                     |                 |              |               |                 |                                                  |                                     |                             |                                          |       |
| 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)                     |                             |                                          |       |
| Depreciation and amortization for the year<br>(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)                     |                             |                                          |       |
| <b>Net Book Value</b>                                                               | ₱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                     |                             |                                          |       |

Construction in progress 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 operations in 2016 (see Note 1).

The capitalized borrowing costs are disclosed in Note 18 to the consolidated financial statements.

Property, plant and equipment with a net book value of ₱314 million and ₱512 million as at December 31, 2015 and 2014, respectively, are mortgaged as collateral for the long-term debt of SPPC and WMPC (see Notes 15 and 18).

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱2,077 million and ₱1,976 million as at December 31, 2015 and 2014, respectively.

### 13. Available-for-sale Financial Assets

AFS financial assets primarily consist of investments in quoted and unquoted equity securities. Movements of AFS financial assets are as follows:

|                                                                   | 2015                  | 2014                |
|-------------------------------------------------------------------|-----------------------|---------------------|
| <b>Acquisition Costs</b>                                          |                       |                     |
| Balances at beginning of year                                     | ₱175,284,498          | ₱27,108,103         |
| Subscription to preferred shares of a stockholder (see Note 20)   | 2,200,000,000         | —                   |
| Retained interest in ACRMC (see Note 1)                           | 21,268,768            | —                   |
| Reclassification from trade receivables (see Note 8)              | —                     | 148,176,395         |
| Balances at end of year                                           | 2,396,553,266         | 175,284,498         |
| <b>Cumulative Unrealized Gain (Loss) on Changes in Fair Value</b> |                       |                     |
| Balances at beginning of year                                     | (58,243,535)          | 28,754,589          |
| Fair value changes recognized in OCI (see Note 8)                 | 7,263,540             | (86,998,124)        |
| Balances at end of year                                           | (50,979,995)          | (58,243,535)        |
|                                                                   | <b>₱2,345,573,271</b> | <b>₱117,040,963</b> |

### 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 ₱1,052 million and ₱1,002 million as at December 31, 2015 and 2014, respectively. The movement during the year is due to the effect of foreign exchange rate changes from ₱44.72/\$1 as at December 31, 2014 to ₱47.06/\$1 as at December 31 2015 used in translating the amount of goodwill allocated to SPPC and WMPC from their functional currency of U.S. dollars to the Parent Company's functional currency of Philippine peso (see Note 2).



Goodwill is subject to annual impairment testing. After considering the current power outlook in Mindanao, the recoverable amount of the operations of SPPC and WMPC have been determined based on a value-in-use calculation using cash flow projections from financial budgets approved by management covering the additional 10 years of operations as merchant plants after the ECA period. In 2015, management determined that SPPC and WMPC will be able continue to operate as merchant plants for 17 years after the ECA period.

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 9.73% and 9.09% in 2015 and 2014, respectively.

*Terminal values.* Terminal values represent the market values of the power plant complexes upon disposal. In 2015, management changed the assumption on the expected timing of disposal from the end of ECA period to 17 years after the ECA period for SPPC and WMPC. The terminal values included in the value-in-use computation as at December 31, 2015 amounted to ₱1,024 million (\$21.78 million) and ₱1,829 million (\$38.86 million) for SPPC and WMPC, respectively. On the other hand, value-in-use computation as at December 31, 2014 included terminal values of ₱1,240 million (\$27.73 million) and ₱2,562 million (\$57.29 million) for SPPC and WMPC, respectively.

*Consumer price index estimates.* The assumption used for consumer price index is 1.00% in 2015 and 2014 for US dollar-denominated billings while the assumption used for Philippine peso-denominated billings is 3.00% in 2015 and 2014.

*Exchange rate inflation.* The assumption used to determine foreign exchange rate is appreciating U.S. dollar of 1.00% every year in 2015 and 2014.

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.

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**15. Other Assets**

Prepaid Expenses and Other Current Assets

|                                                    | 2015                | 2014                |
|----------------------------------------------------|---------------------|---------------------|
| Deposits in interest reserve account (see Note 18) | ₱556,024,208        | ₱48,153,721         |
| Input VAT (see Note 10)                            | 170,065,078         | 189,155,056         |
| Creditable withholding taxes                       | 103,458,809         | 61,406,425          |
| Prepayments                                        | 64,629,550          | 76,103,576          |
|                                                    | <u>₱894,177,645</u> | <u>₱374,818,778</u> |

Other Noncurrent Assets

|                                                              | 2015          | 2014          |
|--------------------------------------------------------------|---------------|---------------|
| Deferred project costs                                       | ₱323,168,150✓ | ₱225,271,124× |
| Deferred oil exploration costs                               | 63,372,934✓   | 63,372,934✓   |
| Deposits                                                     | 58,226,913    | 49,976,607    |
| Computer software                                            | 13,484,761    | 24,882,924~   |
| Deferred financing costs                                     | 492,589       | 17,593,143 ×  |
| Mining rights and deferred exploration costs<br>(see Note 1) | —/            | 229,884,041>  |
| Others                                                       | 5,816,995     | 5,667,266     |
|                                                              | 464,562,342   | 616,648,039   |
| Less provision for impairment loss                           | 63,372,934✓   | 63,372,934✓   |
|                                                              | ₱401,189,408  | ₱553,275,105  |

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. As at March 18, 2016, the Manat MPSA is still in the exploration phase.

In May 2015, the Parent Company declared its 91% investment in ACRMC as property dividend amounting to ₱208 million (see Note 1). The Parent Company's remaining 9% interest in ACRMC amounting to ₱21 million is recognized as Available-for-sale (AFS) investment (see Note 13). Accordingly, the assets and liabilities of ACRMC were derecognized from the consolidated financial statements.

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, 2015 and 2014, cumulative costs incurred for this project amounted to ₱257 million and ₱225 million, respectively.
- b. *Siguil.* Siguil hydro powerplant project is a 15MW run-of-river that will be located at Sitio Siguil, Brgy. Tinoto, Maasim, Sarangani. 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, 2015, costs incurred for project site preparation, legal fees and other direct costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management is capitalized as deferred project costs amounting to ₱66 million.

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:

|                                 | 2015               | 2014               |
|---------------------------------|--------------------|--------------------|
| <b>Cost</b>                     |                    |                    |
| Balances at beginning of year   | ₱36,007,695        | ₱19,812,630        |
| Additions                       | 60,697             | 16,277,678         |
| Translation adjustments         | 1,886,204          | (82,613)           |
| Balances at end of year         | 37,954,596         | 36,007,695         |
| <b>Accumulated Amortization</b> |                    |                    |
| Balances at beginning of year   | 11,124,771         | 3,810,822          |
| Amortization (see Note 25)      | 12,175,755         | 7,233,035          |
| Translation adjustments         | 1,169,309          | 80,914             |
| Balances at end of year         | 24,469,835         | 11,124,771         |
| <b>Net Book Value</b>           | <b>₱13,484,761</b> | <b>₱24,882,924</b> |

Deferred Financing Costs

The debt financing costs pertain to the documentary stamp taxes, mortgage fees, legal and other fees incurred by Sarangani 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 financing 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, 2015 and 2014, total amount drawn from the facility amounted to ₱9,280 million and ₱8,586 million.

Deferred financing costs as at December 31 are shown below:

|                                                    | 2015        | 2014         |
|----------------------------------------------------|-------------|--------------|
| Debt financing costs incurred at beginning of year | ₱17,593,143 | ₱167,475,759 |
| Less amount allocated to drawn facility            | 17,100,554  | 149,882,616  |
| Deferred financing costs                           | ₱492,589    | ₱17,593,143  |

Deposits

|                              | 2015        | 2014        |
|------------------------------|-------------|-------------|
| Deposit for land acquisition | ₱39,137,250 | ₱31,340,000 |
| Security deposits            | 19,129,663  | 18,636,607  |
|                              | ₱58,266,913 | ₱49,976,607 |

In 2015 and 2013, the Parent Company paid an amount of ₱7 million and ₱27 million, respectively, as downpayments to a certain individual for the purchase of land in Davao. The Parent Company has also incurred related transaction costs amounting to ₱1 million and ₱4 million in 2015 and 2013, respectively.

As at December 31, 2015 and 2014, SRPI has deposits for purchase of several parcels of land in the district of Zamboanga amounting to ₱9 million. As at December 31, 2015 and 2014, there was still no formal transfer of ownership over the parcels of land.

Security deposits represent payment of SRPI to Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) in line with the Lease Agreement executed on January 27, 2013.

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**16. Accounts Payable and Other Current Liabilities**

|                                        | 2015           | 2014           |
|----------------------------------------|----------------|----------------|
| Trade                                  | ₱405,251,742   | ₱581,408,965   |
| Accrued expenses (Notes 17, 18 and 28) | 425,996,345    | 351,596,254    |
| Payable to customers                   | 199,495,999    | 301,443,388    |
| Output tax and withholding tax payable | 107,363,534    | 111,431,676    |
| Advances from customers                | 27,441,600     | 23,966,412     |
| Other current liabilities              | 182,984,328    | 94,371,909     |
|                                        | ₱1,348,533,548 | ₱1,464,218,604 |

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.

Other accrued expenses and other current liabilities are noninterest-bearing and have an average term of 30 days.

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**17. Loans Payable**

*Parent Company*

In February 12, 2013, ACR obtained peso and dollar-denominated unsecured short-term loans from Alsons Power Holdings Corporation (APHC) amounting to ₱249 million and US\$12.0 million (₱501 million), respectively. The borrowings were subject to fixed rate of 6% per annum. The loans payable were fully settled in 2014.

Transaction costs related to the loan were presented as contra account to the principal balance and were amortized over the term of the loans using effective interest rate (see Note 26).

*MPC*

In 2015, MPC availed of another short-term, unsecured bank loans amounting to ₱827 million (\$17.6 million). The loan bears interest rates ranging from 4.0% to 4.3%. Outstanding loan balance amounted ₱300 million as at December 31, 2015.

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. The loans were subject to interest rates ranging from 4.0% to 4.3%. The loans were fully paid in 2015.

**18. Long-term Debt**

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

|                                                                | 2015            | 2014            |
|----------------------------------------------------------------|-----------------|-----------------|
| <b>Parent Company</b>                                          |                 |                 |
| Philippine peso-denominated debt:                              |                 |                 |
| Five-year fixed rate corporate note                            | ₱5,600,000,000  | ₱—              |
| Seven-year fixed rate corporate note                           | 1,900,000,000   | —               |
| Five-year fixed rate restructured debt                         | —               | 27,699,000      |
| U.S. dollar-denominated debt -                                 |                 |                 |
| Four-year floating rate corporate note                         | —               | 3,286,920,000   |
| Four-year fixed rate corporate note                            | —               | 58,141,114      |
| <b>Sarangani</b>                                               |                 |                 |
| Thirteen and half year peso-denominated floating rate debt     | 9,280,000,000   | 8,585,696,599   |
| <b>CHC's Subsidiaries</b>                                      |                 |                 |
| <i>MPC</i>                                                     |                 |                 |
| Six-year peso-denominated fixed rate debt                      | 696,960,000     | 846,450,000     |
| <i>SPPC</i>                                                    |                 |                 |
| Seven-year U.S. dollar-denominated floating rate note          | 45,300,380      | 100,620,000     |
| Three and half-year U.S. dollar-denominated floating rate note | 23,483,280      | 52,173,331      |
| <i>WMPC</i>                                                    |                 |                 |
| Three and half-year U.S. dollar-denominated floating rate note | —               | 204,434,286     |
| Seven-year U.S. dollar-denominated floating rate note          | —               | 19,165,714      |
| <b>ALC and MADE</b>                                            |                 |                 |
| Five-year peso-denominated fixed rate restructured debt        | —               | 107,270,160     |
|                                                                | 17,545,743,660  | 13,288,570,204  |
| Less unamortized transaction costs                             | 365,734,471     | 349,878,386     |
|                                                                | 17,180,009,189  | 12,938,691,818  |
| Less current portion                                           | 311,720,556     | 590,427,513     |
| Noncurrent portion                                             | ₱16,868,288,633 | ₱12,348,264,305 |

Movement in the unamortized transaction costs is as follows:

|                               | 2015          | 2014         |
|-------------------------------|---------------|--------------|
| Balances at beginning of year | ₱349,878,386  | ₱128,550,305 |
| Additions                     | 258,084,429   | 310,988,013  |
| Amortization                  | (242,228,344) | (89,659,932) |
| Balances at end of year       | ₱365,734,471  | ₱349,878,386 |

Parent Company

The loans of the Parent Company consist of the following:

- a. *Fixed Rate Corporate Notes Facility* – On November 25, 2015, the Parent Company entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of ₱7,500 million divided into two (2) tranches: (a) Tranche A with principal amount of ₱5,600 million, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of ₱1,900 million, subject to fixed interest rate of 7.92% and payable within seven (7) years from the drawdown date. Proceeds of the loan shall be used to prepay the Parent Company's existing long-term debt and finance the investments in power-related assets.

The Parent Company had drawn the entire loan facility amounting to ₱7,500 million in December 2015. Outstanding loan from this drawdown amounted to ₱7,343 million (net of unamortized transaction costs of ₱157 million) as at December 31, 2015. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan were deferred and amortized using the effective interest rate (see Note 26).

The notes contain embedded derivatives arising from voluntary prepayment option where the Parent Company may opt to prepay the outstanding notes at pre-agreed redemption price starting on the beginning of the 3<sup>rd</sup> anniversary date of the drawdown for Tranche A and beginning of the 5<sup>th</sup> anniversary date of the drawdown for Tranche B. Redemption price shall mean 102% of the face value of the notes outstanding plus accrued interest. The Parent Company may also opt to prepay the notes, in whole or in part, at pre-agreed redemption price using the proceeds of any equity offering or any sale or disposition of its shareholdings in its subsidiaries at each anniversary date of the drawdown up to the 5<sup>th</sup> anniversary date. The embedded derivatives in the loans were assessed by the Parent Company to be closely related, thus were not bifurcated from the host contract based on the provisions of PAS 39.

The Parent Company shall maintain certain financial ratios such as debt-to-equity ratio of not more than 2.9 and interest coverage ratio of not less than 2. As at December 31, 2015, the Parent Company is in compliance with the debt covenants.

As required in the loan agreement, the Parent Company deposited ₱556 million into an interest reserve account in 2015 (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 within the next interest period which is equivalent to one-year interest period as defined in the loan agreement.

- b. *US\$100 million Loan Facility Agreement* – In October 2014, the Parent Company entered into a US\$100 million Loan Facility Agreement with various banks to finance the investment in power-related assets. The loan was subject to floating interest rate which is the aggregate of the applicable Margin and London Interbank Offered Rate (LIBOR) and was payable in full at maturity, three years from the date of the loan facility agreement.

The Parent Company made drawdown to the loan facility amounting to \$73.5 million in 2014. Outstanding loan from this drawdown amounted to ₱3,143 million (net of unamortized transaction costs of ₱144 million) as of December 31, 2014. The Parent Company made another drawdown in 2015 for the balance of the credit loan facility.

The loan contained 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. The embedded derivative in the loan was assessed by the Parent Company to be closely related, thus was not bifurcated from the host contract based on the provisions of PAS 39.

The Parent Company shall maintain certain financial ratios such as leverage ratio (ratio of total debt to tangible net worth) not to exceed 2.33:1.00 and earnings before interest, taxes, depreciation and allowances (EBITDA)/ interest ratio not to be less than the ratio set out against the corresponding calculation date. As at December 31, 2014, the Parent Company was in compliance with the debt covenants.

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.

All outstanding loans were prepaid by the Parent Company in December 2015 resulting in the recognition of loss on prepayment of ₱181 million in 2015, representing unamortized transaction cost as of that date. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan were deferred and amortized using the effective interest method (see Note 26).

- c. *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 was subject to 6% interest payable semi-annually and the principal is payable in full at maturity in 2015. The outstanding loan balance amounting to ₱58 million as at December 31, 2014 was fully paid in 2015. 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 the effective interest method (see Note 26).

The loan contained embedded derivatives pertaining to voluntary prepayment option and conversion and exchange options. 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 with outstanding amount of ₱28 million as at December 31, 2014. Upon full settlement of the loan in 2015, the derivative liability was derecognized (see Note 27). The derivative liability was presented as part of the current liabilities in the 2014 consolidated balance sheet.

The Parent Company was 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, the Parent Company is required to maintain

certain financial ratios. As at December 31, 2014, the Parent Company was in compliance with the debt covenants.

- d. Short-term bank borrowings amounting to ₱145 million as at December 31, 2010, which was subject to 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 amounting to ₱28 million as at December 31, 2014 was fully paid in 2015.

#### 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 stock 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, 2015:

|                                   | Series I       | Series II    | Total          |
|-----------------------------------|----------------|--------------|----------------|
| Long-term debt                    | ₱8,466,323,070 | ₱813,676,930 | ₱9,280,000,000 |
| Less unamortized debt issue costs | 172,409,231    | 16,170,265   | 188,579,496    |
|                                   | ₱8,293,913,839 | ₱797,506,665 | ₱9,091,420,504 |

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 |

In December 2015, Sarangani obtained a waiver from the banks for the breach of the financial covenant that requires Sarangani to maintain a debt-to-equity ratio not to exceed 2.33:1.00.

#### *Capitalized borrowing costs*

The amount of borrowing costs capitalized representing the interest expense and amortization of debt issue costs amounted to ₱1,034 million and ₱930 million in 2015 and 2014, respectively (see Note 12). The rates used to determine the amounts of borrowing costs eligible for capitalization range from 7.14% and 8.32% which are the effective interest rates of the specific borrowings.

#### CHC's Subsidiaries

**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, 2015 and 2014, 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).

The OLSA is also subject to a floor cap interest rate wherein interest payment will be at the rate equal to the higher of (a) minimum interest rate of 6.25% per annum or (b) a PDST-F benchmark bid yield for six (6) year treasury securities plus 2.25% spread per annum. Through interpolation, MPC assessed that the floor cap interest rate option is not required to be separated from the debt contract since it is clearly and closely related to the economic characteristics of the related debt contract. Interest payments are computed using benchmark interest rates in 2015 and 2014, respectively.

Under the terms of the OLSA, MPC shall provide collateral security which shall consist of mortgage on MPC's land and CHC's IDPP s I and II. As at December 31, 2015 and 2014, the carrying amount of MPC's land mortgaged as collateral amounted to ₱62 million.

Outstanding balance of the loan amounted to ₱697 million and ₱846 million as at December 31, 2015 and 2014, 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 ₱45 million (US\$0.95 million) and ₱101 million (US\$2.3 million) as at December 31, 2015 and 2014, 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 ₱23 million (US\$0.49 million) and ₱52 million (US\$1.2 million) as at December 31, 2015 and 2014, respectively.

*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 was subject to an annual interest rate equal to LIBOR plus 2% and was subject to quarterly repricing. These were payable on a quarterly basis up to August 14, 2015. Outstanding balance of this loan amounting to ₱19 million (US\$0.4 million) as at December 31, 2014 was fully paid in 2015.

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 was payable on a semi-annual basis up to August 14, 2015. Outstanding balance of this loan amounting to ₱204 million (US\$4.6 million) as at December 31, 2014 was fully paid in 2015.

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, 2015, SPPC is in compliance with the loan covenants. As at December 31, 2014, 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 is 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 and thus was not recognized as at December 31, 2015 and 2014.

#### ALC and MADE

ALC and MADE had restructured loans totaling ₱107 million as at December 31, 2014 which were fully paid in 2015. These loans were subject to annual interest rate of 5%. The loans were collateralized by mortgage trust indenture and real estate mortgage on ALC's land and buildings and improvements as at December 31, 2014.



## 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:

|                                                  | 2015        | 2014         |
|--------------------------------------------------|-------------|--------------|
| Balances at beginning of year                    | ₱67,169,574 | ₱78,801,367  |
| Effects of changes in estimate and discount rate | (1,131,762) | (18,964,355) |
| Accretion (see Note 26)                          | 3,342,840   | 7,332,562    |
| Balances at end of year                          | ₱69,380,652 | ₱67,169,574  |

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 Group 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 ₱1 million and ₱19 million in 2015 and 2014, respectively.

## 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) entities 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<br>Related Parties<br>(see Note 8) | Terms                        | Conditions                    |
|------------------------------------------|------|---------------|---------------------------------------------|------------------------------|-------------------------------|
| Major stockholders                       | 2015 | ₱348,602,599  | ₱775,568,499                                | 30 days, noninterest-bearing | Partly secured, no impairment |
|                                          | 2014 | 179,218,128   | 2,626,965,900                               |                              |                               |
|                                          | 2013 | 1,337,417,112 | 2,899,051,932                               |                              |                               |
| Subsidiaries of<br>major<br>stockholders | 2015 | 37,032,581    | 12,621,851                                  | 30 days, noninterest-bearing | Unsecured, no impairment      |
|                                          | 2014 | 59,739,376    | 49,654,432                                  |                              |                               |
|                                          | 2013 | 18,186,855    | 42,945,048                                  |                              |                               |
| Affiliates                               | 2015 | 189,130,974   | 78,939,230                                  | 30 days, noninterest-bearing | Unsecured, no impairment      |
|                                          | 2014 | 29,869,688    | 268,070,204                                 |                              |                               |
|                                          | 2013 | 91,621,071    | 266,017,408                                 |                              |                               |
| Total                                    | 2015 | ₱574,766,154  | ₱867,129,580                                |                              |                               |
|                                          | 2014 | 268,827,192   | 2,944,690,536                               |                              |                               |
|                                          | 2013 | 1,447,225,038 | 3,208,014,388                               |                              |                               |

- a. The outstanding advances to major stockholders include accommodated loans entered into by the Group in favor of the stockholders, which amounted to ₱54 million as at December 31, 2014 (nil as at December 31, 2015).
- b. 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.
- c. On December 16, 2015, the Parent Company subscribed to 22 million redeemable preferred shares of Alsons Development and Investment Corporation (Aldevinco), a shareholder, through conversion of its advances to Aldevinco amounting to ₱2.2 billion. The redeemable preferred shares have a par value ₱100 per share with cumulative dividend of 4% per annum and non-participating. The Parent Company accounts for this investment in redeemable preferred shares as part of AFS financial assets (see Note 13).
- d. Compensation of key management personnel are as follows:

|                           | 2015        | 2014        | 2013        |
|---------------------------|-------------|-------------|-------------|
| Salaries and wages        | ₱41,683,566 | ₱38,398,515 | ₱46,225,562 |
| Retirement benefits costs | 2,595,002   | 3,510,296   | 1,478,007   |
|                           | ₱44,278,568 | ₱41,908,811 | ₱47,703,569 |

## 21. Equity

### Capital Stock

|                                   | 2015           |                 | 2014           |                 |
|-----------------------------------|----------------|-----------------|----------------|-----------------|
|                                   | No. of shares  | Amount          | No. of shares  | Amount          |
| <b>Authorized</b>                 |                |                 |                |                 |
| 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 |
| <b>Common Shares</b>              |                |                 |                |                 |
| Issued and outstanding            | 6,291,500,000  | ₱6,291,500,000  | 6,291,500,000  | ₱6,291,500,000  |
| <b>Preferred Shares</b>           |                |                 |                |                 |
| Subscribed                        | 5,500,000,000  | 55,000,000      | 5,500,000,000  | 55,000,000      |
| Subscriptions receivable          |                | (28,416,667)    |                | (32,816,667)    |
|                                   |                | ₱6,318,083,333  |                | ₱6,313,683,333  |

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 to 5,500,000,000 preferred shares with par value of ₱0.01 per share, from the unissued authorized preferred shares of the Company. On the same date, Alcorp paid ₱13.8 million representing 25% of the subscription price of ₱55.0 million. As at December 31, 2015 and 2014, subscriptions receivable from Alcorp amounted to ₱28.4 million and ₱32.8 million, net of the 8% dividends declared for preferred shares in 2015 and 2014, 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, 2015 and 2014, the Parent Company has 466 and 470 stockholders, respectively.

#### Retained Earnings

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

| Project Name | Nature/Project Description                                                                                        | Amount (In millions) | Timeline (Year) |
|--------------|-------------------------------------------------------------------------------------------------------------------|----------------------|-----------------|
| SM200 1 & 2  | Phase 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                 |                 |

\* The ₱200 million previously appropriated for IDPP 1 & 2 in 2012 has been reallocated to SM200 Phase 2 which is expected to be completed in 2018.

On March 28, 2014, the BOD approved an additional appropriation of ₱850 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<br>(In millions) | Timeline<br>(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                    |                    |

*\*As discussed above, completion of Phase 2 has been extended to 2018.*

On December 8, 2015, the BOD approved the reversal of appropriation relating to Phase 1 of the Sarangani project amounting to ₱400 million.

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

The Parent Company declared the following cash dividends:

| Year | Date of Declaration | Amount      | Per Share | Date of Record | Date of Payment |
|------|---------------------|-------------|-----------|----------------|-----------------|
| 2015 | March 27, 2015      | ₱3,145,750  | ₱0.0005   | June 5, 2015   | March 22, 2016  |
| 2015 | May 22, 2015        | 62,915,000  | 0.01      | June 5, 2015   | June 16, 2015   |
| 2014 | May 23, 2014        | 101,000,000 | 0.016     | June 30, 2014  | July 24, 2014   |
| 2013 | March 21, 2013      | 101,000,000 | 0.016     | May 23, 2013   | June 14, 2013   |

Dividends on preferred shares amounting to ₱4 million in 2015, 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 ₱390 million, ₱382 million and ₱595 million in 2015, 2014 and 2013, respectively.

The retained earnings is further restricted for dividend declaration to the extent of the undistributed earnings of subsidiaries amounting to ₱520 million as at December 31, 2015 (nil as at December 31, 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         |
|                                                                                   | <u>₱454,321,769</u> |

As at December 31, 2015 and 2014, other equity reserves consist of the following:

| 2015                                           |                                             |                                                   |                                     |                                                           |                       |
|------------------------------------------------|---------------------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------|
|                                                | Remeasurement Gains 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                  | ₱5,487,847                                  | (₱58,243,535)                                     | ₱1,520,279,471                      | ₱145,480,697                                              | ₱1,613,004,480        |
| Actuarial gains, net of tax                    | 265,176                                     | –                                                 | –                                   | –                                                         | 265,176               |
| Gain on fair valuation of AFS financial assets | –                                           | 7,263,540                                         | –                                   | –                                                         | 7,263,540             |
| Translation adjustments                        | –                                           | –                                                 | 147,110,294                         | –                                                         | 147,110,294           |
| Balances at end of year                        | <u>₱5,753,023</u>                           | <u>(₱50,979,995)</u>                              | <u>₱1,667,389,765</u>               | <u>₱145,480,697</u>                                       | <u>₱1,767,643,490</u> |

| 2014                                           |                                             |                                                   |                                     |                                                           |                       |
|------------------------------------------------|---------------------------------------------|---------------------------------------------------|-------------------------------------|-----------------------------------------------------------|-----------------------|
|                                                | Remeasurement Gains 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 | –                                           | (86,998,124)                                      | –                                   | –                                                         | (86,998,124)          |
| Translation adjustments                        | –                                           | –                                                 | (54,755,323)                        | –                                                         | (54,755,323)          |
| Balances at end of year                        | <u>₱5,487,847</u>                           | <u>(₱58,243,535)</u>                              | <u>₱1,520,279,471</u>               | <u>₱145,480,697</u>                                       | <u>₱1,613,004,480</u> |

#### Earnings Per Share (EPS) Attributable to Equity Holders of the Parent

|                                                                            | 2015          | 2014          | 2013          |
|----------------------------------------------------------------------------|---------------|---------------|---------------|
| Net income attributable to equity holders of the parent                    | ₱188,141,930  | ₱359,040,865  | ₱395,274,191  |
| 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                                                          | <u>₱0.030</u> | <u>₱0.057</u> | <u>₱0.063</u> |

## 22. Cost of Services

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

|                                                        | 2015           | 2014           | 2013           |
|--------------------------------------------------------|----------------|----------------|----------------|
| Fuel, oil and lubricants                               | ₱2,516,058,181 | ₱2,510,512,188 | ₱1,175,951,709 |
| Depletion, depreciation and amortization (see Note 25) | 316,557,938    | 779,980,202    | 657,826,244    |
| Insurance expense                                      | 78,286,254     | 76,337,222     | 62,985,643     |
| Personnel costs (see Notes 24 and 28)                  | 67,799,232     | 66,996,869     | 55,142,427     |
| (Forward)                                              |                |                |                |

|                                   | 2015                  | 2014                  | 2013                  |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| Repairs and maintenance           | ₱32,693,779           | ₱48,536,775           | ₱16,219,386           |
| Contracted services (see Note 34) | 3,138,008             | 2,901,365             | 2,759,941             |
| Property administration           | 1,177,287             | 1,992,553             | 1,947,062             |
| Others                            | 50,171,585            | 49,676,200            | 5,644,624             |
|                                   | <b>₱3,065,882,264</b> | <b>₱3,536,933,374</b> | <b>₱1,978,477,036</b> |

### 23. General and Administrative Expenses

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

|                                                | 2015                | 2014                | 2013                |
|------------------------------------------------|---------------------|---------------------|---------------------|
| Personnel costs (see Notes 24 and 28)          | ₱126,057,967        | ₱130,983,353        | ₱121,986,495        |
| Taxes and licenses                             | 67,332,201          | 112,095,106         | 29,585,818          |
| Outside services                               | 53,346,521          | 49,375,668          | 55,575,128          |
| Utilities                                      | 43,411,504          | 15,851,149          | 58,529,586          |
| Depreciation and amortization<br>(see Note 25) | 32,396,706          | 34,395,784          | 22,802,261          |
| Supplies                                       | 23,342,131          | 7,348,282           | 2,313,423           |
| Transportation and travel                      | 15,099,561          | 17,386,575          | 22,013,011          |
| Customer relations                             | 11,726,457          | 19,146,369          | 11,225,289          |
| Telephone, telegraph and postage               | 9,315,951           | 8,723,736           | 5,898,156           |
| Deficiency taxes                               | 6,723,892           | 16,972,467          | —                   |
| Directors and executive fees<br>and bonuses    | 3,210,000           | 3,099,000           | 6,546,843           |
| Insurance                                      | 686,567             | 997,569             | 917,236             |
| Commissions                                    | 598,728             | 1,089,983           | 1,391,839           |
| Representation                                 | 132,518             | 599,460             | 2,813,998           |
| Gas and oil                                    | —                   | 486,958             | 245,714             |
| Others                                         | 40,734,263          | 48,760,795          | 21,030,449          |
|                                                | <b>₱434,114,967</b> | <b>₱467,312,254</b> | <b>₱362,875,246</b> |

### 24. Personnel Costs

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

|                                                      | 2015                | 2014                | 2013                |
|------------------------------------------------------|---------------------|---------------------|---------------------|
| Cost of services (see Note 22)                       | ₱67,799,232         | ₱66,996,869         | ₱55,142,427         |
| General and administrative<br>expenses (see Note 23) | 126,057,967         | 130,983,353         | 121,986,495         |
|                                                      | <b>₱193,857,199</b> | <b>₱197,980,222</b> | <b>₱177,128,922</b> |

|                                            | 2015                | 2014                | 2013                |
|--------------------------------------------|---------------------|---------------------|---------------------|
| Salaries, wages and bonuses                | ₱155,924,100        | ₱156,990,170        | ₱136,987,000        |
| Retirement benefits costs<br>(see Note 28) | 14,173,767          | 8,918,489           | 12,370,178          |
| Other employee benefits                    | 23,759,332          | 32,071,563          | 27,771,744          |
|                                            | <b>₱193,857,199</b> | <b>₱197,980,222</b> | <b>₱177,128,922</b> |



## 25. Depreciation and Amortization

|                                                   | 2015                | 2014                | 2013                |
|---------------------------------------------------|---------------------|---------------------|---------------------|
| Cost of services (see Note 22)                    | ₱316,557,938        | ₱779,980,202        | ₱657,826,244        |
| General and administrative expenses (see Note 23) | 32,396,706          | 34,395,784          | 22,802,261          |
| Discontinued operations (see Note 30)             | —                   | —                   | 25,502,780          |
|                                                   | <b>₱348,954,644</b> | <b>₱814,375,986</b> | <b>₱706,131,285</b> |
| Property, plant and equipment (see Note 12)       | ₱336,282,492        | ₱806,626,460        | ₱699,085,637        |
| Amortization of software costs (see Note 15)      | 12,175,755          | 7,233,035           | 3,642,114           |
| Investments in real estate (see Note 10)          | 496,397             | 516,491             | 3,403,534           |
|                                                   | <b>₱348,954,644</b> | <b>₱814,375,986</b> | <b>₱706,131,285</b> |

## 26. Finance Charges

|                                                                                                  | 2015                | 2014                | 2013                |
|--------------------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Amortization of transaction costs and loss on prepayment of long-term debt (see Notes 17 and 18) | ₱242,228,344        | ₱96,201,486         | ₱39,351,288         |
| Interest on long-term debt and loans payable (see Notes 17 and 18)                               | 78,789,004          | 103,034,700         | 74,042,967          |
| Interest on asset retirement obligation (see Note 19)                                            | 3,342,840           | 7,332,562           | 5,978,542           |
|                                                                                                  | <b>₱324,360,188</b> | <b>₱206,568,748</b> | <b>₱119,372,797</b> |

## 27. Other Income (Charges)

|                                                                             | 2015            | 2014           | 2013          |
|-----------------------------------------------------------------------------|-----------------|----------------|---------------|
| Foreign exchange loss - net                                                 | (₱218,312,160)✓ | (₱14,043,712)✓ | (₱46,485,190) |
| Input VAT income                                                            | 104,235,222✓    | 98,505,580✓    | 92,511,632    |
| Gain (loss) on sale of property and equipment and investment in real estate | (35,649,469)    | 360,839        | 356,577       |
| Mark-to-market gain (loss) on derivative liability (see Note 33)            | 27,595,736✓     | 10,328,044✓    | (16,377,924)  |
| Remeasurement gains on compensated absences (see Note 28)                   | 11,117,516      | —              | —             |

(Forward)

|                                                                                    | 2015          | 2014         | 2013          |
|------------------------------------------------------------------------------------|---------------|--------------|---------------|
| Income from decrease in asset retirement obligation (see Note 12)                  | ₱5,933,564    | ₱11,315,962  | ₱—            |
| Recovery of impairment losses on real estate inventories due to sale (see Note 10) | 1,112,121     | 3,946,795    | 4,140,694     |
| Equity in net losses of an associate (see Note 11)                                 | —             | (1,279,357)  | (100,920,763) |
| Others                                                                             | 20,109,595    | 168,412      | 17,793,025    |
|                                                                                    | (₱83,857,875) | ₱109,302,563 | (₱48,981,949) |

Others pertain significantly to sales of sludge and reversal of provisions.

## 28. Employee Benefits

### a. Retirement Benefits

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, 2015.

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 next tables summarize the movements in net retirement assets of SPPC, WMPC and APMC.

As at December 31, 2015:

|                                                                   | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|-------------------------------------------------------------------|---------------------------------------------|---------------------------|------------------------------------|-----------------------|
| At January 1, 2015                                                | ₱92,125,794                                 | ₱168,233,331              | (₱30,906,976)                      | ₱45,200,561           |
| Retirement benefits cost recognized in profit or loss:            |                                             |                           |                                    |                       |
| Loss on settlement                                                | 10,024,515                                  | —                         | —                                  | (10,024,515)          |
| Current service cost                                              | 7,621,887                                   | —                         | —                                  | (7,621,887)           |
| Net interest income                                               | 3,837,652                                   | 6,415,682                 | —                                  | 2,578,030             |
|                                                                   | 21,484,054                                  | 6,415,682                 | —                                  | (15,068,372)          |
| Remeasurements gains (losses) recognized in OCI:                  |                                             |                           |                                    |                       |
| Return on plan assets (excluding amount included in net interest) | —                                           | (2,402,581)               | —                                  | (2,402,581)           |
| Arising from changes in financial assumptions                     | (3,442,212)                                 | —                         | —                                  | 3,442,212             |
| Due to experience adjustments                                     | 20,223,340                                  | —                         | —                                  | (20,223,340)          |
| Due to changes in demographic assumptions                         | 1,687,413                                   | —                         | —                                  | (1,687,413)           |
| Changes in the effect of asset ceiling                            | —                                           | —                         | 16,026,965                         | 16,026,965            |
|                                                                   | 18,468,541                                  | (2,402,581)               | 16,026,965                         | (4,844,157)           |
| Benefits paid and translation adjustments                         | (39,003,283)                                | (39,003,283)              | 3,458,240                          | 3,458,240             |
| At December 31, 2015                                              | ₱93,075,106                                 | ₱133,243,149              | (₱11,421,771)                      | ₱28,746,272           |



As at December 31, 2014:

|                                                                   | Present Value<br>of Defined<br>Benefit<br>Obligation | Fair Value<br>of Plan Assets | Effect of<br>Changes in Asset<br>Ceiling | Net Retirement<br>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)              |
| 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 adjustments                                     | (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              |

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:

|                                                  | 2015         | 2014         |
|--------------------------------------------------|--------------|--------------|
| Cash and cash equivalents                        | ₱10,754,339  | ₱14,213,134  |
| Investments in unit investment trust fund (UITF) | 14,185,484   | 16,904,831   |
| Investments in debt and other securities         | 82,354,906   | 28,720,526   |
| Investments in government securities             | 23,524,023   | 107,131,500  |
| Investments in shares of stock                   | 1,199,983    | —            |
| Others                                           | 1,224,414    | 1,263,340    |
|                                                  | ₱133,243,149 | ₱168,233,331 |

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 2015 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 2015 to 2037; and
- Other financial assets held by the Retirement Funds consists primarily interest and dividends receivable.

Actual return on plan assets amounted to ₱4 million in 2015, ₱2 million in 2014 and ₱7 million in 2013.

APMC, SPPC and WMPC do not expect to contribute to the defined benefit pension plans in 2016.

ACR and ALC

The following tables summarize the movements in retirement benefits liabilities of the Parent Company and ALC:

|                                                              | 2015         | 2014         |
|--------------------------------------------------------------|--------------|--------------|
| Balances at beginning of year                                | (₹7,472,680) | (₹9,488,962) |
| Retirement benefits income (cost) charged in profit or loss: |              |              |
| Past service cost                                            | 1,713,503    | —            |
| Current service cost                                         | (515,907)    | (1,421,890)  |
| Interest cost                                                | (302,991)    | (491,309)    |
|                                                              | 894,605      | (1,913,199)  |
| Remeasurements gains (losses) recognized in OCI:             |              |              |
| Arising from changes in demographic assumptions              | (8,704,942)  | 3,781,517    |
| Arising from changes in financial assumptions                | 8,794,406    | 147,964      |
|                                                              | 89,464       | 3,929,481    |
| Balances at end of year                                      | (₹6,488,611) | (₹7,472,680) |

Actuarial Assumptions

The principal assumptions used in determining retirement benefits obligation as of December 31 are as follows:

SPPC, WMPC and APMC

|                         | 2015        | 2014        |
|-------------------------|-------------|-------------|
| Discount rates          | 3.74%-4.67% | 3.74%-4.62% |
| Future salary increases | 1.60%       | 1.60%       |

ACR and ALC

|                         | 2015        | 2014        |
|-------------------------|-------------|-------------|
| Discount rates          | 5.52%-5.88% | 5.52%-5.60% |
| Future salary increases | 7%-12%      | 10%-12%     |

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, assuming all other assumptions were held constant:

As at December 31, 2015:

|                       | SPPC, WMPC and APMC    |              | ACR and ALC            |              |
|-----------------------|------------------------|--------------|------------------------|--------------|
|                       | Increase<br>(Decrease) | Amount       | Increase<br>(Decrease) | Amount       |
| Discount rates        | +0.5%                  | (₹2,623,736) | +1.0%                  | (₹1,012,061) |
|                       | -0.5%                  | 2,906,520    | -1.0%                  | 1,249,218    |
| Salary increase rates | +1.0%                  | 6,057,846    | +1.0%                  | 1,149,096    |
|                       | -1.0%                  | (5,034,526)  | -1.0%                  | (760,414)    |

As at December 31, 2014:

|                       | SPPC, WMPC and APMC    |              | ACR and ALC            |              |
|-----------------------|------------------------|--------------|------------------------|--------------|
|                       | Increase<br>(Decrease) | Amount       | Increase<br>(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)  |

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

|                                | 2015        | 2014        |
|--------------------------------|-------------|-------------|
| Less than 1 year               | ₱59,656,409 | ₱35,110,656 |
| More than 1 year to 5 years    | 12,666,252  | 6,047,003   |
| More than 5 years to 10 years  | 18,780,853  | 44,736,457  |
| More than 10 years to 15 years | 51,424,297  | 25,320,196  |
| More than 15 years to 20 years | 55,992,223  | 76,351,932  |
| More than 20 years             | 103,234,204 | 230,223,882 |

b. Compensated Absences

All regular employees of CHC and its subsidiaries who have completed 12 months of continuous service are entitled to leave credits. Leave credits granted to each employee vary based on the employee's tenure and can be accumulated up to 60 days. Cost for vested leave credits are dependent on the mortality rate, disability rate, employee turnover rate, salary increase rate, discount rate, utilization rate and respective employee's compensation and leave credits.

Movements in the accrued leave credits (recognized under "Accrued expenses" account in trade and payables) are as follows:

|                                                                  | 2015         | 2014        |
|------------------------------------------------------------------|--------------|-------------|
| Balance at beginning of year                                     | ₱31,620,305  | ₱25,856,492 |
| Current service cost                                             | 2,204,339    | 5,533,964   |
| Benefits paid                                                    | (11,294,556) | —           |
| Remeasurement gain recognized in profit or loss<br>(see Note 27) | (11,117,516) | —           |
| Translation adjustments                                          | 447,019      | 229,849     |
| Balances at end of year                                          | ₱11,859,591  | ₱31,620,305 |

29. Income Taxes

The major components of income tax expense are as follows:

Consolidated statements of income:

|                        | 2015         | 2014         | 2013         |
|------------------------|--------------|--------------|--------------|
| Continuing operations: |              |              |              |
| Current income tax     | ₱272,708,907 | ₱345,191,757 | ₱294,235,703 |
| Deferred income tax    | 167,719,203  | 17,052,091   | (24,011,649) |
|                        | 440,428,110  | 362,243,848  | 270,224,054  |

(Forward)

|                                        | 2015         | 2014         | 2013         |
|----------------------------------------|--------------|--------------|--------------|
| Discontinued operations (see Note 30): |              |              |              |
| Current income tax                     | P—           | P—           | P10,849,428  |
| Deferred income tax                    | —            | —            | (679,508)    |
|                                        | —            | —            | 10,169,920   |
| Total                                  | P440,428,110 | P362,243,848 | P280,393,974 |

Consolidated statements of comprehensive income:

|                                                                                                                 | 2015       | 2014       | 2013       |
|-----------------------------------------------------------------------------------------------------------------|------------|------------|------------|
| Deferred tax related to items charged or credited directly to equity during the year - actuarial losses (gains) | P2,373,179 | (P448,297) | P1,380,343 |

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

|                                                                                                                                                                              | 2015   | 2014  | 2013  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|-------|-------|
| Statutory income tax rate                                                                                                                                                    | 30.0%  | 30.0% | 30.0% |
| Increase (decrease) in income tax rate resulting from:                                                                                                                       |        |       |       |
| Unrecognized deferred tax assets                                                                                                                                             | 10.5%  | 0.9%  | 0.5%  |
| 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 | (1.6%) | 2.3%  | 0.7%  |
| Write-off of NOLCO and MCIT                                                                                                                                                  | —      | —     | 1.0%  |
| Effective income tax rate                                                                                                                                                    | 38.9%  | 33.2% | 32.2% |

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

|                                                                     | 2015           | 2014           |
|---------------------------------------------------------------------|----------------|----------------|
| <b>Deferred Income Tax Assets</b>                                   |                |                |
| Translation of nonmonetary assets                                   | P14,330,947    | P—             |
| Impairment losses on deferred projects costs                        | 5,872,664      | 4,137,271      |
| NOLCO                                                               | 3,903,890      | 1,629,572      |
| Accrued vacation and sick leaves                                    | 2,934,473      | 5,872,228      |
| Difference between financial and tax depreciation                   | 2,141,230      | 23,170,817     |
| Unamortized past service cost                                       | 1,841,458      | 2,317,525      |
| Retirement plan assets                                              | 1,471,566      | —              |
| Unrealized foreign exchange losses                                  | 728,887        | 635,049        |
| Excess MCIT over RCIT                                               | 324,996        | 117,748        |
| Payable to customers                                                | 100,944        | 18,411,090     |
| Allowance for doubtful accounts                                     | —              | 1,518,870      |
|                                                                     | P33,651,055    | P57,810,170    |
| <b>Deferred Income Tax Liabilities</b>                              |                |                |
| Fair value adjustment on real estate inventories, net of impairment | (P167,050,371) | (P166,716,734) |
| Capitalized interest                                                | (245,140,005)  | (148,677,237)  |
| Retirement plan assets                                              | (63,835,196)   | (3,521,431)    |
| Difference between financial and tax depreciation                   | (55,449,527)   | —              |

(Forward)



|                                                                        | 2015                  | 2014                  |
|------------------------------------------------------------------------|-----------------------|-----------------------|
| Difference between tax and financial amortization of transaction costs | (P45,900,110)         | (P41,626,855)         |
| Equity in undistributed net earnings of a foreign subsidiary           | (29,517,020)          | (37,320,808)          |
| Unrealized foreign exchange gains                                      | (7,148,991)           | (1,398,046)           |
| Actuarial gains recognized in equity                                   | (2,913,595)           | —                     |
| Translation of nonmonetary assets                                      | —                     | (35,478,120)          |
| Unamortized capitalized major repairs and maintenance costs            | —                     | (22,347,165)          |
| Accrued retirement costs                                               | —                     | (1,961,240)           |
|                                                                        | <b>(P616,954,815)</b> | <b>(P459,047,636)</b> |

The net deferred income tax assets and liabilities as reflected in the consolidated balance sheets are as follows:

|                                     | 2015                  | 2014           |
|-------------------------------------|-----------------------|----------------|
| Net deferred income tax assets      | <b>P13,690,764</b>    | P30,268,777    |
| Net deferred income tax liabilities | <b>(P596,994,524)</b> | (P431,506,243) |

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 below:

|                                                    | 2015                  | 2014         |
|----------------------------------------------------|-----------------------|--------------|
| NOLCO                                              | <b>P1,528,094,586</b> | P660,244,793 |
| Impairment losses on property, plant and equipment | 149,244,117           | 149,244,117  |
| Allowance for doubtful accounts                    | 44,893,549            | 33,163,091   |
| Excess of MCIT over RCIT                           | 2,516,646             | 7,869,406    |
| Unrealized foreign exchange losses                 | 20,496                | 15,795,997   |
| Others                                             | 16,926,829            | 11,825,436   |

Movements of NOLCO and MCIT follow:

|                               | 2015                  |                   | 2014         |             |
|-------------------------------|-----------------------|-------------------|--------------|-------------|
|                               | NOLCO                 | MCIT              | NOLCO        | MCIT        |
| Balances at beginning of year | P665,676,700          | P7,987,154        | P131,032,885 | P9,035,694  |
| Additions                     | 944,202,195           | 308,076           | 567,449,062  | 26,533      |
| Utilization and expiration    | (68,771,343)          | (5,453,588)       | (32,805,247) | (1,075,073) |
| Balances at end of year       | <b>P1,541,107,552</b> | <b>P2,841,642</b> | P665,676,700 | P7,987,154  |

As at December 31, 2015, NOLCO and MCIT that can be claimed as deduction from RCIT due are as follows:

| Years Incurred    | Expiry Dates      | NOLCO                 | MCIT              |
|-------------------|-------------------|-----------------------|-------------------|
| December 31, 2013 | December 31, 2016 | P29,456,295           | P2,507,033        |
| December 31, 2014 | December 31, 2017 | 567,449,062           | 26,533            |
| December 31, 2015 | December 31, 2018 | 944,202,195           | 308,076           |
|                   |                   | <b>P1,541,107,552</b> | <b>P2,841,642</b> |

### 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 year ended December 31, 2013 are as follows:

|                                                                                                                      |               |
|----------------------------------------------------------------------------------------------------------------------|---------------|
| <b>SALES OF SERVICES:</b>                                                                                            |               |
| Power sales and service income                                                                                       | ₱691,612,638  |
| Management fees                                                                                                      | 36,648,872    |
| Rental income and others                                                                                             | 6,908,858     |
|                                                                                                                      | 735,170,368   |
| <b>REAL ESTATES SALES</b>                                                                                            | 15,551,757    |
| <b>TOTAL REVENUE</b>                                                                                                 | 750,722,125   |
| <b>COSTS AND EXPENSES</b>                                                                                            |               |
| Cost of services                                                                                                     | (582,120,298) |
| Cost of real estate sold                                                                                             | (7,525,331)   |
| General and administrative expenses                                                                                  | (37,269,816)  |
| <b>OTHER INCOME (CHARGES)</b>                                                                                        |               |
| Finance charges                                                                                                      | (2,532,048)   |
| Interest income                                                                                                      | 1,854,986     |
| Other income - net                                                                                                   | 83,335,910    |
|                                                                                                                      | (544,256,597) |
| <b>INCOME BEFORE INCOME TAX</b>                                                                                      | 206,465,528   |
| <b>PROVISION FOR INCOME TAX (see Note 29)</b>                                                                        |               |
| Current                                                                                                              | 10,849,428    |
| Deferred                                                                                                             | (679,508)     |
|                                                                                                                      | 10,169,920    |
| <b>NET INCOME FROM DISCONTINUED OPERATIONS</b>                                                                       | 196,295,608   |
| <b>OTHER COMPREHENSIVE LOSS</b>                                                                                      |               |
| Item that will not be reclassified subsequently to profit or loss - remeasurement loss on defined benefit obligation | (5,541,956)   |
| <b>TOTAL COMPREHENSIVE INCOME</b>                                                                                    | ₱190,753,652  |
| Income from discontinued operations attributable to:                                                                 |               |
| Equity holders of the parent                                                                                         | ₱146,348,389  |
| Non-controlling interests                                                                                            | 49,947,219    |
|                                                                                                                      | ₱196,295,608  |

(Forward)

|                                             |                     |
|---------------------------------------------|---------------------|
| Total comprehensive income attributable to: |                     |
| Equity holders of the parent                | P143,027,095        |
| Non-controlling interests                   | 47,726,557          |
|                                             | <u>P190,753,652</u> |

The net cash flows of LLI and subsidiaries for the year ended December 31, 2013 are as follows:

|                                                 |                    |
|-------------------------------------------------|--------------------|
| Net cash flows from operating activities        | P359,431,067       |
| Net cash flows provided by investing activities | (57,036,229)       |
| Net cash flows used in financing activities     | (218,061,078)      |
|                                                 | <u>P84,333,760</u> |

Cost of services for the year ended December 31, 2013 consists of the following:

|                                                    |                     |
|----------------------------------------------------|---------------------|
| Purchased power and utilities                      | P514,105,215        |
| Depletion, depreciation and amortization (Note 25) | 22,394,994          |
| Personnel costs                                    | 11,796,250          |
| Taxes and licenses                                 | 10,835,099          |
| Repairs and maintenance                            | 4,228,571           |
| Utilities                                          | 545,046             |
| Representation                                     | 518,625             |
| Contracted services                                | 176,120             |
| Property administration                            | 173,250             |
| Others                                             | 17,347,128          |
|                                                    | <u>P582,120,298</u> |

General and administrative expenses for the year ended December 31, 2013 consist of the following:

|                                         |                    |
|-----------------------------------------|--------------------|
| Personnel costs                         | P14,949,525        |
| Rent and utilities                      | 11,617,966         |
| Outside services                        | 3,430,976          |
| Depreciation and amortization (Note 25) | 3,107,786          |
| Transportation and travel               | 1,306,045          |
| Representation                          | 1,127,551          |
| Taxes and licenses                      | 890,865            |
| Supplies                                | 433,185            |
| Commissions                             | 320,370            |
| Insurance                               | 45,547             |
| Others                                  | 40,000             |
|                                         | <u>P37,269,816</u> |

Earnings Per Share Attributable to Equity Holders of the Parent Company from Discontinued Operations for the Year ended December 31, 2013

|                                                                            |               |
|----------------------------------------------------------------------------|---------------|
| Net income from discontinued operations                                    | P146,348,389  |
| Divided by the average number of common shares outstanding during the year | 6,291,500,000 |
| Basic/Diluted EPS                                                          | P0.023        |



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### 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, 2015 and 2014, the future minimum rental payable under an operating lease contract follows:

|                                             | 2015       | 2014       |
|---------------------------------------------|------------|------------|
| Within one year                             | ₱1,277,689 | ₱1,276,035 |
| After one year but not more than five years | 2,683,135  | 2,679,691  |
|                                             | ₱3,960,824 | ₱3,955,726 |

Rent expense under this lease contract amounted to ₱1 million each year.

#### Operating Lease Receipts

The Group entered into various operating lease contracts with various third-party lessees. The lease term is one year renewable annually. Total rental income from these lease agreements amounted to ₱11 million in 2015, ₱9 million in 2014 and ₱10 million in 2013.

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### 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, 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, 2015 and 2014, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

|                              | 2015                  | 2014                  |
|------------------------------|-----------------------|-----------------------|
| <b>Loans and receivables</b> |                       |                       |
| Cash and cash equivalents*   | ₱3,939,408,989        | ₱2,512,323,875        |
| Short-term cash investments  | 172,944,935           | 34,444,998            |
| Trade and other receivables  |                       |                       |
| Trade receivables            |                       |                       |
| Power                        | 652,411,729           | 731,962,604           |
| Real estate**                | 81,473,769            | 80,042,969            |
| Due from related parties     | 867,129,580           | 2,944,690,536         |
| Other receivables***         | 166,341,860           | 243,302,104           |
|                              | <b>₱5,879,710,862</b> | <b>₱6,546,767,086</b> |

\*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:

|                                 | 2015                                |                           |                       |                       |                    |                       |
|---------------------------------|-------------------------------------|---------------------------|-----------------------|-----------------------|--------------------|-----------------------|
|                                 | Neither Past<br>Due nor<br>Impaired | Past Due but not Impaired |                       |                       | Impaired           | Total                 |
|                                 |                                     | 1-6 Months                | Over<br>6 Months      | Subtotal              |                    |                       |
| Cash and cash equivalents*      | ₱3,939,408,989                      | ₱-                        | ₱-                    | ₱-                    | ₱-                 | ₱3,939,408,989        |
| Short-term cash investments     | 172,944,935                         | -                         | -                     | -                     | -                  | 172,944,935           |
| Trade and other receivables:    |                                     |                           |                       |                       |                    |                       |
| Trade receivables               |                                     |                           |                       |                       |                    |                       |
| Power                           | 588,491,254                         | 1,462,954                 | 62,457,521            | 63,920,475            | 30,433,725         | 682,845,454           |
| Real estate**                   | 13,639,738                          | 588,124                   | 67,245,907            | 67,834,031            | 11,561,222         | 93,034,991            |
| Product distribution and others | -                                   | -                         | -                     | -                     | 31,730,458         | 31,730,458            |
| Due from related parties        | 84,506,333                          | 802,296                   | 781,820,951           | 782,623,247           | -                  | 867,129,580           |
| Others***                       | 73,646,043                          | 2,275,506                 | 90,420,311            | 92,695,817            | 6,676,514          | 173,018,374           |
|                                 | <b>₱4,872,637,292</b>               | <b>₱5,128,880</b>         | <b>₱1,001,944,690</b> | <b>₱1,007,073,570</b> | <b>₱80,401,919</b> | <b>₱5,960,112,781</b> |

\* Excludes cash on hand

\*\* Includes noncurrent portion of installment receivables

\*\*\* Excludes advances to suppliers and contractors

|                                 | 2014                                |                           |                       |                       |                    |                       |
|---------------------------------|-------------------------------------|---------------------------|-----------------------|-----------------------|--------------------|-----------------------|
|                                 | Neither Past<br>Due nor<br>Impaired | Past Due but not Impaired |                       |                       | Impaired           | Total                 |
|                                 |                                     | 1-6 Months                | Over<br>6 Months      | Subtotal              |                    |                       |
| 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           |
|                                 | <b>₱3,629,910,132</b>               | <b>₱117,176,895</b>       | <b>₱2,799,680,059</b> | <b>₱2,916,856,954</b> | <b>₱80,483,915</b> | <b>₱6,627,251,001</b> |

\* 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.

| 2015                         |                |             |             |                |
|------------------------------|----------------|-------------|-------------|----------------|
|                              | Grade A        | Grade B     | Grade C     | Total          |
| Cash and cash equivalents    | ₱3,939,408,989 | ₱—          | ₱—          | ₱3,939,408,989 |
| Short-term cash investments  | 172,944,935    | —           | —           | 172,944,935    |
| Trade and other receivables: |                |             |             |                |
| Trade:                       |                |             |             |                |
| Power                        | 588,491,254    | —           | —           | 588,491,254    |
| Real estate*                 | 13,639,738     | —           | —           | 13,639,738     |
| Due from related parties     | —              | 15,814,962  | 68,691,371  | 84,506,333     |
| Other receivables            | 606,499        | 73,039,544  | —           | 73,646,043     |
|                              | ₱4,715,091,415 | ₱88,854,506 | ₱68,691,371 | ₱4,872,637,292 |

\*Includes noncurrent portion of installment receivables

| 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

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 liabilities based on contractual undiscounted payments and financial assets (held for liquidity purposes):

| 2015                                            |                |              |                 |                |                 |
|-------------------------------------------------|----------------|--------------|-----------------|----------------|-----------------|
|                                                 | On Demand      | < 1 Year     | 1-3 Years       | > 3 Years      | Total           |
| Accounts payable and other current liabilities* | ₱1,050,655,661 | ₱190,048,149 | ₱—              | ₱—             | ₱1,240,703,810  |
| Loans payable**                                 | —              | 312,000,017  | —               | —              | 312,000,017     |
| Long-term debt**                                | —              | 334,435,864  | 10,219,392,386  | 7,878,100,939  | 18,431,929,189  |
|                                                 | ₱1,050,655,661 | ₱836,484,030 | ₱10,219,392,386 | ₱7,878,100,939 | ₱19,984,633,016 |

\* Excluding statutory payables and other payable to government agencies

\*\* Including interest payable computed using prevailing rate as at December 31, 2015

| 2015                         |                |              |            |                |                |
|------------------------------|----------------|--------------|------------|----------------|----------------|
|                              | On Demand      | < 1 Year     | 1-3 Years  | > 3 Years      | Total          |
| Cash and cash equivalents    | ₱3,939,847,554 | ₱-           | ₱-         | ₱-             | ₱3,939,847,554 |
| Short-term cash investments* | 172,944,935    | -            | -          | -              | 172,944,935    |
| Trade receivables            | 159,688,376    | 567,438,649  | 6,758,473  | -              | 733,885,498    |
| AFS financial assets         | 124,304,503    | -            | -          | 2,221,268,768  | 2,345,573,271  |
|                              | ₱4,396,785,368 | ₱567,438,649 | ₱6,758,473 | ₱2,221,268,768 | ₱7,192,251,258 |

\*Including interest income computed using prevailing rate as at December 31, 2015

| 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 | ₱695,771,007 | ₱7,843,712 | ₱-        | ₱3,476,133,247 |

\*Including interest income computed using prevailing rate as at December 31, 2014

### 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 47:53 and 8:92 as at December 31, 2015 and 2014, respectively.

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

| 2015                              |                                                           |                            |              |             |               |               |
|-----------------------------------|-----------------------------------------------------------|----------------------------|--------------|-------------|---------------|---------------|
|                                   | 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 | ₱68,783,649  | ₱-          | ₱-            | ₱68,783,649   |
| Peso-denominated borrowing        | PDST-F +3.50% for the first 5 years and +2.75% thereafter | Semi-annually              | -            | -           | 9,280,000,000 | 9,280,000,000 |
| 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 |

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.

|                                                    | 2015                        |                             | 2014                        |                             |
|----------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                                    | Increase<br>in Basis Points | Decrease<br>in Basis Points | Increase<br>in Basis Points | Decrease<br>in Basis Points |
| Change in basis points                             | +100                        | -100                        | +100                        | -100                        |
| Increase (decrease) in income before<br>income tax | (P93,487,836)               | P93,487,836                 | (P89,620,899)               | P89,620,899                 |

#### Equity Price Risk

Equity price risk is the risk that the fair value of quoted AFS financial assets 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 financial assets. 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 financial assets 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:

|                               | 2015                        |                             | 2014                        |                             |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                               | Increase in<br>Equity Price | Decrease in<br>Equity Price | Increase in<br>Equity Price | Decrease in<br>Equity Price |
| Change in equity price        | +1%                         | -1%                         | +1%                         | -1%                         |
| Increase (decrease) in equity | P1,751,819                  | (P1,751,819)                | P1,122,410                  | (P1,122,410)                |

#### 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 ₱47.06 to US\$1.0 and ₱44.72 to US\$1.0 for December 31, 2015 and 2014, 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.

|                                   | 2015           |                    | 2014           |                    |
|-----------------------------------|----------------|--------------------|----------------|--------------------|
|                                   | In U.S. Dollar | In Philippine Peso | In U.S. Dollar | In Philippine Peso |
| Financial assets -                |                |                    |                |                    |
| Cash and cash equivalents         | \$29,389,745   | ₱1,383,081,410     | \$41,292,890   | ₱1,846,618,041     |
| Short-term cash investments       | —              | —                  | 824,514        | 36,872,266         |
| Trade and other receivables       | 9,636,930      | 453,513,926        | 5,925,666      | 264,995,784        |
|                                   | 39,026,675     | 1,836,595,336      | 48,043,070     | 2,148,486,091      |
| Financial liabilities -           |                |                    |                |                    |
| Trade payables and long-term debt | (27,404,349)   | (1,289,648,647)    | (83,216,781)   | (3,721,454,429)    |
|                                   | \$11,622,326   | ₱546,946,689       | (\$35,173,711) | (₱1,572,968,338)   |

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 data within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented.

|                                                 | 2015            |            | 2014            |             |
|-------------------------------------------------|-----------------|------------|-----------------|-------------|
|                                                 | Philippine Peso |            | Philippine Peso |             |
|                                                 | Increase        | Decrease   | Increase        | Decrease    |
| Change in foreign exchange rate                 | +1.0            | -1.0       | +1.0            | -1.0        |
| Increase (decrease) in income before income tax | (₱5,469,467)    | ₱5,469,467 | (₱18,748,364)   | ₱18,748,364 |

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 2015 and 2014, 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, 2015 and 2014 follow:

Current Ratio

|                     | 2015           | 2014           |
|---------------------|----------------|----------------|
| Current assets      | ₱7,902,997,308 | ₱7,813,694,120 |
| Current liabilities | 2,025,155,511  | 2,462,510,323  |
|                     | 3.9:1          | 3.2:1          |

Debt-to-Equity Ratio

|                                                     | 2015            | 2014            |
|-----------------------------------------------------|-----------------|-----------------|
| Long-term debt                                      | ₱17,180,009,189 | ₱12,938,691,818 |
| Loans payable                                       | 300,000,017     | 259,999,978     |
| Total debt                                          | 17,480,009,206  | 13,198,691,796  |
| Equity attributable to equity holders of the parent | 10,183,374,008  | 10,116,616,226  |
| Other equity reserves                               | (1,767,643,490) | (1,613,004,480) |
| Adjusted equity                                     | ₱8,415,730,518  | ₱8,503,611,746  |
|                                                     | 2.08:1          | 1.55:1          |

**33. Financial and Non-financial Instruments**

As at December 31, 2015 and 2014, 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, 2015:

|                            | Carrying Value  | Total           | Fair Value Level 1 | Level 2 | Level 3         |
|----------------------------|-----------------|-----------------|--------------------|---------|-----------------|
| Financial Assets           |                 |                 |                    |         |                 |
| Measured at fair value -   |                 |                 |                    |         |                 |
| AFS financial assets       | ₱124,304,503    | ₱124,304,503    | ₱124,304,503       | ₱-      | ₱-              |
| Non-financial Assets       |                 |                 |                    |         |                 |
| Fair value is disclosed -  |                 |                 |                    |         |                 |
| Investments in real estate | 1,463,639,767   | 1,867,000,000   | -                  | -       | 1,867,000,000   |
|                            | ₱1,587,944,270  | ₱1,991,304,503  | ₱124,304,503       | ₱-      | ₱1,867,000,000  |
| Financial Liabilities      |                 |                 |                    |         |                 |
| Fair value is disclosed -  |                 |                 |                    |         |                 |
| Long-term debt             | ₱17,180,009,189 | ₱17,137,226,888 | ₱-                 | ₱-      | ₱17,137,226,888 |

As of December 31, 2014:

|                            | Carrying Value  | Total           | Fair Value Level 1 | Level 2 | Level 3         |
|----------------------------|-----------------|-----------------|--------------------|---------|-----------------|
| Financial Assets           |                 |                 |                    |         |                 |
| Measured at fair value -   |                 |                 |                    |         |                 |
| AFS financial assets       | ₱112,240,963    | ₱112,240,963    | ₱112,240,963       | ₱-      | ₱-              |
| Non-financial Assets       |                 |                 |                    |         |                 |
| Fair value is disclosed -  |                 |                 |                    |         |                 |
| Investments in real estate | 1,527,215,497   | 1,825,000,000   | -                  | -       | 1,825,000,000   |
|                            | ₱1,639,456,460  | ₱1,937,240,963  | ₱112,240,963       | ₱-      | ₱1,825,000,000  |
| 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 |



During the years ended December 31, 2015 and 2014, 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 derivative as at December 31, 2014 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:

|                                           | 2015         | 2014         |
|-------------------------------------------|--------------|--------------|
| Derivative liability at beginning of year | ₱27,595,736  | ₱37,923,780  |
| Net change in fair value (Note 27)        | (27,595,736) | (10,328,044) |
| Derivative liability at end of year       | ₱-           | ₱27,595,736  |

The fair value changes during the years ended December 31, 2015 and 2014 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 Group performed the following sensitivity analysis:

*Credit Spread*

|      | Increase (Decrease)<br>in Credit Spread | Effect on Income<br>Before Income Tax |
|------|-----------------------------------------|---------------------------------------|
| 2014 | 100 bps                                 | (₱3,435,287)                          |
|      | (100 bps)                               | 3,506,018                             |

*Underlying Unquoted Share Price*

|      | Increase (Decrease)<br>in Underlying Share Price | Effect on Income<br>before Income Tax |
|------|--------------------------------------------------|---------------------------------------|
| 2014 | 1%                                               | (₱566,784)                            |
|      | (1%)                                             | ₱492,249                              |

*Volatility of the Underlying Unquoted Share*

|      | Increase (Decrease) in Volatility<br>of the Underlying Unquoted Share | Effect on Income<br>Before Income Tax |
|------|-----------------------------------------------------------------------|---------------------------------------|
| 2014 | 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% for the years ended December 31, 2015 and 2014.

*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 as of December 31, 2014 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 the 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.

*Investments in real estate*

Please see Note 10 for the basis of fair value.

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

|                                                                                             | 2015        | 2014        | 2013          |
|---------------------------------------------------------------------------------------------|-------------|-------------|---------------|
| <b>Fair Value through Profit or Loss</b>                                                    |             |             |               |
| Mark-to-market gain (loss) on derivative liability (see Note 27)                            | ₱27,595,736 | ₱10,328,044 | (₱16,377,924) |
| <b>Loans and Receivables</b>                                                                |             |             |               |
| Interest income from cash and cash equivalents and short-term cash investments (see Note 7) | 24,034,525  | 22,224,257  | 27,041,508    |

(Forward)



|                                                                                                          | 2015           | 2014           | 2013           |
|----------------------------------------------------------------------------------------------------------|----------------|----------------|----------------|
| <b>AFS Financial Assets</b>                                                                              |                |                |                |
| Gain (loss) on fair valuation of AFS taken to consolidated statements comprehensive income (see Note 13) | ₱7,263,540     | (₱86,998,124)  | (₱6,741,009)   |
| <b>Other Financial Liabilities</b>                                                                       |                |                |                |
| Amortization of transaction costs and loss on prepayment of long-term debt (see Notes 17, 18 and 26)     | (242,228,344)  | (96,201,486)   | (39,351,288)   |
| Interest on loans payable and long-term debt (see Notes 17, 18 and 26)                                   | (78,789,004)   | (103,034,700)  | (82,578,427)   |
|                                                                                                          | (321,017,348)  | (199,236,186)  | (121,929,715)  |
|                                                                                                          | (₱262,123,547) | (₱253,682,009) | (₱118,007,140) |

### 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 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 April 28, 2016 and December 13, 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC. On December 13, 2015, ECA with WMPC had expired and not renewed by 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, 2015 and 2014 are as follows (in millions):

|                                             | 2015 | 2014   |
|---------------------------------------------|------|--------|
| Within one year                             | ₱259 | ₱2,171 |
| After one year but not more than five years | —    | 246    |

Energy fees earned on the ECAs amounted to ₱2,139 million (\$47 million) in 2015, ₱2,182 million (\$49 million) in 2014 and ₱2,075 million (\$49 million) in 2013.

#### 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. On April 14, 2015, PTMP extended the Advisory Service Agreement with AIL for another year starting May 1, 2016.

Total billings to PTMP amounted to ₱25 million (\$0.56 million) for both 2015 and 2014 and ₱24 million (\$0.56 million) in 2013. Outstanding receivable from PTMP amounted to ₱6 million (\$0.12 million) in 2015 and ₱5 million (\$0.12 million) 2014.

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 18, 2016, SRPI has not yet 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<br>(in Mega Watts) |
|------------------------------------------------|----------------------------------------|
| SOCOTECO II                                    | 70                                     |
| Iligan Light and Power Inc.                    | 27                                     |
| Cagayan Electric Power and Light Company, Inc. | 20                                     |
| Davao Del Norte Electric Cooperative, Inc.     | 15                                     |
| Davao del Sur Electric Cooperative             | 15                                     |
| Agusan del Norte Electric Cooperative          | 10                                     |
| Agusan del Sur Electric Cooperative            | 10                                     |
| Cotabato Electric Cooperative Inc.             | 10                                     |
| South Cotabato I Electric Cooperative          | 10                                     |
| Zamboanga del Sur I Electric Cooperative Inc.  | 5                                      |
| Zamboanga del Norte Electric Cooperative Inc.  | 5                                      |
| Misamis Oriental Electric Cooperative II       | 3                                      |
|                                                | 200                                    |

SRPI

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

MPC

| Contracting Party                              | Contracted Capacity<br>(in Mega Watts) |
|------------------------------------------------|----------------------------------------|
| South Cotabato II Electric Cooperative Inc.    | 30                                     |
| Zamboanga City Electric Cooperative, Inc.      | 18                                     |
| 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                                      |

In 2014, MPC also entered into PSA with Cagayan Electric Power and Light Group, Inc. for a period of one year and six months which MPC supplies on a non-firm basis.

On June 29, 2015, MPC entered into a PSA with Zamboanga City Electric Cooperative, Inc. (ZAMCELCO) to supply energy on a non-firm basis until December 31, 2015.

On August 25, 2015, WMPC and (ZAMCELCO) filed an application for PSA for a period of ten (10) years from the time the obligations under PSA shall become effective which was provisionally approved by the ERC. WMPC shall supply to ZAMCELCO the contracted capacity of 50 - megawatt.

d. 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 ₱5 million in 2015, ₱1 million in 2014 and ₱5 million in 2013.

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 ₱6 million in 2015, ₱11 million in 2014 and ₱13 million in 2013.

On 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. On September 17, 2013, Aviana was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in Aviana. As at March 18, 2016, Aviana has not yet started operations.

e. 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.

f. 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 January 2013 and is expected to be completed in March 2016.

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.

g. 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.

h. 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 18, 2016, 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, 2015.

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**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.

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**36. Notes to Consolidated Statements of Cash Flows**

The principal noncash investing and financing activities are as follows:

|                                                                                     | 2015            | 2014 | 2013 |
|-------------------------------------------------------------------------------------|-----------------|------|------|
| Investing activities:                                                               |                 |      |      |
| Disposal of ACRMC through property dividend (Note 11)                               | ₱207,590,029    | ₱—   | ₱—   |
| Conversion of advances to related party to investment in preferred shares (Note 11) | (2,200,000,000) | —    | —    |
| Conversion of advances to related party to investment in associate (Note 11)        | (35,800,000)    | —    | —    |
| (Forward)                                                                           |                 |      |      |

|                                                                               | 2015       | 2014           | 2013          |
|-------------------------------------------------------------------------------|------------|----------------|---------------|
| Reclassification from trade receivables to AFS financial assets (Note 13)     | ₱—         | (₱148,176,396) | ₱—            |
| Transfer of deferred project costs to property, plant and equipment (Note 15) | —          | —              | (644,480,157) |
| Investing activity:                                                           |            |                |               |
| Disposal of subsidiaries without loss of control (Note 15)                    | 12,563,402 | —              | —             |

### 37. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

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

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

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

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity. Based on the assessment of management, the operating subsidiaries have complied, with the applicable provisions of the EPIRA and its IRR.

b. Clean Air Act

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

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, included in this Form 17-A, and have issued our report thereon dated March 18, 2016. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011), and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

  
Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2015,

February 27, 2015, valid until February 26, 2018

PTR No. 5321643, January 4, 2016, Makati City

March 18, 2016



**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**SUPPLEMENTARY SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS**  
**DECEMBER 31, 2015**

**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2015**

| <b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b><br>Effective as of December 31, 2015                                                  |                                                                                                                | <b>Adopted</b> | <b>Not Early Adopted</b> | <b>Not Applicable</b> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------|--------------------------|-----------------------|
| <b>Framework for the Preparation and Presentation of Financial Statements</b><br>Conceptual Framework Phase A: Objectives and qualitative characteristics |                                                                                                                | ✓              |                          |                       |
| <b>PFRSs Practice Statement Management Commentary</b>                                                                                                     |                                                                                                                |                |                          | ✓                     |
| <b>Philippine Financial Reporting Standards</b>                                                                                                           |                                                                                                                |                |                          |                       |
| <b>PFRS 1 (Revised)</b>                                                                                                                                   | First-time Adoption of Philippine Financial Reporting Standards                                                | ✓              |                          |                       |
|                                                                                                                                                           | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Additional Exemptions for First-time Adopters                                            |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters             |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters                  |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 1: Government Loans                                                                         |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 1: Meaning of Effective PFRSs                                                                | ✓              |                          |                       |
| <b>PFRS 2</b>                                                                                                                                             | Share-based Payment                                                                                            |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Vesting Conditions and Cancellations                                                     |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions                                      |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 2: Definition of Vesting Condition                                                           |                |                          | ✓                     |
| <b>PFRS 3 (Revised)</b>                                                                                                                                   | Business Combinations                                                                                          | ✓              |                          |                       |
|                                                                                                                                                           | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination                         |                |                          | ✓                     |
|                                                                                                                                                           | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements                                                   |                |                          | ✓                     |
| <b>PFRS 4</b>                                                                                                                                             | Insurance Contracts                                                                                            |                |                          | ✓                     |
|                                                                                                                                                           | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                 |                |                          | ✓                     |

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|---------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| PFRS 5                                                                                            | Non-current Assets Held for Sale and Discontinued Operations                                                                                      | ✓       |                   |                |
|                                                                                                   | Amendment to PFRS 5: Changes in Methods of Disposal*                                                                                              |         | ✓                 |                |
| PFRS 6                                                                                            | Exploration for and Evaluation of Mineral Resources                                                                                               |         |                   | ✓              |
| PFRS 7                                                                                            | Financial Instruments: Disclosures                                                                                                                | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Transition                                                                                                                  | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                             | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                             | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Improving Disclosures about Financial Instruments                                                                           | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities                                                         | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures                                                               | ✓       |                   |                |
|                                                                                                   | Amendment to PFRS 7: Servicing Contracts*                                                                                                         |         |                   | ✓              |
|                                                                                                   | Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements *                                        |         | ✓                 |                |
| PFRS 8                                                                                            | Operating Segments                                                                                                                                | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓       |                   |                |
| PFRS 9                                                                                            | Financial Instruments*                                                                                                                            |         | ✓                 |                |
|                                                                                                   | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*                                                              |         | ✓                 |                |
| PFRS 10                                                                                           | Consolidated Financial Statements                                                                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 10: Investment Entities                                                                                                        |         |                   | ✓              |
|                                                                                                   | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*                                     |         | ✓                 |                |
| PFRS 11                                                                                           | Joint Arrangements                                                                                                                                | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations*                                                              |         | ✓                 |                |
| PFRS 12                                                                                           | Disclosure of Interests in Other Entities                                                                                                         | ✓       |                   |                |
|                                                                                                   | Amendments to PFRS 12: Investment Entities                                                                                                        |         |                   | ✓              |

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|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| PFRS 13                                                                                           | Fair Value Measurement                                                                                | ✓       |                   |                |
|                                                                                                   | Amendment to PFRS 13: Short-term Receivables and Payables                                             | ✓       |                   |                |
|                                                                                                   | Amendment to PFRS 13: Portfolio Exception                                                             | ✓       |                   |                |
| PFRS 14                                                                                           | Regulatory Deferral Accounts*                                                                         |         | ✓                 |                |
| Philippine Accounting Standards                                                                   |                                                                                                       |         |                   |                |
| PAS 1<br>(Revised)                                                                                | Presentation of Financial Statements                                                                  | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 1: Capital Disclosures                                                               | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income                              | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 1: Disclosure Initiatives*                                                          |         | ✓                 |                |
| PAS 2                                                                                             | Inventories                                                                                           | ✓       |                   |                |
| PAS 7                                                                                             | Statement of Cash Flows                                                                               | ✓       |                   |                |
| PAS 8                                                                                             | Accounting Policies, Changes in Accounting Estimates and Errors                                       | ✓       |                   |                |
| PAS 10                                                                                            | Events after the Reporting Period                                                                     | ✓       |                   |                |
| PAS 11                                                                                            | Construction Contracts                                                                                | ✓       |                   |                |
| PAS 12                                                                                            | Income Taxes                                                                                          | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets                                     | ✓       |                   |                |
| PAS 16                                                                                            | Property, Plant and Equipment                                                                         | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation       |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization*           |         | ✓                 |                |
|                                                                                                   | Amendments to PAS 16: Bearer Plants*                                                                  |         |                   | ✓              |
| PAS 17                                                                                            | Leases                                                                                                | ✓       |                   |                |
| PAS 18                                                                                            | Revenue                                                                                               | ✓       |                   |                |
| PAS 19<br>(Amended)                                                                               | Employee Benefits                                                                                     | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution                                    | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 19: Regional market issue regarding discount rate*                                  |         | ✓                 |                |

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|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| PAS 20                                                                                            | Accounting for Government Grants and Disclosure of Government Assistance                                     |         |                   | ✓              |
| PAS 21                                                                                            | The Effects of Changes in Foreign Exchange Rates                                                             | ✓       |                   |                |
|                                                                                                   | Amendment to PAS 21: Net Investment in a Foreign Operation                                                   |         |                   | ✓              |
| PAS 23<br>(Revised)                                                                               | Borrowing Costs                                                                                              | ✓       |                   |                |
| PAS 24<br>(Revised)                                                                               | Related Party Disclosures                                                                                    | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 24: Key Management Personnel                                                               | ✓       |                   |                |
| PAS 26                                                                                            | Accounting and Reporting by Retirement Benefit Plans                                                         | ✓       |                   |                |
| PAS 27<br>(Amended)                                                                               | Separate Financial Statements                                                                                |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 27: Investment Entities                                                                    |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 27: Equity Method in Separate Financial Statements*                                        |         | ✓                 |                |
| PAS 28<br>(Amended)                                                                               | Investments in Associates and Joint Ventures                                                                 | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* |         | ✓                 |                |
| PAS 29                                                                                            | Financial Reporting in Hyperinflationary Economies                                                           |         |                   | ✓              |
| PAS 31                                                                                            | Interests in Joint Ventures                                                                                  | ✓       |                   |                |
| PAS 32                                                                                            | Financial Instruments: Disclosure and Presentation                                                           | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation        |         |                   | ✓              |
|                                                                                                   | Amendment to PAS 32: Classification of Rights Issues                                                         |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities                                  | ✓       |                   |                |
| PAS 33                                                                                            | Earnings per Share                                                                                           | ✓       |                   |                |
| PAS 34                                                                                            | Interim Financial Reporting                                                                                  |         |                   | ✓              |
|                                                                                                   | Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial report'*                  |         |                   | ✓              |
| PAS 36                                                                                            | Impairment of Assets                                                                                         | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets                                | ✓       |                   |                |
| PAS 37                                                                                            | Provisions, Contingent Liabilities and Contingent Assets                                                     | ✓       |                   |                |
| PAS 38                                                                                            | Intangible Assets                                                                                            | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization             |         |                   | ✓              |

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|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| PAS 38                                                                                            | Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization*                                                                  |         |                   | ✓              |
| PAS 39                                                                                            | Financial Instruments: Recognition and Measurement                                                                                                           | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities                                                       | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions                                                                         |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39: The Fair Value Option                                                                                                                  |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts                                                                                               |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets                                                                                        |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition                                                        | ✓       |                   |                |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                                                                             |         |                   | ✓              |
|                                                                                                   | Amendment to PAS 39: Eligible Hedged Items                                                                                                                   |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting                                                                           |         |                   | ✓              |
| PAS 40                                                                                            | Investment Property                                                                                                                                          | ✓       |                   |                |
|                                                                                                   | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property |         |                   | ✓              |
| PAS 41                                                                                            | Agriculture                                                                                                                                                  |         |                   | ✓              |
|                                                                                                   | Amendments to PAS 41: Bearer Plants*                                                                                                                         |         |                   | ✓              |
| Philippine Interpretations                                                                        |                                                                                                                                                              |         |                   |                |
| IFRIC 1                                                                                           | Changes in Existing Decommissioning, Restoration and Similar Liabilities                                                                                     | ✓       |                   |                |
| IFRIC 2                                                                                           | Members' Share in Co-operative Entities and Similar Instruments                                                                                              |         |                   | ✓              |
| IFRIC 4                                                                                           | <i>Determining Whether an Arrangement Contains a Lease</i>                                                                                                   | ✓       |                   |                |
| IFRIC 5                                                                                           | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds                                                         | ✓       |                   |                |
| IFRIC 6                                                                                           | <i>Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment</i>                                               |         |                   | ✓              |
| IFRIC 7                                                                                           | <i>Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>                                                     |         |                   | ✓              |

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|---------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------|-------------------|----------------|
| IFRIC 9                                                                                           | Reassessment of Embedded Derivatives                                                            | ✓       |                   |                |
|                                                                                                   | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives                |         |                   | ✓              |
| IFRIC 10                                                                                          | <i>Interim Financial Reporting and Impairment</i>                                               |         |                   | ✓              |
| IFRIC 12                                                                                          | Service Concession Arrangements                                                                 |         |                   | ✓              |
| IFRIC 13                                                                                          | Customer Loyalty Programmes                                                                     |         |                   | ✓              |
| IFRIC 14                                                                                          | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction        | ✓       |                   |                |
|                                                                                                   | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | ✓       |                   |                |
| IFRIC 15                                                                                          | Agreements for the Construction of Real Estate*                                                 |         | ✓                 |                |
| IFRIC 16                                                                                          | Hedges of a Net Investment in a Foreign Operation                                               |         |                   | ✓              |
| IFRIC 17                                                                                          | Distributions of Non-cash Assets to Owners                                                      | ✓       |                   |                |
| IFRIC 18                                                                                          | Transfers of Assets from Customers                                                              |         |                   | ✓              |
| IFRIC 19                                                                                          | Extinguishing Financial Liabilities with Equity Instruments                                     |         |                   | ✓              |
| IFRIC 20                                                                                          | Stripping Costs in the Production Phase of a Surface Mine                                       |         |                   | ✓              |
| IFRIC 21                                                                                          | Levies                                                                                          | ✓       |                   |                |
| SIC-7                                                                                             | Introduction of the Euro                                                                        |         |                   | ✓              |
| SIC-10                                                                                            | Government Assistance - No Specific Relation to Operating Activities                            |         |                   | ✓              |
| SIC-15                                                                                            | Operating Leases - Incentives                                                                   | ✓       |                   |                |
| SIC-25                                                                                            | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders                       |         |                   | ✓              |
| SIC-27                                                                                            | Evaluating the Substance of Transactions Involving the Legal Form of a Lease                    | ✓       |                   |                |
| SIC-29                                                                                            | Service Concession Arrangements: Disclosures                                                    |         |                   | ✓              |
| SIC-31                                                                                            | Revenue - Barter Transactions Involving Advertising Services                                    |         |                   | ✓              |
| SIC-32                                                                                            | Intangible Assets - Web Site Costs                                                              |         |                   | ✓              |

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