# Vivant Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2013
(With Comparative Figures for December 31, 2012 and 2011)

and

Independent Auditors' Report

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

**INDEPENDENT AUDITORS' REPORT**

The Stockholders and the Board of Directors
Vivant Corporation

We have audited the accompanying consolidated financial statements of Vivant Corporation and Subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

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

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 Vivant Corporation and Subsidiaries as at December 31, 2013 and their financial performance and their cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

***Other Matter***

The consolidated financial statements of Vivant Corporation and Subsidiaries for the years ended December 31, 2012 and 2011, which are presented for comparative purposes, were audited by other auditors whose report thereon dated April 8, 2013, expressed an unqualified opinion on those statements.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-A (Group A)
March 15, 2012, valid until March 14, 2015
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2012
January 11, 2012, valid until January 10, 2015
PTR No. 4391254, January 6, 2014, Cebu City

April 14, 2014

# VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**DECEMBER 31, 2013**

**(With Comparative Figures as at December 31, 2012 and January 1, 2012)**

| | December 31, 2013 | December 31, 2012 (As restated - Note 3) | January 1, 2012 (As restated - Note 3) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents (Note 6) | **₱3,057,406,413** | ₱1,800,270,312 | ₱587,560,911 |
| Trade and other receivables (Note 7) | **746,093,162** | 620,611,831 | 408,550,594 |
| Advances to associates and stockholders (Note 16) | **115,486,983** | 28,753,622 | 94,817,571 |
| Inventories (Note 8) | **99,160,004** | 103,201,769 | 163,115,366 |
| Prepayments and other current assets (Note 8) | **294,771,279** | 453,470,557 | 253,002,105 |
| **Total Current Assets** | **4,312,917,841** | 3,006,308,091 | 1,507,046,547 |
| **Noncurrent Assets** | | | |
| Available-for-sale (AFS) investments (Note 9) | **3,846,131** | 8,853,202 | 8,791,249 |
| Equity investments (Note 10) | **3,986,834,990** | 3,662,985,271 | 3,930,754,292 |
| Property, plant and equipment (Note 11) | **62,647,848** | 47,343,703 | 2,562,265,229 |
| Investment properties (Note 12) | **274,071,000** | 274,071,000 | 274,071,000 |
| Deferred income tax assets - net (Note 20) | **21,399,283** | 21,249,418 | 19,262,328 |
| Other noncurrent assets (Note 13) | **71,956,107** | 65,988,805 | 92,562,640 |
| **Total Noncurrent Assets** | **4,420,755,359** | 4,080,491,399 | 6,887,706,738 |
| **TOTAL ASSETS** | **₱8,733,673,200** | ₱7,086,799,490 | ₱8,394,753,285 |
| **LIABILITIES AND EQUITY** | | | |
| **Current Liabilities** | | | |
| Trade and other payables (Note 14) | **₱1,415,791,742** | ₱683,513,227 | ₱569,180,990 |
| Advances from related parties (Note 16) | **142,744,333** | 197,458,244 | 225,769,631 |
| Income tax payable | **162,125,636** | 98,160,641 | 330,633 |
| Current portion of long-term debt (Note 23) | – | – | 1,238,931,074 |
| Current portion of notes payable (Note 15) | – | 365,000,000 | 498,809,523 |
| **Total Current Liabilities** | **1,720,661,711** | 1,344,132,112 | 2,533,021,851 |
| **Noncurrent Liabilities** | | | |
| Long-term debt - net of current portion (Note 23) | – | – | 1,307,760,578 |
| Notes payable - net of current portion (Note 15) | – | – | 297,476,191 |
| Pension liability (Note 19) | **18,724,619** | 15,687,514 | 8,982,382 |
| Deferred income tax liabilities (Note 20) | **27,527,364** | 29,873,120 | 28,425,949 |
| **Total Noncurrent Liabilities** | **46,251,983** | 45,560,634 | 1,642,645,100 |
| **Total Liabilities** | **1,766,913,694** | 1,389,692,746 | 4,175,666,951 |
| **Equity Attributable to Equity Holders of the Parent** | | | |
| Capital stock - ₱1 par value (Note 21) | | | |
| Authorized - 2,000,000,000 shares | | | |
| Issued - 1,023,456,698 shares | **1,023,456,698** | 1,023,456,698 | 1,023,456,698 |
| Additional paid-in capital | **8,339,452** | 8,339,452 | 8,339,452 |

(Forward)

| | **December 31, 2013** | December 31, 2012 (As restated - Note 3) | January 1, 2012 (As restated - Note 3) |
|---|---|---|---|
| Other components of equity: | | | |
| Share in revaluation increment of an associate (Note 10) | **₱1,292,314,176** | ₱454,642,913 | ₱509,519,206 |
| Remeasurement loss on employee benefits (Note 19) | **(874,453)** | (202,184) | – |
| Share in remeasurement losses on employee benefits of an associate | **(67,070,264)** | (59,416,917) | (58,955,501) |
| Unrealized valuation gain on AFS investments (Note 9) | **191,083** | 191,083 | 191,083 |
| Retained earnings: | | | |
| Appropriated for business expansion (Note 21) | **1,856,476,291** | – | – |
| Unappropriated | **2,357,237,719** | 3,367,540,626 | 2,046,432,423 |
| Equity Attributable to Equity Holders of the Parent | **6,470,070,702** | 4,794,551,671 | 3,528,983,361 |
| **Equity Attributable to Non-controlling Interests** | **496,688,804** | 902,555,073 | 690,102,973 |
| **Total Equity** | **6,966,759,506** | 5,697,106,744 | 4,219,086,334 |
| **TOTAL LIABILITIES AND EQUITY** | **₱8,733,673,200** | ₱7,086,799,490 | ₱8,394,753,285 |

*See accompanying Notes to Consolidated Financial Statements.*

# VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

**FOR THE YEAR ENDED DECEMBER 31, 2013**
**(With Comparative Figures for 2012 and 2011)**

| | 2013 | 2012 (As restated - Note 3) | 2011 (As restated - Note 3) |
|---|---|---|---|
| **REVENUE** | | | |
| Sale of power (Note 23) | **₱2,593,003,368** | ₱2,638,625,802 | ₱1,298,454,988 |
| Equity in net earnings of associates and joint ventures (Note 10) | **817,167,990** | 962,678,909 | 690,795,950 |
| Management fees (Note 16) | **167,051,799** | 148,510,172 | 122,921,596 |
| Interest income (Note 16) | **33,592,952** | 47,592,326 | 16,726,245 |
| Other income (Note 16) | **6,446,703** | 7,015,035 | 9,300,323 |
| | **3,617,262,812** | 3,804,422,244 | 2,138,199,102 |
| **GENERATION COSTS** (Notes 17 and 23) | **1,633,537,609** | 1,848,144,439 | 1,056,668,595 |
| **OPERATING EXPENSES** | | | |
| Professional fees (Notes 16 and 23) | **237,426,374** | 207,255,322 | 33,624,685 |
| Salaries and employee benefits (Notes 16 and 17) | **74,424,765** | 39,011,034 | 26,875,416 |
| Taxes and licenses | **28,583,812** | 22,991,881 | 26,951,546 |
| Management fees (Note 16) | **15,775,116** | 37,640,299 | 29,104,640 |
| Travel | **14,497,677** | 10,551,855 | 8,201,247 |
| Depreciation and amortization (Notes 11 and 13) | **13,284,269** | 9,978,670 | 4,427,771 |
| Rent and association dues | **6,003,603** | 3,959,854 | 2,204,269 |
| Impairment loss on AFS investments (Note 9) | **5,007,071** | 2,738,047 | 3,395,274 |
| Representation | **3,746,174** | 1,404,711 | 1,701,685 |
| Communication and utilities | **3,448,265** | 2,881,912 | 2,371,843 |
| Security and janitorial | **569,377** | 195,000 | 731,664 |
| Other operating expenses (Note 17) | **29,349,676** | 12,421,454 | 12,710,268 |
| | **432,116,179** | 351,030,039 | 152,300,308 |
| **INCOME FROM OPERATIONS** | **1,551,609,024** | 1,605,247,766 | 929,230,199 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance costs (Note 15) | **(17,210,327)** | (61,132,342) | (189,845,403) |
| Gain on redemption of an equity interest in an associate (Note 10) | **10,155,539** | 18,171,194 | 22,755,600 |
| Foreign exchange gains | **2,951,800** | 4,531,352 | – |
| Gain on rescinded contract (Note 23) | – | 643,795,158 | – |
| Net unrealized gain in fair value remeasurement of investment properties (Note 12) | – | – | 91,737,000 |
| Others - net | **(21,628,760)** | – | – |
| | **(25,731,748)** | 605,365,362 | (75,352,803) |
| **INCOME BEFORE INCOME TAX** | **1,525,877,276** | 2,210,613,128 | 853,877,396 |
| **PROVISION FOR INCOME TAX** (Note 20) | **221,432,432** | 178,965,488 | 46,133,294 |
| **NET INCOME** | **1,304,444,844** | 2,031,647,640 | 807,744,102 |

(Forward)

| | 2013 | 2012 (As restated - Note 3) | 2011 (As restated - Note 3) |
|---|---|---|---|
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Item that may be reclassified to consolidated statements of comprehensive income: | | | |
| Unrealized valuation gain on AFS investments (Note 9) | **₱–** | ₱– | ₱385,500 |
| Items that will not be reclassified to consolidated statements of comprehensive income: | | | |
| Share in revaluation increment of an associate, net of tax | **884,597,344** | – | – |
| Remeasurement loss on employee benefits (Note 19) | **(1,496,260)** | (288,834) | – |
| Income tax effect of remeasurement loss on employee benefits | **448,878** | 86,650 | – |
| | **(1,047,382)** | (202,184) | – |
| Share in the remeasurement losses on employee benefits of associates, net of tax (Note 10) | **(7,653,347)** | (461,416) | (33,736,716) |
| **OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | **875,896,615** | (663,600) | (33,351,216) |
| **TOTAL COMPREHENSIVE INCOME** | **₱2,180,341,459** | ₱2,030,984,040 | ₱774,392,886 |
| **NET INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | **₱1,008,748,891** | ₱1,461,200,409 | ₱670,651,494 |
| Non-controlling interests | **295,695,953** | 570,447,231 | 137,092,608 |
| | **₱1,304,444,844** | ₱2,031,647,640 | ₱807,744,102 |
| **TOTAL COMPREHENSIVE INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | **₱1,885,020,619** | ₱1,460,536,809 | ₱637,111,152 |
| Non-controlling interests | **295,320,840** | 570,447,231 | 137,281,734 |
| | **₱2,180,341,459** | ₱2,030,984,040 | ₱774,392,886 |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22) | **₱0.986** | ₱1.428 | ₱0.655 |

*See accompanying Notes to Consolidated Financial Statements.*

## VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**FOR THE YEAR ENDED DECEMBER 31, 2013**

**(With Comparative Figures for the Years Ended December 31, 2012 and 2011)**

| | Year Ended December 31, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent | | | | | | | | | |
| | **Capital Stock** (Note 21) | **Additional Paid-in Capital** | **Share in Revaluation Increment of an Associate** | **Remeasurement Loss on Employee Benefits** | **Share in Remeasurement Losses on Employee Benefits of Associates** | **Unrealized Valuation Gain on AFS Investments** | **Retained Earnings** | **Total** | **Equity Attributable to Non-Controlling Interests** | **Total Equity** |
| Balances at January 1, 2013, as previously reported | **₱1,023,456,698** | **₱8,339,452** | **₱454,642,913** | **₱–** | **₱–** | **₱191,083** | **₱3,352,794,527** | **₱4,839,424,673** | **₱901,042,145** | **₱5,740,466,818** |
| Effect of change in accounting for employee benefits, net of tax | – | – | – | **(202,184)** | – | – | **(12,292,003)** | **(12,494,187)** | **1,512,928** | **(10,981,259)** |
| Effect of change in accounting for employee benefits of associates, net of tax | – | – | – | – | **(59,416,917)** | – | **27,038,102** | **(32,378,815)** | – | **(32,378,815)** |
| Balances at January 1, 2013, as restated | **1,023,456,698** | **8,339,452** | **454,642,913** | **(202,184)** | **(59,416,917)** | **191,083** | **3,367,540,626** | **4,794,551,671** | **902,555,073** | **5,697,106,744** |
| Total comprehensive income: | | | | | | | | | | |
| Net income | – | – | – | – | – | – | **1,008,748,891** | **1,008,748,891** | **295,695,953** | **1,304,444,844** |
| Other comprehensive income: | | | | | | | | | | |
| Share in the remeasurement losses on employee benefits of associates, net of tax | – | – | – | – | **(7,653,347)** | – | – | **(7,653,347)** | – | **(7,653,347)** |
| Remeasurement loss on employee benefits, net of tax | – | – | – | **(672,269)** | – | – | – | **(672,269)** | **(375,113)** | **(1,047,382)** |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate | – | – | **(46,926,081)** | – | – | – | **46,926,081** | – | – | – |
| Share in revaluation increment of an associate, net of tax | – | – | **884,597,344** | – | – | – | – | **884,597,344** | – | **884,597,344** |
| Other comprehensive income, as restated | – | – | **837,671,263** | **(672,269)** | **(7,653,347)** | – | **46,926,081** | **876,271,728** | **(375,113)** | **875,896,615** |
| Total comprehensive income | – | – | **837,671,263** | **(672,269)** | **(7,653,347)** | – | **1,055,674,972** | **1,885,020,619** | **295,320,840** | **2,180,341,459** |
| Transactions with stockholders, recorded directly in equity: | | | | | | | | | | |
| Additional deposits for future stock subscription | – | – | – | – | – | – | – | – | **10,919,854** | **10,919,854** |
| Property dividends | – | – | – | – | – | – | – | – | **(234,353,981)** | **(234,353,981)** |
| Cash dividends (Note 21) | – | – | – | – | – | – | **(209,501,588)** | **(209,501,588)** | **(477,752,982)** | **(687,254,570)** |
| Balances at December 31, 2013 | **₱1,023,456,698** | **₱8,339,452** | **₱1,292,314,176** | **(₱874,453)** | **(₱67,070,264)** | **₱191,083** | **₱4,213,714,010** | **₱6,470,070,702** | **₱496,688,804** | **₱6,966,759,506** |

*See accompanying Notes to Consolidated Financial Statements.*

| | Year Ended December 31, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent | | | | | | | | | |
| | Capital Stock (Note 21) | Additional Paid-in Capital | Share in Revaluation Increment of an Associate | Remeasurement Loss on Employee Benefits | Share in Remeasurement Losses on Employee Benefits of Associates | Unrealized Valuation Gain on AFS Investments | Retained Earnings | Total | Equity Attributable to Non-Controlling Interests | Total Equity |
| Balances at January 1, 2012, as previously reported | ₱1,023,456,698 | ₱8,339,452 | ₱509,519,206 | ₱– | ₱– | ₱191,083 | ₱2,026,922,038 | ₱3,568,428,477 | ₱690,102,973 | ₱4,258,531,450 |
| Effect of change in accounting for employee benefits, net of tax | – | – | – | – | – | – | (6,287,667) | (6,287,667) | – | (6,287,667) |
| Effect of change in accounting for employee benefits of an associate, net of tax | – | – | – | – | (58,955,501) | – | 25,798,052 | (33,157,449) | – | (33,157,449) |
| Balances at January 1, 2012, as restated | 1,023,456,698 | 8,339,452 | 509,519,206 | – | (58,955,501) | 191,083 | 2,046,432,423 | 3,528,983,361 | 690,102,973 | 4,219,086,334 |
| Total comprehensive income: | | | | | | | | | | |
| Net income for the year, as previously reported | – | – | – | – | – | – | 1,465,964,695 | 1,465,964,695 | 568,934,303 | 2,034,898,998 |
| Effect of change in accounting for employee benefits, net of tax | – | – | – | – | – | – | (6,004,336) | (6,004,336) | 1,512,928 | (4,491,408) |
| Effect of change in accounting for employee benefits of associates, net of tax | – | – | – | – | – | – | 1,240,050 | 1,240,050 | – | 1,240,050 |
| Net income, as restated | – | – | – | – | – | – | 1,461,200,409 | 1,461,200,409 | 570,447,231 | 2,031,647,640 |
| Other comprehensive income, as previously reported | – | – | (52,431,943) | – | – | – | 52,431,943 | – | – | – |
| Share in the remeasurement losses on employee benefits of associates, net of tax | – | – | – | – | (461,416) | – | – | (461,416) | – | (461,416) |
| Effect of change in accounting for employee benefits, net of tax | – | – | – | (202,184) | – | – | – | (202,184) | – | (202,184) |
| Reversal relating to property and equipment disposed, net of tax | – | – | (2,444,350) | – | – | – | 2,444,350 | – | – | – |
| Other comprehensive income, as restated | – | – | (54,876,293) | (202,184) | (461,416) | – | 54,876,293 | (663,600) | – | (663,600) |
| Total comprehensive income, as restated | – | – | (54,876,293) | (202,184) | (461,416) | – | 1,516,076,702 | 1,460,536,809 | 570,447,231 | 2,030,984,040 |
| Transactions with stockholders, recorded directly in equity: | | | | | | | | | | |
| Property dividends | – | – | – | – | – | – | – | – | (240,242,151) | (240,242,151) |
| Cash dividends | – | – | – | – | – | – | (194,968,499) | (194,968,499) | (117,752,980) | (312,721,479) |
| Balances at December 31, 2012 | ₱1,023,456,698 | ₱8,339,452 | ₱454,642,913 | (₱202,184) | (₱59,416,917) | ₱191,083 | ₱3,367,540,626 | ₱4,794,551,671 | ₱902,555,073 | ₱5,697,106,744 |

*See accompanying Notes to Consolidated Financial Statements.*

| | Year Ended December 31, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to Equity Holders of the Parent | | | | | | | | | |
| | Capital Stock (Note 21) | Additional Paid-in Capital | Share in Revaluation Increment of an Associate | Remeasurement Loss on Employee Benefits | Share in Remeasurement Losses on Employee Benefits of Associates | Unrealized Valuation Gain on AFS Investments | Retained Earnings | Total | Equity Attributable to Non-Controlling Interests | Total Equity |
| Balances at January 1, 2011, as previously reported | ₱1,023,456,698 | ₱8,339,452 | ₱566,287,818 | ₱– | ₱– | (₱5,291) | ₱1,495,951,478 | ₱3,094,030,155 | ₱647,349,739 | ₱3,741,379,894 |
| Effect of change in accounting for employee benefits of associates, net of tax | – | – | – | – | (25,218,785) | – | 4,826,748 | (20,392,037) | – | (20,392,037) |
| Balances at January 1, 2011, as restated | 1,023,456,698 | 8,339,452 | 566,287,818 | – | (25,218,785) | (5,291) | 1,500,778,226 | 3,073,638,118 | 647,349,739 | 3,720,987,857 |
| Total comprehensive income: | | | | | | | | | | |
| Net income for the year, as previously reported | – | – | – | – | – | – | 655,967,857 | 655,967,857 | 137,092,608 | 793,060,465 |
| Effect of change in accounting for employee benefits, net of tax | – | – | – | – | – | – | (6,287,667) | (6,287,667) | – | (6,287,667) |
| Effect of change in accounting for employee benefits of an associate, net of tax | – | – | – | – | – | – | 20,971,304 | 20,971,304 | – | 20,971,304 |
| Net income, as restated | – | – | – | – | – | – | 670,651,494 | 670,651,494 | 137,092,608 | 807,744,102 |
| Other comprehensive income: | | | | | | | | | | |
| Net fair value gain on AFS investments | – | – | – | – | – | 196,374 | – | 196,374 | 189,126 | 385,500 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment | – | – | (56,768,612) | – | – | – | 56,768,612 | – | – | – |
| Share in the remeasurement losses on employee benefits of associates, net of tax | – | – | – | – | (33,736,716) | – | – | (33,736,716) | – | (33,736,716) |
| Other comprehensive income, as restated | – | – | (56,768,612) | – | (33,736,716) | 196,374 | 56,768,612 | (33,540,342) | 189,126 | (33,351,216) |
| Total comprehensive income, as restated | – | – | (56,768,612) | – | (33,736,716) | 196,374 | 727,420,106 | 637,111,152 | 137,281,734 | 774,392,886 |
| Transactions with stockholders, recorded directly in equity: | | | | | | | | | | |
| Cash dividends | – | – | – | – | – | – | (181,765,909) | (181,765,909) | (94,528,500) | (276,294,409) |
| Balances at December 31, 2011 | ₱1,023,456,698 | ₱8,339,452 | ₱509,519,206 | ₱– | (₱58,955,501) | ₱191,083 | ₱2,046,432,423 | ₱3,528,983,361 | ₱690,102,973 | ₱4,219,086,334 |

*See accompanying Notes to Consolidated Financial Statements.*

## VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED DECEMBER 31, 2013

### (With Comparative Figures for the Years Ended December 31, 2012 and 2011)

| | **2013** | 2012 (As restated - Note 3) | 2011 (As restated - Note 3) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,525,877,276** | ₱2,210,613,128 | ₱853,877,396 |
| Adjustments to reconcile income before income tax to net cash flows: | | | |
| Equity in net earnings of associates and joint ventures (Note 10) | **(817,167,990)** | (962,678,909) | (690,795,950) |
| Interest income | **(33,592,952)** | (47,592,326) | (16,726,245) |
| Finance costs | **17,210,327** | 61,132,342 | 189,845,403 |
| Depreciation and amortization (Notes 11 and 13) | **13,399,269** | 117,891,167 | 327,937,754 |
| Loss (gain) on redemption of an equity interest in an associate and other adjustments (Note 10) | **10,060,175** | (18,171,194) | (22,755,600) |
| Pension expense (Note 19) | **9,285,463** | 6,416,298 | 8,982,382 |
| Impairment loss on AFS investments (Note 9) | **5,007,071** | 2,738,047 | 3,395,274 |
| Unrealized foreign exchange gains | **(2,893,892)** | (4,531,352) | – |
| Gain on rescinded contract (Note 23) | **–** | (643,795,158) | – |
| Net unrealized gain in fair value remeasurement of investment properties (Note 12) | **–** | – | (91,737,000) |
| Operating income before working capital changes | **727,184,747** | 722,022,043 | 562,023,414 |
| Decrease (increase) in: | | | |
| Trade and other current receivables | **(125,919,563)** | (210,971,645) | (88,122,366) |
| Inventories | **4,041,765** | 59,913,597 | (90,558,833) |
| Prepayments and other current assets | **158,699,278** | (249,842,487) | (118,374,423) |
| Increase in trade and other payables | **760,682,138** | 113,280,751 | 203,239,429 |
| Cash generated from operations | **1,524,688,365** | 434,402,259 | 468,207,221 |
| Income tax paid | **(159,514,181)** | (33,152,830) | (11,179,522) |
| Interest paid | **(14,546,497)** | (61,811,804) | (191,046,121) |
| Contribution to the retirement fund (Note 19) | **(9,270,000)** | – | – |
| Cash received from contract rescission (Note 23) | **–** | 664,583,352 | – |
| Net cash flows from operating activities | **1,341,357,687** | 1,004,020,977 | 265,981,578 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividends received from associates (Note 10) | **979,868,460** | 894,754,064 | 485,276,344 |
| Interest received | **34,031,184** | 47,051,925 | 16,726,245 |
| Additions to: | | | |
| AFS investments (Note 9) | **–** | (3,400,000) | (10,000) |
| Property, plant and equipment (Note 11) | **(28,046,390)** | (12,983,243) | (22,045,785) |
| Intangible assets (Note 13) | **(49,150)** | (1,268,995) | – |
| Decrease (increase) in other noncurrent assets | **(5,049,794)** | 27,480,082 | (25,386,677) |
| Increase (decrease) in investments in associates (Note 10) | **200,000** | – | (119,796,746) |
| Proceeds from redemption of an equity interest in an associate (Note 10) | **114,712,200** | 114,712,200 | 114,712,200 |
| Net cash flows from investing activities | **1,095,666,510** | 1,066,346,033 | 449,475,581 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Cash dividends paid | **(687,254,570)** | (311,047,610) | (276,294,409) |
| Payment of loans (Note 15) | **(387,200,989)** | (696,285,714) | (493,714,286) |

(Forward)

| | 2013 | 2012 (As restated - Note 3) | 2011 (As restated - Note 3) |
|---|---|---|---|
| Additional deposits for future stock subscriptions of non-controlling interest of a subsidiary | **₱10,919,854** | ₱– | ₱– |
| Advances from associates and stockholders | **(141,447,272)** | 37,530,301 | 159,460,283 |
| Proceeds from loans (Note 15) | **22,200,989** | 265,000,000 | 382,000,000 |
| Payment of long-term debt (Note 15) | **–** | (157,659,008) | (500,636,033) |
| Net cash used in financing activities | **(1,182,781,988)** | (862,462,031) | (729,184,445) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,254,242,209** | 1,207,904,979 | (13,727,286) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **2,893,892** | 4,804,422 | – |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **1,800,270,312** | 587,560,911 | 601,288,197 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 6) | **₱3,057,406,413** | ₱1,800,270,312 | ₱587,560,911 |

*See accompanying Notes to Consolidated Financial Statements.*

# VIVANT CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2013**
**(With Comparative Figures for the Years Ended December 31, 2012 and 2011)**

1. **Corporate Information**

Vivant Corporation (the "Parent Company" or "Vivant") was incorporated under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission on May 28, 1990. The Parent Company is listed in the Philippine Stock Exchange using the symbol VVT.

The Parent Company's primary purpose is to invest in and manage the general business of any other corporation or corporations except management of fund securities portfolios and other similar assets of a managed entity.

The Parent Company is owned and controlled by Mai-I Resources Corporation (MRC) and JEG Development Corporation (JDC) with a combined ownership of 75.86% in 2013 and in 2012 and 84.93% in 2011. MRC and JDC are entities incorporated and domiciled in the Philippines.

The Parent Company and its Subsidiaries (collectively referred to as the Group) are engaged in various business activities, through its subsidiaries and affiliates, namely electric power generation (both renewable and non-renewable energy), electric power distribution and retail electricity supply business.

The principal office address of the Parent Company is located at Unit 907-908, Ayala Life FGU Center, Cebu Business Park, Cebu City.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries and associates, all incorporated in the Philippines, as of December 31, 2013 and 2012:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | **Direct** | **Indirect** | Direct | Indirect |
| **Subsidiaries** | | | | |
| Hijos De F. Escaño (HDFE) | **50.94** | | 50.94 | |
| VC Ventures Net, Inc. (VNI) | **100.00** | | 100.00 | |
| Vivant Energy Corporation (VEC) | **100.00** | | 100.00 | |
| Vivant Integrated Generation Corporation (VIGC) | | **100.00** [(a) (f)] | | 100.00 [(a) (f)] |
| Vics-Amlan Holdings Corporation (Vics-Amlan) | | **60.00** [(a) (g)] | | 60.00 [(a) (g)] |
| Vics-Bakun Holdings Corporation (Vics-Bakun) | | **100.00** [(a) (h)] | | 100.00 [(a) (h)] |
| 1590 Energy Corp. (1590 EC) | | **52.70** [(a) (i)] | | 52.70 [(a) (i)] |
| Vivant Malogo Hydropower, Inc. (VMHI) | | **75.00** [(a) (n)] | | 75.00 [(a) (n)] |
| Corenergy, Inc. (Core) | | **100.00** [(a) (o)] | | 100.00 [(a) (o)] |
| **Associates** | | | | |
| Visayan Electric Company, Inc. (VECO) | **34.74** | | 28.37 | 6.37 [(e)] |
| Prism Energy, Inc. (PEI) | **40.00** [(m)] | | 40.00 [(m)] | |
| Abovant Holdings, Inc. (AHI) | | **40.00** [(c)] | | 40.00 [(c)] |
| Cebu Private Power Corporation (CPPC) | | **40.00** [(a)] | | 40.00 [(a)] |
| Delta P, Inc. (Delta P) | | **35.00** [(a)] | | 35.00 [(a)] |
| Amlan Hydroelectric Power Corporation (AHPC) formerly ICS Renewables, Inc. | | **28.00** [(d) (k)] | | 30.00 [(d) (k)] |

(Forward)

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | **Direct** | **Indirect** | Direct | Indirect |
| **Joint Ventures** | | | | |
| Calamian Islands Power Corp. (CIPC) | | **50.00** (a) (l) | | 50.00 (a) (l) |
| Vivant Sta. Clara Northern Renewables Generation Corporation (VSNRGC) formerly Amlan Hydro Power, Inc. (AHPI) | | **46.00** (b) (j) | | 46.00 (b) (j) |

*a. Indirect ownership through VEC*
*b. Indirect ownership through Vics- Bakun*
*c. Indirect ownership through VIGC*
*d. Indirect ownership through Vics-Amlan*
*e. Indirect ownership through HDFE*
*f. Incorporated on November 5, 2008*
*g. Incorporated on August 26, 2009*
*h. Incorporated on January 8, 2010*
*i. Incorporated on July 30, 2010*
*j. Incorporated on July 9, 2009*
*k. Incorporated on October 21, 2008*
*l. Incorporated on October 19, 2010*
*m. Incorporated on March 24, 2009*
*n. Incorporated on June 8, 2012*
*o. Incorporated on December 14, 2012*

*Subsidiaries.* HDFE, VNI, VEC, VIGC, Vics-Amlan, Vics-Bakun, 1590 EC, VMHI and Core qualify as subsidiaries of the Parent Company and are included in the consolidated financial statements. They are hereinafter referred to as the “Subsidiaries”. VMHI and Core are entities incorporated in 2012 for which the information presented in the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes is only for four months and one month ended December 31, 2012, respectively.

The Parent Company and its Subsidiaries are all incorporated in the Philippines. Except for 1590 EC, VMHI and Core, all subsidiaries are also operating as holding and investing companies, which are primarily engaged in power generation and distribution. 1590 EC is operating a diesel power plant while VMHI and Core are on its pre-operating stage of building a hydro power plant in Silay, Negros Occidental and operating as a retail electricity supplier, respectively. The following sets out a brief information of the Parent Company’s subsidiaries and associates:

<u>HDFE</u>
HDFE was incorporated on December 24, 1926, which registration was renewed for another 50 years effective November 26, 1974. The primary purpose of HDFE is to invest in and exercise all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, without acting as, or engaging in, the business of an investment company, or dealer or broker in securities. HDFE currently exists as a holding company with direct equity shareholdings in VECO of 12.5% as of December 31, 2012. As of December 31, 2013, HDFE has divested all of its shareholdings in VECO resulting to Parent Company having direct equity shareholdings in VECO.

<u>VNI</u>
VNI was incorporated on December 8, 2004 and its primary purpose is to invest in, purchase, or otherwise acquire and own, hold, develop, use, sell, lease, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description for whatever purpose the same may have been organized.

<u>VEC</u>
VEC was incorporated on January 25, 2005 and its primary purpose is to establish, maintain and operate power plants of any kind and such other sources that may be a viable source of electric light, heat and power system and to sell to the general public, electricity as the corporation may determine.

VEC currently exists as a holding company with direct equity shareholdings in CPPC, Delta P, 1590 EC, CIPC and VMHI, entities engaged in the power generation business and Corenergy, an entity engaged in the retail electricity supply. VEC also has direct equity shareholdings on holding entities namely VIGC, Vics-Amlan and Vics-Bakun.

VIGC
VIGC was incorporated on November 5, 2008 with the primary purpose of holding investments in power generation companies.

Vics-Amlan
Vics-Amlan, the holding entity of AHPC, was incorporated on August 26, 2009 with the primary purpose of holding investments in power generation companies.

Vics-Bakun
Vics-Bakun, the holding entity of VSNRGC, was incorporated on January 8, 2010 with the primary purpose of holding investments in power generation companies.

1590 EC
1590 EC was incorporated and has started operations on July 30, 2010. It is primarily engaged in power generation and operates a 225-megawatt (MW) diesel-fired power plant in Bauang, La Union. 1590 EC is also partly-owned by Gigawatt Power, Inc. (GPI), Eco Utilities Ventures Holdings Company, Inc. (EUVHCI) and ICS Renewables Holdings Corp. (IHI), among others.

VMHI
VMHI was incorporated on June 8, 2012. Its primary purpose is to engage in the business of owning, acquiring, operating, generating, collecting and distributing electricity.

VMHI is on its starting phase or pre-operational stage as a power generating entity. It is currently undergoing development and pre-construction works for a six (6) MW hydro power plant. The plant construction is estimated to be completed after 22–24 months from date of groundbreaking.

Core
Core was incorporated on December 14, 2012. Its primary purpose is to buy, source and obtain electricity from generating companies or from the wholesale electricity spot market to sell, broker, market or aggregate electricity to the end users in Contestable Market and enter into any necessary access or interconnection arrangements or other necessary contracts with the National Transmission Corporation or National Grid Corporation of the Philippines, distribution utilities and other entities in the electric power industry. As of December 31, 2013, Core has not yet started commercial operations and has an ongoing application for Retail Electricity Supplier license.

*Associates.* VECO, AHI, CPPC, Delta P, AHPC and PEI qualify as associates of the Parent Company.

VECO

VECO was incorporated on February 22, 1961 and whose corporate term was extended for another 50 years from and after the date of its expiration on February 23, 2011. VECO is a power distribution entity, the primary activities of which are to establish, maintain and operate electric light, heat and power systems and to sell to the general public electricity for light, heat and power purposes.

VECO serves the electrical power needs of four cities (Cebu, Mandaue, Talisay and Naga) and four municipalities (Minglanilla, San Fernando, Consolacion and Lilo-an) of the greater part of Metro Cebu by virtue of legislative franchise grants.

PEI

PEI was incorporated on March 24, 2009 as a retail electricity supplier. As of December 31, 2013, it has not yet started commercial operations.

AHI

AHI was incorporated on November 28, 2007 primarily to manage entities and to provide management, investment and technical advice for enterprises engaged in electricity generation and/or distribution.

AHI and Global Formosa Power Holdings, Inc., a joint venture between Global Power and Formosa Heavy Industries (Global Formosa), signed a shareholders' agreement to develop, construct and own a Cebu Energy Development Corporation (CEDC) 246 MW coal-fired power plant in Toledo City, Cebu. AHI has a 44% direct ownership interest in CEDC.

CPPC

CPPC was incorporated on July 13, 1994 and its primary purpose is to build, construct or own power generation plants and related facilities. It operates a 70 MW bunker "C" diesel-fire power generating plant.

Delta P

Delta P was registered with SEC on September 20, 2002 primarily to operate and maintain a 16 MW heavy fuel oil-fired generating power station in Puerto Princesa, Palawan.

AHPC

AHPC, formerly known as ICS, was incorporated on October 21, 2008 with the primary purpose to manufacture, acquire, develop, own and operate alternative fuels. Currently, AHPC is operating a 0.8 MW hydroelectric power plant in Amlan, Negros Oriental, which was purchased by AHPC from the Power Sector Assets and Liabilities Management (PSALM).

*Joint Ventures.* Prior to the adoption of PFRS 11, *Joint Arrangements*, the Parent Company's investments in CIPC and VSNRGC, through VEC and Vics-Bakun, respectively, were accounted for as associates under the previous PAS 28, *Investments in Associates*. Upon adoption of PFRS 11 on January 1, 2013, the Parent Company's management has determined that its investments in CIPC and VSNRGC qualify as joint ventures. The impact on the adoption of PFRS 11 is further discussed in Note 3, *Changes in Accounting Policies and Disclosures*, of the consolidated financial statements.

CIPC

CIPC was incorporated on October 19, 2010 as a power generation company in Palawan. As of December 31, 2013, it has not yet started commercial operations.

VSNRGC
VSNRGC, formerly known as AHPI was organized on July 9, 2009 primarily to engage in the general business of power generation and sale of electric power to National Power Corporation (NAPOCOR), private electric cooperatives and other entities.

In December 2009, PSALM awarded VSNRGC to be the IPP administrator of the contracted capacities of Bakun and Benguet power plants. VSNRGC formally became the IPP administrator in February 2010 upon signing of the related documents and payment of the related consideration. In the latter part of the same year, PSALM exercised the right to divide and segregate the contracted capacities of the Bakun and Benguet power plants. By virtue of the segregation done by PSALM, VSNRGC assumed the responsibility of selling only the Bakun power plant's contracted capacity and started its commercial operations as an IPP administrator in 2010. The Bakun power plant has an installed capacity of 70MW and is located in Alilem, Ilocos Sur.

The Parent Company and its Subsidiaries (the "Group") are all incorporated in the Philippines.

The consolidated financial statements of the Group as at and for the years ended December 31, 2013, 2012 and 2011 were approved and authorized for issuance by the Board of Directors (BOD) on April 14, 2014.

## 2. Basis of Preparation and Statement of Compliance

Basis of Preparation
The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS investments and investment properties which have been measured at fair value. The consolidated financial statements are presented in Philippine Peso, the Group's functional currency. All values are rounded to the nearest Peso except as otherwise indicated.

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

An additional consolidated statement of financial position as of January 1, 2012 is presented in these consolidated financial statements due to retrospective application of the Revised PAS 19.

Statement of Compliance
The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Group and its subsidiaries. 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 reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the 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 statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

## 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which were applied starting January 1, 2013. Except for the adoption of Philippine Accounting Standards (PAS) 19 Revised, *Employee Benefits*, and PFRS 10, *Consolidated Financial Statements*, these new and revised standards and interpretations did not have any significant impact on the Group's consolidated financial statements:

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments)

  These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format, unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

  a. The gross amounts of those recognized financial assets and recognized financial liabilities;

  b. The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

  c. The net amounts presented in the statement of financial position;

d. The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
   - Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
   - Amounts related to financial collateral (including cash collateral); and

e. The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments have no impact on the Group's financial position or performance.

- PFRS 10, *Consolidated Financial Statements*

  The Group adopted PFRS 10 in the current year. PFRS 10 replaced the portion of PAS 27, *Consolidated and Separate Financial Statements*, that addressed the accounting for consolidated financial statements. It also included the issues raised in SIC 12, *Consolidation - Special Purpose Entities*. PFRS 10 established a single control model that applied to all entities including special purpose entities. The changes introduced by PFRS 10 require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27.

  The application of PFRS 10 affected the accounting for the Group's investments in CIPC and VSNRGC.

  For all financial years up to December 31, 2012, CIPC and VSNRGC were considered to be associates under the previous PAS 28.

  At the date of initial adoption of PFRS 10, the Parent Company assessed that it jointly controls CIPC and VSNRGC on the basis that the decisions about the relevant activities of CIPC and VSNRGC require the unanimous consent of the parties sharing control.

  The adoption of PFRS 10 affects the disclosures only and has no significant impact on the Group's financial position or performance since the accounting of the said interests in joint ventures are still accounted for under the equity method of accounting.

- PFRS 11, *Joint Arrangements*

  On January 1, 2013, the Group adopted PFRS 11, *Joint Arrangements.* Under PFRS 11, when an entity has rights to the assets, and obligations for the liabilities, relating to the arrangement, the arrangement is a joint operation. When an entity has rights to the net assets of the arrangement, the arrangement is a joint venture. A joint arrangement that is not structured through a separate vehicle is a joint operation.

  A separate vehicle is a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality. A joint arrangement in which the assets and liabilities relating to the arrangement are held in a separate vehicle can be either a joint venture or a joint operation. Whether a party is a joint operator or a joint venturer depends on the party's rights to the assets and obligations for the liabilities, relating to the arrangements that are held in the separate vehicle. When the parties have structured a joint arrangement in a separate vehicle, the parties need to assess whether the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, any other facts and circumstances give the (a) rights to the assets, and obligations for the liabilities, relating to the arrangement (i.e., the arrangement is a joint operation) or (b) rights to the net assets of the arrangement (i.e., the arrangement is a joint venture).

PFRS 11 replaced PAS 31, *Interests in Joint Ventures*, and SIC 13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removed the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method.

The application of PFRS 11 resulted to the accounting of the Parent Company's interests in CIPC and VSNRGC as interests in joint ventures and accounted for such interests under the equity method.

The impact on the adoption of PFRS 11 was discussed under PFRS 10, *Consolidated Financial Statements*, above.

- PAS 19, *Employee Benefits* (Revised)

On January 1, 2013, the Group adopted the Revised PAS 19, *Employee Benefits.*

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

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

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

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

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk.

The impact of these changes on the relevant positions in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are shown below:

| | **December 31, 2013** | December 31, 2012 | January 1, 2012 |
|---|---|---|---|
| Increase (decrease) in: | | | |
| Consolidated statement of financial position: | | | |
| Pension liability | **₱26,469,237** | ₱15,687,514 | ₱8,982,382 |
| Deferred tax assets - net | **7,940,771** | 4,706,254 | 2,694,715 |
| Investment in associate | **(39,910,926)** | (32,378,815) | (33,157,449) |
| Remeasurement loss on employee benefits | **(874,453)** | (202,184) | – |
| Share in the remeasurement losses on employee benefits of associates | **(67,070,264)** | (59,416,917) | (58,955,501) |
| Retained earnings | **9,505,325** | 16,259,026 | 19,510,385 |

| | **2013** | 2012 |
|---|---|---|
| Increase (decrease) in: | | |
| Consolidated statement of comprehensive income: | | |
| Equity in net earnings of associates and joint ventures | **(₱362,682)** | ₱1,771,500 |
| Salaries and employee benefits (under Operating Expenses) | **7,528,113** | 3,545,467 |
| Salaries, wages and employee benefits (under "Generation costs") | **1,757,350** | 2,870,831 |
| | **9,285,463** | 6,416,298 |
| Income before income tax | **(9,648,145)** | (4,644,798) |
| Income tax benefit | **2,894,444** | 1,393,439 |
| Net income | **(6,753,701)** | (3,251,359) |
| Other comprehensive income: | | |
| Remeasurement loss on employee benefits | **(960,384)** | (288,834) |
| Income tax effect | **288,115** | 86,650 |
| Other comprehensive income for the year, net of tax | **(672,269)** | (202,184) |
| Share in the remeasurement losses on employee benefits of associates, net of tax | **(7,653,347)** | (461,416) |
| Total other comprehensive income | **(8,325,616)** | (663,600) |
| Total comprehensive income for the year | **(15,079,317)** | (3,914,959) |

Other than the restatement of the income before income tax and pension expense, the adoption of the Revised PAS 19 did not have any significant impact on the 2012 and 2011consolidated statements of cash flows.

- PFRS 12, *Disclosure of Interests in Other Entities*

  PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The adoption of PFRS 12 affects disclosures only and has no impact on the Group's financial position or performance. PFRS 12 disclosures are provided in Note 10.

- PFRS 13, *Fair Value Measurement*

  PFRS 13 establishes a single source of guidance under PFRSs for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

  As a result of the guidance in PFRS 13, the Group re-assessed its policies for measuring fair values. The Group has assessed that the application of PFRS 13 has no significant impact to its fair value measurements. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 24.

- PAS 1, *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI* (Amendments)

  The amendments to PAS 1 introduced a grouping of items presented in OCI. Items that will be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments affect presentation only and have no impact on the Group's financial position or performance.

- PAS 27, *Separate Financial Statements* (as revised in 2011)

  As a consequence of the issuance of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in the separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the separate financial statements of the Group.

- PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011)

  As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

  The application of PFRS 11 had an impact to the Parent Company's accounting of its investments in CIPC and VSNRGC (see Notes 4 and 10). The Parent Company has an indirect ownership interest in CIPC of 50%, through VEC, and VSNRGC of 46%, through Vics-Bakun. Prior to the transition to PFRS 11, CIPC and VSNRGC were accounted for as investments in associates and the Parent Company accounted for these entities as associates under the previously existing PAS 28 on the basis that the Parent Company has significant influence to govern the financial and operating policies of CIPC and VSNRGC. Upon adoption of PFRS 11, the Parent Company has determined that its interest in CIPC and VSNRGC should be accounted for as joint ventures under PFRS 11.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards - Government Loans* (Amendments)

  The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Group.

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

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*

  The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

- PAS 1, *Presentation of Financial Statements - Clarification of the Requirements for Comparative Information*

  These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Classification of Servicing Equipment*

  The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Group's financial position or performance.

- PAS 32, *Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments*

  The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Group's financial position or performance.

- PAS 34, *Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities*

  The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment does not have any significant impact on the Group's financial position or performance.

*New Standards and Interpretation Issued and Effective after December 31, 2013.* The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its consolidated financial statements.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)

  These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36.

  In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendment does not have any significant impact on the Group's financial position or performance.

- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27)

  These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group.

- Philippine Interpretation IFRIC 21, *Levies* (IFRIC 21)

  IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Group does not expect that IFRIC 21 will have material financial impact in future consolidated financial statements.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)

  These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. It is not expected that this amendment would be relevant to the Group.

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

  The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

- PAS 19, *Employee Benefits - Defined Benefit Plans: Employee Contributions* (Amendments)

  The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The Group does not expect that the amendments will have an impact on its financial position or performance.

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

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

  The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Group as it has no share-based payments.

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

  The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Group shall consider this amendment for future business combinations.

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

  The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*

  The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

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

  The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*

  The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  - The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  - The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

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

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'*

  The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

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

  The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Group's financial position or performance.

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

  The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PAS 40, *Investment Property*

  The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments*

  PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

  PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Group will not adopt the standard before the completion of the limited amendments and the second phase of the project.

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

  This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation 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 have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. Adoption of the interpretation when it becomes effective will not have any impact on the consolidated financial statements of the Group.

## 4. Summary of Significant Accounting Policies

Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit-or-loss (FVPL).

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument and derecognizes a financial asset (or part of a financial asset) when it no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed to an independent third party.

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. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS). The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- *Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling 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. Gains or losses on investments held for trading are recognized in the consolidated statement of comprehensive income.

  When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2013 and 2012, no financial assets have been designated as FVPL.

- *Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

  Classified as loans and receivables are the Group's cash and cash equivalents, trade and other receivables and advances to related parties.

- *HTM Investments.* Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Group has the positive intention and ability to hold it to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

  As of December 31, 2013 and 2012, the Group has no HTM investments.

- *AFS Financial Assets.* AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income. The Group has available for sale financial assets of ₱3.8 million and ₱8.9 million as of December 31, 2013 and 2012, respectively.

- *Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

  The 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 (or accretion) for any directly attributable transaction costs.

Included under this category are the Group's trade and other current payables, notes payable and advances from related parties.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Fair Value Measurement
The Group measures financial instruments, such as, cash on hand and in banks, short-term placements, trade and other receivables, trade and other payables, long-term debt and non-financial assets such as investment properties and AFS investments, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to 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 non-financial 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.

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as cash on hand and in banks, short-term investments, trade and other receivables, advances to associates and stockholders, AFS investments, trade and other payables, advances from related parties, long-term debt and notes payable and for non-recurring measurement, such as investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the management after discussion with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every 3–6 years. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Group's external valuers present the valuation results to the audit committee. This includes a discussion of the major assumptions used in the valuations.

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

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 rights to receive cash flows from the asset have 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 rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, 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 rights to receive cash flows from an asset 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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial Liabilities.* 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 comprehensive income.

*Impairment of Financial Assets.* The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

- *Assets Carried at Amortized Cost.* If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.

  The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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 of impairment.

  If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

  In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

- *AFS Financial Assets.* If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated statement of comprehensive income, is transferred from equity to the consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed in the consolidated statement of comprehensive income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of comprehensive income.

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

Investment in Associates and Interest in Joint Ventures
An associate is an entity over which the Group has significant influence. 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 those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and interests in joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The consolidated financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition is determined primarily on the basis of the moving average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Prepayments and Other Current Assets

Prepayments and other current assets are recognized and carried at cost, less any impairment in value. These are recognized as assets when it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be measured with reliability. An asset is not recognized in the consolidated statement of financial position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead such a transaction results in the recognition of an expense in the consolidated statement of comprehensive income.

Property, Plant and Equipment

Property, plant and equipment, except distribution utility assets, are stated at cost less accumulated depreciation and amortization, and impairment losses, if any.

Initially, an item of property, plant and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Depreciation and amortization is computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

| | Number of Years |
|---|---|
| Condominium units, building and improvements | 5–40 |
| Plant machineries and equipment | 5–10 |
| Leasehold and land improvements | 3–10 |
| Office furniture, fixtures and equipment | 2–10 |
| Transportation equipment | 5 |
| Tools and other assets | 5 |

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that such useful lives and depreciation and amortization method are consistent with the expected pattern of economic benefits from those assets.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect to those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.

Investment Properties

Investment properties are properties held by the Group either to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost. Subsequently, investment properties are measured at fair value with any change therein recognized in profit or loss following the fair value model.

The fair value of the Group's investment properties measured using the fair value model is based on the valuation carried out by independent appraisers.

The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices of similar properties.

Any gain or loss resulting from either a change in the fair value or the sale of investment properties is recognized in profit or loss in the year of change or derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner-occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by start of owner-occupation or of development with a view to sell.

Goodwill

Goodwill recognized in a business combination accounted for using the acquisition method, 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 Group's interest in the fair values of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or 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 or cash-generating unit's (CGU) fair value less costs to sell and 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. Where 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations, including impairment of inventories, are recognized in the consolidated statement of comprehensive 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 estimates the asset's or CGU's recoverable amount is estimated.

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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

- *Capital Stock.* Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured at par value for all issued shares.

- *Additional Paid-in Capital.* Consideration received in excess of par value are recognized as additional paid-in capital, net of incremental costs that are directly attributable to the issuance of new shares.

- *Retained Earnings.* Retained earnings represent the cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received as receivables, excluding discounts, rebates, and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Power*. Revenue from sale of power is recognized when delivery of power generated or purchased by the Group to the spot market or customers is completed, and is based on actual power delivered at prices prevailing in the spot market or agreed prices in power supply agreements.

*Management Fees.* Revenue from management fees are recognized when the related services are rendered based on management consultancy and service contracts.

*Interest Income.* Revenue is recognized as interest accrues taking into account the effective yield on the assets.

*Other Income, such as Rental Income, Gain on Redemption of an Equity Share in an Associate, Gain on Rescinded Contract*. These are generally recognized when earned. Rental income is recognized on a straight-line basis over the term of the lease while gain on redemption of an equity share in an associate is recognized as the difference between the proceeds received upon redemption and the corresponding carrying amount of the investment redeemed. Gain on rescinded contract is recognized as the difference between the carrying amount of the recorded asset returned, liability extinguished at the time of the rescission.

Cost and Expense Recognition

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized in the consolidated statement of comprehensive income when incurred.

Related Party Transactions

Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liability, income and expense accounts.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, 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 comprehensive 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 provision due to the passage of time is recognized as a borrowing cost.

Pension Benefits
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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

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 comprehensive 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 expense or income in the consolidated statement of comprehensive 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 consolidated statement of comprehensive income in subsequent periods.

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.

Income Taxes

*Current Income 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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

*Deferred Income Tax.* Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where 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 income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, 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 profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting 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 income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income 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 as of the reporting date. Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Deferred income 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 taxation authority.

*Sales Tax.* Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfillment of the arrangements is dependent on the use of 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 a substantial change to the asset.

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

*Group as a Lessee.* Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Foreign Currency Transactions
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at reporting date. Exchange gains and losses arising from foreign currency transactions and translations of foreign-currency-denominated monetary assets and liabilities are credited or charged to current operations.

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

Events After the Reporting Period
Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Share
Basic earnings per common share is calculated by dividing net income for the year attributable to the common stockholders of the Group by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stocks dividend declared.

Diluted earnings per share is calculated by dividing the net income for the year attributable to the common stockholders of the Group by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents.

As at December 31, 2013 and 2012, the Group does not have dilutive common stock equivalents.

## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. In preparing these consolidated financial statements, the Group made its best judgments and estimates of certain amounts, giving due consideration to materiality. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Group believes that the following represent a summary of these significant accounting judgments and estimates and the 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 have the most significant effect on the amounts recognized in the consolidated financial statements.

*Determining Functional Currency.* Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Group operates. It is the currency that mainly influences the sale of service and the cost of providing the service.

*Determining Fair Value of Financial Instruments.* The Group carries certain financial assets and liabilities to be carried at fair value which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair values would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity.

Where the fair value of the financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of consolidated financial statements.

As of December 31, 2013 and 2012, the carrying values of the Group's financial instruments approximate fair values due to their relatively short-term maturity (see Note 24).

*Determining Fair Value of Investment Properties*. The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statements of comprehensive income. The Group engaged an independent valuation specialist to assess the fair values of these properties as of December 31, 2013. The valuation which conforms to the International Valuation Standards was arrived at by reference to market evidence of transaction prices for similar properties.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 24.

Any gain or loss from a change in the fair value of each investment property is included in the consolidated statement of comprehensive income in the year in which the change arises.

As of December 31, 2013 and 2012, the carrying value of the Group's investment properties amounted to ₱274.1 million (see Note 12).

*Determining Operating Lease Commitments - Group as a Lessor.* The Group leased part of its office space to one of its associates and property leases on its investment properties. The Group has determined that all significant risks and rewards of ownership from the property remain with the lessor.

*Determining Operating Lease Commitments - Group as a Lessee.* 1590 EC entered into a Memorandum of Agreement (MOA) with the Provincial Government of La Union (PGLU) for the right to preserve, maintain and operate the Bauang Diesel Power Plant (BDPP), including the right to use and sell the power generated therefrom, and lease of office spaces. The Group has determined that it does not acquire all the significant risks and rewards of these properties which are leased on operating leases.

*Determining Joint Arrangements*. Judgment is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as the considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess its rights and obligations arising from the arrangement. Specifically, it considers (a) the structure of the joint arrangement - whether it is structured through a separate vehicle and, (b) when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from the legal form of the separate vehicle, the terms of the contractual arrangement and other facts and circumstances (when relevant).

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. The Group has joint arrangements pertaining to its interests in CIPC and VSNRGC, which are structured through separate vehicles, being a company structure. This structure, and the terms of the contractual arrangement indicate that the Group has rights to the net assets of the arrangements. Given this, the Group then had to assess the other facts and circumstances relating to these arrangements. After undertaking this assessment, there were a number of indicators for both a joint venture classification and a joint operation classification. Significant judgment was therefore required to determine how these factors would be analyzed. The final conclusion was that the Parent Company's investments in CIPC and VSNRGC were joint ventures.

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

*Estimating Impairment of Trade and Other Receivables and, Advances to Associates and Stockholders.* The Group maintains allowance for impairment losses at a level that management considers adequate to provide for potential uncollectibility of receivables. A review of the factors that affect the collectibility of the accounts including age and status of the receivables is made by management on a continuing basis to identify accounts to be provided with allowance. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losfses will increase the Group's recorded expenses and decrease current assets.

As of December 31, 2013 and 2012, trade and other receivables amounted to ₱746.1 million and ₱620.6 million, respectively, and advances to associates and stockholders amounted to ₱115.5 million and ₱28.8 million, respectively (see Note 16). No provision for impairment losses was recognized in 2013, 2012 and 2011.

*Estimating Allowance for Inventory Write-down.* The Group writes down inventory for an amount equal to the difference between the cost of inventory and the estimated NRV or current replacement cost based on assumptions about future use and sale, and technology that would affect the cost of inventories.

There was neither a provision nor a reversal of the write-down of inventories recognized in 2013, 2012 and 2011 (see Note 8). The NRV of inventories amounted to ₱99.2 million and ₱103.2 million as of December 31, 2013 and 2012, respectively (see Note 8).

*Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets.* The Group reviews annually the estimated useful lives of property, plant and equipment and intangible assets and updates the estimates based on expected asset utilization, market demands and future technological developments consistent with the Group's pursuit of constant modernization of its machineries, equipment and software. However, it is possible that the factors mentioned above may change in the future which could change the estimated useful lives of the property, plant and equipment and intangible assets. A reduction in the estimated useful lives could result in a significant increase in depreciation and amortization of property, plant and equipment and intangible assets.

The carrying value of the property, plant and equipment amounted to ₱62.6 million and ₱47.3 million as of December 31, 2013 and 2012, respectively (see Note 11). The carrying value of intangible assets amounted ₱0.3 million and ₱1.0 million as of December 31, 2013 and 2012, respectively (see Note 13).

*Estimating Impairment of AFS Investments.* The computation for the impairment of AFS investments requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In applying this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry and sector performance, legal and regulatory framework, changes in technology and other factors that affect the recoverability of the Group's investments, including normal volatility in share price for quoted equities and future cash flows and the discount factors for unquoted equities.

The fair value of Group's AFS investments amounted to ₱3.8 million and ₱8.9 million as of December 31, 2013 and 2012, respectively (see Note 9). In 2013, 2012 and 2011, the Group recognized impairment loss amounting to ₱5.0 million, ₱2.7 million and nil, respectively.

*Estimating Impairment of Non-financial Assets.* Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may be decreased:

- Property, plant and equipment
- Investment properties
- Intangible assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the recoverable amount, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, investment properties and intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

| | **2013** | 2012 |
|---|---|---|
| Property, plant and equipment (see Note 11) | **₱62,647,848** | ₱47,343,703 |
| Investment properties (see Note 12) | **274,071,000** | 274,071,000 |
| Intangible assets (see Note 13) | **343,872** | 951,746 |

The Group did not recognize any impairment loss on its nonfinancial assets in 2013, 2012 and 2011.

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

The carrying amount of goodwill as of December 31, 2013 and 2012 amounted to ₱42.6 million (see Note 13).

*Estimating Provision for Pension Expense.* The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

As of December 31, 2013 and 2012, the Parent Company's pension liability amounted to ₱18.7 million and ₱11.6 million, respectively (see Note 19). As of December 31, 2013, 1590 EC's pension asset amounted to ₱1.5 million and pension liability amounted to ₱4.1 million in 2012 (see Note 19).

*Estimating Realizability of Deferred Income Tax Assets.* The carrying amount of deferred income tax assets is reviewed at each reporting 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 such deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Group.

Deferred income tax assets that are recognized amounted to ₱21.4 million and ₱21.2 million as of December 31, 2013 and 2012, respectively (see Note 20). Deferred income tax assets have not been recognized on allowance for impairment loss of ₱4.7 million as of December 31, 2013 and 2012, net operating loss carry-over (NOLCO) of ₱36.8 million and ₱20.9 million as of December 31, 2013 and 2012, respectively, and minimum corporate income tax (MCIT) of ₱0.1 million as of December 31, 2013 and 2012 (see Note 20).

*Estimating Legal Contingencies.* The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements as of December 31, 2013 and 2012.

## 6. Cash and Cash Equivalents

| | 2013 | 2012 |
|---|---|---|
| Cash on hand and in banks | **₱1,711,048,047** | ₱484,836,823 |
| Short-term placements | **1,346,358,366** | 1,315,433,489 |
| | **₱3,057,406,413** | ₱1,800,270,312 |

Cash in banks generally earn interest at the respective bank deposit rates. Short-term placements represent time deposits with terms of not more than three months, with annual interest ranging from 1% to 4.625% and 0.50% to 4.60% in 2013 and 2012, respectively.

Interest income earned from the deposits in bank and short-term investments amounted to ₱29.0 million, ₱33.7 million and ₱16.6 million in 2013, 2012 and 2011, respectively.

## 7. Trade and Other Receivables

| | 2013 | 2012 |
|---|---|---|
| Trade receivables | **₱717,947,963** | ₱488,703,955 |
| Accounts receivable (see Note 16) | **23,820,924** | 54,161,927 |
| Advances to officers and employees (see Note 16) | **2,236,002** | 1,897,262 |
| Rent receivable | **32,578** | 40,908 |
| Note and interest-bearing receivables (see Note 16) | **–** | 75,601,295 |
| Others | **2,388,727** | 3,601,758 |
| | **746,426,194** | 624,007,105 |
| Less allowance for impairment losses | **333,032** | 3,395,274 |
| | **₱746,093,162** | ₱620,611,831 |

Trade receivables represent the receivables from Philippine Electricity Market Corporation (PEMC) through the Group's active participation in Wholesale Electricity Spot Market (WESM) which has a term of 30 days and earns interest of 1% plus the rate of the prevailing 91-day Treasury Bill published by the Bureau of Treasury per annum on the past due receivables.

Portion of the accounts receivable represents claims from VECO, CEDC, VSNRGC, DPI and TPC for management services rendered by the Group. These are noninterest-bearing and collectible within 30 to 45 days (see Note 16).

The movement in the allowance for impairment loss follows:

| | 2013 | 2012 |
|---|---|---|
| At January 1 | **₱3,395,274** | ₱3,395,274 |
| Write-off during the year | **(3,062,242)** | – |
| At December 31 | **₱333,032** | ₱3,395,274 |

## 8. Inventories and Prepayments and Other Current Assets

Inventories

The following are the inventories held by the Group which are carried at cost being lower than its NRV:

| | 2013 | 2012 |
|---|---|---|
| Spare parts | **₱45,910,443** | ₱50,855,029 |
| Heavy fuel oil | **42,418,530** | 48,668,205 |
| Lube oil | **7,691,793** | 1,115,122 |
| Light fuel oil | **3,139,238** | 2,563,413 |
| | **₱99,160,004** | ₱103,201,769 |

The cost of materials and supplies recognized under "Generation costs and other operating expenses" in the consolidated statement of comprehensive income amounted to ₱1,311.5 million, ₱1,426.3 million, and ₱560.9 million in 2013, 2012 and 2011, respectively (see Note 17).

Prepayments and Other Current Assets

| | 2013 | 2012 |
|---|---|---|
| Advances to suppliers | **₱199,904,425** | ₱395,822,967 |
| Input VAT | **51,154,197** | 12,323,259 |
| Prepaid insurance | **22,595,060** | 4,615,530 |
| Prepaid royalty fees | **12,739,990** | – |
| Prepaid taxes | **6,811,886** | 15,885,238 |
| Deferred input VAT | **–** | 22,186,356 |
| Creditable withholding taxes | **–** | 1,453,422 |
| Others | **1,565,721** | 1,183,785 |
| | **₱294,771,279** | ₱453,470,557 |

Advances to suppliers represent advance payments for the purchase of various plant parts and supplies for the succeeding year.

Input VAT represents the VAT imposed by the Group's suppliers of goods and services as required by Philippine taxation laws and regulations.

Prepaid royalty fees pertain to excess payments made by 1590 EC to PGLU pursuant to the MOA executed by the parties for the right to preserve, maintain and operate the BDPP, including the right to use and sell the power generated therefrom (see Note 23).

Deferred input VAT in 2012 represents input taxes on service level contracts entered by 1590 EC where services have already been performed but not yet paid.

Others include prepaid rent and advance payments of minor purchases of inventories for use in operations.

## 9. Available-for-Sale (AFS) Investments

This account is composed of investments in shares of stock of the following entities:

| | 2013 | 2012 |
|---|---|---|
| **At Fair Value** | | |
| Aboitiz Equity Ventures, Inc. | **₱395,500** | ₱395,500 |
| Philippine Long Distance Telephone Co. | **600** | 600 |
| Paper Industries of the Phils. | **31** | 31 |
| | **396,131** | 396,131 |
| **At Cost** | | |
| VC Exchange, Inc. (VEI) (net of impairment allowance of ₱8.34 million and ₱2.74 million in 2013 and 2012, respectively) | **–** | 5,007,071 |
| Cebu Country Club, Inc. (CCCI) | **3,400,000** | 3,400,000 |
| INCA Plastic Philippines (net of impairment allowance of ₱1.95 million) | **50,000** | 50,000 |
| | **3,450,000** | 8,457,071 |
| | **₱3,846,131** | ₱8,853,202 |

As of December 31, 2013 and 2012, the carrying amount of the Group's AFS investments includes unrealized valuation gain on fair value changes amounting to nil in 2013 and 2012, and ₱0.4 million in 2011 (see Note 24).

The movement in the allowance for impairment on AFS investments follows:

| | 2013 | 2012 |
|---|---|---|
| At January 1 | **₱4,688,047** | ₱1,950,000 |
| Impairment loss for the year | **5,007,071** | 2,738,047 |
| At December 31 | **₱9,695,118** | ₱4,688,047 |

Except for the investment in VEI and CCCI, the above investments represent the investments of HDFE in listed and non-listed equity securities that present opportunities for returns through dividend income and trading gains.

The fair values of the listed securities are based on quoted market prices. The non-listed equity securities are stated at cost, as their fair values cannot be reliably measured, less any impairment in value.

The investment in VEI represents VNI's investment in the former's common shares of stock, representing 15% ownership as of December 31, 2013 and 2012. In 2012, the Group determined that there are no further economic benefits to be recognized on 40% of the AFS investment in VEI after the latter ceased its operations. Hence, the Group recognized provision for impairment loss on AFS investment amounting to ₱2.7 million. In 2013, the Group recognized additional provision for impairment loss on AFS investment equal to the remaining book value investment in VEI (see Note 16).

In 2012, the Group acquired a proprietary ownership share in CCCI.

10. **Equity Investments**

a. Investments in Associates

| | 2013 | 2012 (As restated - see Note 3) |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | **₱2,407,217,791** | ₱2,187,090,004 |
| Additions | **200,000** | 251,032,342 |
| Conversion to equity | **7,643,900** | 2,431,100 |
| Disposals | **(27,507,600)** | (33,335,655) |
| At December 31 | **2,387,554,091** | 2,407,217,791 |
| Deposit for future stock subscription: | | |
| At January 1 | **7,643,900** | 10,075,000 |
| Conversion to equity | **(7,643,900)** | (2,431,100) |
| | **–** | 7,643,900 |
| Accumulated share in net earnings (losses): | | |
| At January 1, as previously reported | **567,444,249** | 761,527,769 |
| Share in the remeasurement losses on employee benefits of associates (see Note 3) | **(32,378,813)** | (33,157,449) |
| At January 1, as restated | **535,065,436** | 728,370,320 |
| Equity in net earnings of associates | **1,005,180,724** | 930,259,014 |
| Cash dividends received and receivable | **(979,868,460)** | (894,787,365) |
| Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment | **46,926,081** | 52,431,943 |
| Property dividends | **(265,421,432)** | (215,398,053) |
| Reversal relating to property and equipment disposed, net of tax | **–** | 2,444,350 |
| Disposals | **(97,664,776)** | (69,033,407) |
| Share in the remeasurement losses on employee benefits of associates (see Note 3) | **(7,653,347)** | 778,634 |
| At December 31, as restated | **236,564,226** | 535,065,436 |
| Share in revaluation increment: | | |
| At January 1 | **525,045,410** | 848,386,078 |
| Property dividends declared | **–** | (268,464,375) |
| Share in revaluation increment of an associate, net of tax | **884,597,344** | – |
| Share in the amount transferred to equity in net earnings representing depreciation on revaluation increment of an associate | **(46,926,081)** | (52,431,943) |
| Reversal relating to property and equipment disposed, net of tax | **–** | (2,444,350) |
| At December 31 | **1,362,716,673** | 525,045,410 |
| Carrying amount at December 31 | **₱3,986,834,990** | ₱3,474,972,537 |

b. Investments in Joint Ventures

The carrying amount of the Group's interest in joint ventures, which are immaterial, are accounted for using the equity method for the year ended December 31 follows:

| | 2013 | 2012 (As restated - see Note 3) |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | **₱49,125,000** | ₱6,431,250 |
| Conversion to equity | **–** | 42,693,750 |
| At December 31 | **49,125,000** | 49,125,000 |
| Deposit for future stock subscription: | | |
| At January 1 | **–** | 42,693,750 |
| Conversion to equity | **–** | (42,693,750) |
| | **–** | – |
| Accumulated share in net earnings (losses): | | |
| At January 1 | **138,887,734** | 107,707,890 |
| Equity in net earnings (losses) of joint ventures | **(188,012,734)** | 31,179,844 |
| At December 31, as restated | **(49,125,000)** | 138,887,734 |
| Carrying amount at December 31 | **₱–** | ₱188,012,734 |

The Group has unrecognized share in losses from results of operations of its joint ventures amounting to ₱212.8 million in 2013 and nil in 2012 and 2011.

The carrying values of investments in associates and joint ventures, which are accounted for under the equity method follows:

| | 2013 | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Associates: | | | |
| VECO | **₱2,248,531,902** | ₱1,841,343,426 | ₱2,078,994,068 |
| AHI | **1,545,891,226** | 1,335,973,374 | 1,336,893,867 |
| DPI | **104,517,094** | 121,950,435 | 118,713,109 |
| CPPC | **83,488,205** | 168,323,639 | 228,999,487 |
| AHPC | **3,902,854** | 6,881,663 | 9,820,871 |
| PEI | **503,709** | 500,000 | 500,000 |
| Joint ventures: | | | |
| VSNRGC | **–** | 186,253,053 | 154,499,327 |
| CIPC | **–** | 1,759,681 | 2,333,563 |
| | **₱3,986,834,990** | ₱3,662,985,271 | ₱3,930,754,292 |

The Group's associates and joint ventures, and the corresponding equity ownership as of December 31 follow:

| | | Percentage of Ownership | | |
|---|---|---|---|---|
| | Nature of Business | **2013** | 2012 | 2011 |
| Associates: | | | | |
| VECO | Power distribution | **34.74** | 34.74 | 34.74 |
| CPPC | Power generation | **40.00** | 40.00 | 40.00 |
| DPI | Power generation | **35.00** | 35.00 | 35.00 |
| PEI | Power generation | **40.00** | 40.00 | 40.00 |
| AHPC | Power generation | **30.00** | 30.00 | 30.00 |
| AHI | Holding company | **40.00** | 40.00 | 40.00 |
| Joint ventures: | | | | |
| VSNRGC | Power generation | **46.00** | 46.00 | 46.00 |
| CIPC | Power generation | **50.00** | 50.00 | 50.00 |

The following are selected financial information of the material associates of the Group as of and for the years ended December 31, 2013, 2012 and 2011:

<u>VECO</u>

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Total current assets | **₱3,208,266,606** | ₱2,566,547,673 | ₱2,665,290,943 |
| Total noncurrent assets* | **12,153,346,296** | 8,873,482,820 | 9,475,413,396 |
| Total current liabilities | **3,165,796,160** | 2,640,800,180 | 2,310,321,027 |
| Total noncurrent liabilities | **5,723,358,762** | 3,498,875,029 | 3,845,944,428 |
| Total equity | **6,472,457,980** | 5,300,355,284 | 5,984,438,884 |

**Inclusive of adjustments not taken up by the Group*

| | | | |
|---|---|---|---|
| Gross revenue | **19,387,138,622** | 18,574,241,503 | 16,296,842,070 |
| Operating profit | **2,265,158,396** | 1,475,939,835 | 1,256,591,063 |
| Net income | **1,588,026,904** | 1,038,257,891 | 885,612,773 |
| Group's share in net income | **551,680,547** | 360,690,791 | 307,661,877 |
| Proportion of Group's ownership | **34.74%** | 34.74% | 34.74% |
| Carrying amount of the investment | **2,248,531,902** | 1,841,343,426 | 2,078,994,068 |

The goodwill included in "Other noncurrent assets" account in the consolidated statements of financial position represents the excess of the acquisition cost over the Group's interest in recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities at the time of acquisition of HDFE, a subsidiary (see Note 13). Due to the acquisition of HDFE, the Group was able to obtain majority representation in VECO's BOD and is able to exercise significant influence over the financial and operating policies of VECO with whom HDFE has direct ownership interest of 25%.

On May 15, 2012, HDFE declared 50% or 95,638 common shares of its investment in VECO as property dividends to stockholders of record as of that date, hence reducing its investment to 12.5% or equivalent to ₱489.7 million. As a result, the Parent Company received 48,733 common shares or equivalent to ₱249.5 million of VECO increasing its direct interest to 28.37% as of December 31, 2012.

On February 12, 2013, HDFE declared the remaining 50% or 95,638 common shares of its investment in VECO as property dividends to stockholders of record as of the same date. The property dividend was approved by the SEC on April 19, 2013. Hence, such declaration reduced its remaining 12.5% investment to zero or equivalent to ₱489.69 million. As a result, the Parent Company received 48,733 common shares or equivalent to ₱249.45 million of VECO increasing its direct interest to 34.74% as of December 31, 2013.

AHI

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Total current assets | **₱795,384,316** | ₱331,933,342 | ₱432,669 |
| Total noncurrent assets* | **3,069,343,749** | 3,008,013,382 | 3,541,622,701 |
| Total current liabilities | **–** | 13,289 | 199,820,703 |
| Total equity | **3,864,728,065** | 3,339,933,435 | 3,342,234,667 |

**Inclusive of adjustments not taken up by the Group*

| | | | |
|---|---|---|---|
| Gross revenue | **850,892,671** | 875,740,286 | 580,107,924 |
| Operating profit | **850,808,979** | 875,571,053 | 578,642,904 |
| Net income | **850,799,577** | 875,567,437 | 578,636,947 |
| Group's share in net income | **340,319,831** | 350,226,974 | 231,454,779 |
| Proportion of Group's ownership | **40%** | 40% | 40% |
| Carrying amount of the investment | **₱1,545,891,226** | ₱1,335,973,374 | ₱1,336,893,867 |

In 2011, the Group's deposit for future stock subscription in AHI, representing common and preferred shares, previously paid in 2010 amounting to ₱112.7 million was converted to paid-up capital and additional investment amounting to ₱1,014 million was made while maintaining the 40% ownership, or for a total additional investment in AHI amounting to ₱1,127 million.

Individually Immaterial Associates
The carrying amount of the Group's interest in all individually immaterial associates that are accounted for using the equity method for the year ended December 31 follows:

| | **2013** | 2012 (As restated - see Note 3) |
|---|---|---|
| Income from continuing operations | **₱146,947,127** | ₱190,882,791 |
| Net income | **105,431,369** | 135,372,957 |
| Other comprehensive income (loss) | **2,262,509** | (838,777) |
| Total comprehensive income | **107,693,878** | 134,534,180 |

c. Material Partly-Owned Subsidiary

1590 EC
As of December 31, 2013, the Parent Company has a 52.70% indirect ownership interest in 1590 EC which is primarily engaged in power generation and is incorporated in the Philippines.

The summarized financial information of 1590 EC as of December 31 is provided below.

| | **2013** | 2012 (As restated - see Note 3) |
|---|---|---|
| Total current assets | **₱2,304,275,290** | ₱2,000,481,641 |
| Total noncurrent assets | **13,005,100** | 8,361,506 |
| Total current liabilities | **1,644,289,711** | 949,727,562 |
| Total noncurrent liabilities | **–** | 1,359,405 |
| Total equity | **672,990,679** | 1,057,756,180 |
| Sale of power | **2,601,488,956** | 2,665,545,488 |
| Operating profit | **679,947,151** | 1,083,458,627 |
| Net income | **476,654,563** | 955,709,563 |
| Total comprehensive income | **475,861,511** | 955,709,563 |
| Net income attributable to non-controlling interests | **225,457,608** | 452,050,623 |
| Total comprehensive income attributable to non-controlling interests | **225,082,495** | 452,050,623 |
| Dividends paid to non-controlling interests | **272,410,356** | – |

## 11. Property, Plant and Equipment

| **2013** | **Condominium Units, Building and Improvements** | **Plant Machineries and Equipment** | **Leasehold and Land Improvements** | **Office Furniture, Fixtures and Equipment** | **Transportation Equipment** | **Construction in Progress** | **Tools and Other Assets** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1 | **₱25,146,101** | **₱–** | **₱12,761,110** | **₱11,009,940** | **₱20,029,454** | **₱34,711** | **₱381,501** | **₱69,362,817** |
| Additions | **3,465** | **714,286** | **8,346,607** | **8,647,609** | **8,586,129** | **1,624,125** | **124,169** | **28,046,390** |
| At December 31 | **25,149,566** | **714,286** | **21,107,717** | **19,657,549** | **28,615,583** | **1,658,836** | **505,670** | **97,409,207** |
| **Accumulated Depreciation** | | | | | | | | |
| At January 1 | **7,462,203** | **–** | **3,125,859** | **5,948,652** | **5,393,915** | **–** | **88,485** | **22,019,114** |
| Depreciation | **882,493** | **83,333** | **2,317,393** | **4,681,707** | **4,662,319** | **–** | **115,000** | **12,742,245** |
| At December 31 | **8,344,696** | **83,333** | **5,443,252** | **10,630,359** | **10,056,234** | **–** | **203,485** | **34,761,359** |
| **Net Book Value** | **₱16,804,870** | **₱630,953** | **₱15,664,465** | **₱9,027,190** | **₱18,559,349** | **₱1,658,836** | **₱302,185** | **₱62,647,848** |

| 2012 | Condominium Units, Building and Improvements | Plant Machineries and Equipment | Leasehold and Land Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Construction in Progress | Tools and Other Assets | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At January 1 | ₱158,869,201 | ₱2,965,670,207 | ₱9,532,819 | ₱7,477,288 | ₱14,946,849 | ₱– | ₱199,891 | ₱3,156,696,255 |
| Additions | – | – | 3,458,126 | 3,532,652 | 5,856,355 | 34,711 | 181,610 | 13,063,454 |
| Disposal | – | – | (229,835) | – | (773,750) | – | – | (1,003,585) |
| Derecognition | (133,723,100) | (2,965,670,207) | – | – | – | – | – | (3,099,393,307) |
| At December 31 | 25,146,101 | – | 12,761,110 | 11,009,940 | 20,029,454 | 34,711 | 381,501 | 69,362,817 |
| **Accumulated Depreciation** | | | | | | | | |
| At January 1 | 31,464,118 | 556,627,867 | 1,863,898 | 2,666,127 | 1,820,444 | – | 23,283 | 594,465,737 |
| Depreciation | 5,746,630 | 103,196,057 | 1,491,796 | 3,282,525 | 3,791,708 | – | 65,202 | 117,573,918 |
| Disposal | – | – | (229,835) | – | (218,237) | – | – | (448,072) |
| Derecognition | (29,748,545) | (659,823,924) | – | – | – | – | – | (689,572,469) |
| At December 31 | 7,462,203 | – | 3,125,859 | 5,948,652 | 5,393,915 | – | 88,485 | 22,019,114 |
| **Net Book Value** | ₱17,683,898 | ₱– | ₱9,635,251 | ₱5,061,288 | ₱14,635,539 | ₱34,711 | ₱293,016 | ₱47,343,703 |

The Group has no fully depreciated assets still being used in operations as of December 31, 2013 and 2012.

Total depreciation and amortization charged to the following accounts in the consolidated statement of comprehensive income:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Generation costs | **₱115,000** | ₱107,912,497 | ₱323,509,983 |
| Operating expenses | **12,627,245** | 9,661,421 | 4,427,771 |
| | **₱12,742,245** | ₱117,573,918 | ₱327,937,754 |

On April 26, 2012, 1590 EC entered into a Mutual Rescission Agreement (MRA) with PGLU; as a result, the cost and the corresponding accumulated depreciation of the plant, buildings, machineries, improvements, equipment and other facilities included and integrated in the recognition of the power plant were derecognized (see Note 23).

## 12. Investment Properties

| | |
|---|---|
| Land | ₱270,103,000 |
| Buildings and improvements | 3,968,000 |
| | ₱274,071,000 |

Some of the Group's properties were leased out to outside parties to earn rental income (see Note 23). Total rental income amounted to ₱1.7 million in 2013 and 2012 recorded as part of "Other income" in the consolidated statement of comprehensive income.

A fair value gain of land amounting to ₱91.7 million was recognized in 2011. This was determined based on the appraisal report carried out in March 2012 by an independent appraiser. The valuation, which conforms to the International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties. There was no appraisal made in 2013 and management has assessed that there is no significant change in the fair value of these properties since its valuation date.

Real property taxes pertaining to the land amounted to ₱1.2 million and ₱0.5 million in 2013 and 2012, respectively, included under "Taxes and licenses" account in the consolidated statement of comprehensive income.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct, or develop investment properties.

Fair value hierarchy disclosures and description of the valuation techniques used and key inputs to the valuation for investment properties have been provided in Note 24.

## 13. **Other Noncurrent Assets**

| | **2013** | 2012 |
|---|---|---|
| Goodwill (see Note 10) | **₱42,559,451** | ₱42,559,451 |
| Advances to suppliers | **26,311,872** | 21,745,696 |
| Pension asset (see Note 19) | **1,525,382** | – |
| Software cost | **343,872** | 951,746 |
| Others | **1,215,530** | 731,912 |
| | **₱71,956,107** | ₱65,988,805 |

Goodwill represents the excess of the acquisition cost over the Group's interest in recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities at the time of acquisition of HDFE, a subsidiary (see Note 10).

Impairment Testing of Goodwill
Goodwill acquired through business combination has been allocated to a single cash-generating unit that is pertaining to an investment company, which is a reportable segment.

The recoverable amount of each unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Carrying amount of goodwill related to HDFE amounting to ₱42.6 million as of December 31, 2013 and 2012 is recorded as part of "Other noncurrent assets" in the consolidated statement of financial position (see Note 13). The goodwill is attributed to the expected synergies and other benefits from combining the assets of the investment company with those of the Group.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Interest rate used to discount the net cash flows from operations is 2.01% based on a one-year Philippine Treasury bill rate quoted by the Bureau of Treasury.

- Annual growth in metered sales and city street lighting is projected with an annual growth rate of 9% to 24% and 6% to 22%, respectively.

- Operating expenses are projected to increase from 12% to 22% depending on the nature of the expenses.

- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, no impairment was recognized on goodwill in 2013 and 2012.

Sensitivity to Changes in Assumptions
With regard to the assessment of the value-in-use of HDFE, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Advances to Suppliers
Advances to suppliers pertain to cash advances given to contactors and project partners that are to be used to finance the cost of project study, site development, plant rehabilitation, among others.

Software Costs
Software cost pertains to a subsidiary's accounting software. The movement of software costs is as follows:

| | 2013 | 2012 |
|---|---|---|
| **Cost** | | |
| At January 1 | **₱1,268,995** | ₱– |
| Additions | **49,150** | 1,268,995 |
| At December 31 | **1,318,145** | 1,268,995 |
| **Accumulated Amortization** | | |
| At January 1 | **317,249** | – |
| Additions | **657,024** | 317,249 |
| At December 31 | **974,273** | 317,249 |
| **Net Book Value** | **₱343,872** | ₱951,746 |

Due from RFM Corporation
Due from RFM Corporation is a receivable from the Group's previous owner. Based on management's assessment of this receivable, a full allowance for impairment losses was provided as of December 31, 2013 and 2012.

14. **Trade and Other Payables**

| | 2013 | 2012 |
|---|---|---|
| Trade payables (see Note 23) | **₱986,289,902** | ₱413,599,418 |
| Deferred output VAT | **146,151,528** | 192,016,176 |
| Output VAT | **129,763,407** | 41,793,905 |
| Dividends payable | **57,553,747** | 1,730,948 |
| Accrued expenses | **41,556,191** | 8,950,395 |
| Accrued taxes payable | **16,035,630** | 8,034,054 |
| Accounts payable | **9,265,285** | 1,986,866 |
| Accrued interest (see Note 15) | **6,775,368** | 4,111,538 |
| Unearned income | **3,000,000** | 4,000,000 |
| Others | **19,400,684** | 7,289,927 |
| | **₱1,415,791,742** | ₱683,513,227 |

Trade payables significantly consist of liabilities for a subsidiary's purchases of inventories from its suppliers, and the Group's collections of revenue from sale of power in excess of the amounts determined by PEMC in the adjustment bills for the supply months of November and December 2013. The said adjustments are currently the subject of the Motion for Reconsideration filed by the Group with the ERC (see Note 23). Trade payables for purchases of inventories are noninterest-bearing and are normally settled on a 30 to 45-day term.

Deferred output VAT is related to the recognition of the Group's revenue from WESM and its corresponding receivable. The deferred output VAT is eventually closed to output VAT upon collection of the related receivable.

Dividends payable consists of dividends to the non-controlling interests of the Group arising from declarations made by 1590 EC and HDFE. Dividends declared relating to non-controlling interests amounted to ₱477.8 million, ₱358.0 million and ₱94.5 million in 2013, 2012 and 2011, respectively.

Unearned income pertains to advance payments received by the Group from CPPC representing management fees (see Note 16).

Accrued expenses mainly consist of accruals of salaries and employee benefits, utilities expense, statutory payables, outside services and communication expenses, among others.

## 15. Notes Payable

| | **2013** | 2012 |
|---|---|---|
| Metropolitan Banking and Trust Company (Metrobank) | ₱– | ₱200,000,000 |
| Bank of the Philippine Islands (BPI) | – | 100,000,000 |
| Rizal Commercial Banking Corporation (RCBC) | – | 50,000,000 |
| China Banking Corporation (Chinabank) | – | 15,000,000 |
| | ₱– | ₱365,000,000 |

The above balance of notes payable, which are unsecured, as of December 31, 2012 is presented as "Current portion of notes payable" in the 2012 consolidated statement of financial position.

Metrobank
The balance of the note payable from Metrobank consists of the ₱15.0 million and ₱185.0 million obtained in 2009 and 2012, respectively. The ₱15.0 million loan bears interest at prevailing market rate and has a maturity of one (1) year from the drawdown date, subject to renewal. The ₱185.0 million loan bears interest at 3.75%. These loans were paid on their respective maturity dates in 2013.

BPI
The balance of the note payable from BPI consists of the ₱20.0 million and ₱80.0 million loan obtained in 2010 and 2012, respectively. The ₱20.0 million is a 7-day contract payable on January 5, 2011, with an interest rate of 4.4%. The ₱80.0 million loan was divided into two (2) promissory notes of ₱43.0 million and ₱37.0 million each, renewed every month with interest rate at 3.75% upon initial recognition and payable in lump sum at maturities. These loans were paid in 2013.

RCBC
In 2011, the Parent Company obtained unsecured loans from RCBC amounting to ₱87.0 million covering four (4) loans which bear interests ranging from 3.75% and 4.25%. In 2012, two (2) loans covering ₱37.0 million was paid off. The remaining loans which bear interest ranging from 4.00% to 5.00% were paid in 2013.

Chinabank
In 2010, a ₱100.0 million contracts payable was entered with Chinabank covering two loan agreements. The 7-day note of ₱70.0 million with an interest rate of 4.50% was payable on January 5, 2011 and the second note of ₱30.0 million was payable on April 22, 2011 with an interest rate of 5.25%. Only ₱85.0 million was paid in 2011, and the remaining balance paid in 2013.

Total interest expense related to notes payable in 2013, 2012 and 2011 amounted to ₱11.3 million, ₱27.3 million and ₱32.7 million, respectively, shown as part of "Finance costs" in the consolidated statements of comprehensive income, and the related accrued interest expense as of December 31, 2013 and 2012 amounted to nil and ₱0.9 million, respectively, shown as part of "Trade and other payables" account in the consolidated statement of financial position (see Note 14).

## 16. Related Party Transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

In the normal course of business, the Group enters into transactions with related parties, principally consisting of the following:

| | | 2013 | | |
|---|---|---|---|---|
| **Category** | **Volume** | **Outstanding Balance - Receivable (Payable)** | **Terms** | **Conditions** |
| **Advances Granted** (see Note 16a) | | | | |
| Joint venture: | | | | |
| VSNRGC | **₱4,954,210** | **₱8,339,782** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| CIPC | **75,344,630** | **86,729,830** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| Associate: | | | | |
| AHPC | **60,021,898** | **18,291,470** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| PEI | **–** | **1,532,400** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| AHI | **79,927,875** | **–** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| Stockholder with significant influence: | | | | |
| GPI | **–** | **(67,617)** | **Payable on demand; noninterest-bearing** | **Unsecured** |
| Interest on notes receivable (see Note 16b) | | | | |
| Stockholder with significant influence: | | | | |
| GPI | **751,416** | **–** | **3.6462% p.a. interest on notes receivable** | **Unsecured; no impairment** |
| EUVHCI | **692,549** | **–** | **3.6462% p.a. interest on notes receivable** | **Unsecured; no impairment** |

(Forward)

| | | 2013 | | |
|---|---|---|---|---|
| Category | Volume | Outstanding Balance - Receivable (Payable) | Terms | Conditions |
| Stockholder with no significant influence: | | | | |
| IHI | **₱86,569** | **₱–** | **3.6462% p.a. interest on notes receivable** | **Unsecured; no impairment** |
| Other non-controlling stockholder | **107,345** | **–** | **3.6462% p.a. interest on notes receivable** | **Unsecured; no impairment** |
| **Advances Received** (see Note 16c) | | | | |
| Associate: | | | | |
| Delta P. | **4,719,413** | **(58,156,080)** | **Payable on demand; noninterest-bearing** | **Unsecured** |
| VECO | **–** | **9,543** | **Payable on demand; noninterest-bearing** | **Unsecured; no impairment** |
| Stockholder with no significant influence: | | | | |
| IHI | **–** | **(25,000)** | **Payable on demand; noninterest-bearing** | **Unsecured** |
| Other non-controlling stockholder | **5,232,068** | **(8,897,840)** | **Payable on demand; noninterest-bearing** | **Unsecured** |
| **Notes Payable** (see Note 16c) | | | | |
| Joint venture: | | | | |
| VSNRGC | **31,250** | **(70,790,180)** | **Payable within 3 years; bears interest-rate of 4.1577% p.a.** | **Unsecured** |
| **Management Fees - Income** (see Note 16d) | | | | |
| Associates: | | | | |
| VECO | **30,056,400** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| Delta P. | **2,016,000** | **162,960** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| CPPC | **12,000,000** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| **Service Fees - Income** (see Note 16d) | | | | |
| Joint venture: | | | | |
| VSNRGC | **8,260,156** | **10,177,647** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| Associates: | | | | |
| VECO | **24,127,708** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| AHPC | **7,700** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| **Management Fees - Expense** (see Note 16e) | | | | |
| Stockholder with significant influence: | | | | |
| GPI | **27,000,000** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| **Service Fees - Expense** (see Note 16e) | | | | |

(Forward)

| | | 2013 | | |
|---|---|---|---|---|
| **Category** | **Volume** | **Outstanding Balance - Receivable (Payable)** | **Terms** | **Conditions** |
| Stockholder with significant influence | | | | |
| GPI | **₱23,870,000** | **₱–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| EUVHCI | **22,000,000** | **(3,300,000)** | **30-60 days; noninterest-bearing** | **Unsecured** |
| Stockholder with no significant influence | | | | |
| IHI | **2,750,000** | **(412,500)** | **30-60 days; noninterest-bearing** | **Unsecured** |
| Other non-controlling stockholder | **3,410,000** | **(511,500)** | **30-60 days; noninterest-bearing** | **Unsecured** |
| **Rental Income** (see Note 16f) | | | | |
| Associate: | | | | |
| VECO | **3,937,647** | **–** | **30-60 days; noninterest-bearing** | **Unsecured; no impairment** |
| | **₱391,304,834** | **(₱16,917,085)** | | |

| | | 2012 | | |
|---|---|---|---|---|
| Category | Volume | Outstanding Balance - Receivable (Payable) | Terms | Conditions |
| **Advances Granted** (see Note 16a) | | | | |
| Joint venture: | | | | |
| CIPC | ₱11,472,168 | ₱– | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| Associate: | | | | |
| AHPC | 1,411,843 | 3,223,149 | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| PEI | – | 1,532,401 | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| AHI | 79,927,875 | – | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| Affiliates: | | | | |
| VEI | 600,000 | – | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| Stockholder with significant influence: | | | | |
| GPI | 26,345,312 | 4,594,298 | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| **Notes Granted** (see Note 16b) | | | | |
| Associate: | | | | |
| AHPC | 2,570,133 | 2,594,999 | Payable in 1 year; bears 14.4% and 10% interest | Unsecured; no impairment |
| Stockholder with significant influence: | | | | |
| GPI | 34,683,892 | 34,683,892 | Payable in 1 year; bears 3.6462% p.a. interest | Unsecured; no impairment |

(Forward)

| | | 2012 | | |
|---|---|---|---|---|
| Category | Volume | Outstanding Balance - Receivable (Payable) | Terms | Conditions |
| EUVHCI | ₱31,966,720 | ₱31,966,720 | Payable in 1 year; bears 3.6462% p.a. interest | Unsecured; no impairment |
| Stockholder with no significant influence: | | | | |
| IHI | 4,954,842 | 4,954,842 | Payable in 1 year; bears 3.6462% p.a. interest | Unsecured; no impairment |
| Other non-controlling stockholders | 3,995,841 | 3,995,841 | Payable in 1 year; bears 3.6462% p.a. interest | Unsecured; no impairment |
| **Advances Received** (see Note 16c) | | | | |
| Joint venture: | | | | |
| VSNRGC | 3,017,616 | (68,258,119) | Payable on demand; noninterest-bearing | Unsecured |
| Associate: | | | | |
| Delta P. | 13,363,578 | (53,436,667) | Payable on demand; noninterest-bearing | Unsecured |
| Stockholder with no significant influence: | | | | |
| Other non-controlling stockholder | 93,156,887 | (1,281,852) | Payable on demand; noninterest-bearing | Unsecured |
| **Notes Payable** (see Note 16c) | | | | |
| Joint venture: | | | | |
| VSNRGC | 3,157,204 | (3,238,997) | Payable on demand; | Unsecured |
| **Management Fees - Income** (see Note 16d) | | | | |
| Joint venture: | | | | |
| VSNRGC | 26,004,370 | 28,109,807 | 30-60 days | Unsecured; no impairment |
| Associate: | | | | |
| Delta P. | 1,944,000 | – | 30-60 days | Unsecured; no impairment |
| CPPC | 12,000,000 | 4,000,000 | 30-60 days | Unsecured; no impairment |
| VECO | 35,056,400 | 2,699,795 | 30-60 days | Unsecured; no impairment |
| Affiliate: | | | | |
| CEDC | 70,200,000 | 6,435,000 | 30-60 days | Unsecured; no impairment |
| TPC | 721,196 | – | 30-60 days | Unsecured; no impairment |
| **Management Fees - Expense** (see Note 16e) | | | | |
| Stockholder with significant influence: | | | | |
| GPI | 119,500,000 | (59,675,000) | Payable on demand; noninterest-bearing | Unsecured |
| JDC | 13,656,588 | – | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| MRC | 17,233,711 | – | Payable on demand; noninterest-bearing | Unsecured; no impairment |

(Forward)

| Category | 2012 Volume | Outstanding Balance - Receivable (Payable) | Terms | Conditions |
|---|---|---|---|---|
| Stockholder with no significant influence | | | | |
| IHI | ₱6,250,000 | (₱6,875,000) | Payable on demand; noninterest-bearing | Unsecured |
| Other non-controlling stockholder | 150,000 | – | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| **Rental Income** (see Note 16f) | | | | |
| Associate: | | | | |
| VECO | 2,932,586 | – | 30-60 days | Unsecured; no impairment |
| Receivables from officers and employees | | | | |
| Officers and employees | 5,146,877 | 1,897,262 | Payable on demand; noninterest-bearing | Unsecured; no impairment |
| | ₱621,419,639 | (₱62,077,629) | | |

a. These are noninterest-bearing cash advances to associates, affiliates and stockholders. Also, the Group advances funds for certain expenses of associates.

   The outstanding current portions of the advances, presented as "Advances to associates and stockholders" account in the consolidated statement of financial position, is noninterest-bearing and are due on demand.

b. On August 10, 2012, 1590 EC granted loans to its stockholders with a term of one (1) year and earns interest of 3.6462% per annum. This was subsequently collected in 2013.

   Interest income recognized from the Group's interest-bearing notes receivable amounted to ₱3.5 million, ₱2.3 million and ₱0.1 million in 2013, 2012 and 2011, respectively, and are presented as part of "Interest income" account in the consolidated statement of comprehensive income.

c. "Advances from related parties" accounts are interest and noninterest-bearing cash advances from the Group's associates and stockholders.

   All of the outstanding advances are unsecured, noninterest-bearing and are due on demand except for the advances from VSNRGC in 2012. Advances from VSNRGC which are payable on demand within 3 years with the interest accrued at the PDST-F rate, which is 3.6577% plus 0.50% for a term of three (3) years from the date of the loan. Interest expense and accrued interest related to this amounted to ₱2.9 million and ₱5.9 million, respectively, in 2013.

   Advances from "non-controlling stockholders" pertain to cash advances provided by certain non-controlling stockholders of VMHI in 2012 and of 1590 EC in 2013 and 2012 to augment the working capital requirements.

   "Trade and other payables" account also includes noninterest-bearing due on demand advances from VEI, an affiliate of VNI, which was offset against the latter's AFS investment in 2012 (see Note 14).

d. Management and service fees represent the compensation for the services rendered by the Group to and for the use of its facilities by the associates. These are governed by management consultancy and service-level contracts executed by the Group and its associates. These are recognized as "Management fees" and "Service fees" presented as part of the Group's revenue in the consolidated statement of comprehensive income.

e. Outstanding receivables for management fees presented as part of "Accounts receivable" under "Trade and other receivables" account in the consolidated statement of financial position as of December 31, 2013 and 2012 amounted to ₱29.6 million and ₱226.9 million (see Note 7).

f. The Group also entered into a consultancy and management service agreement with its stockholders to perform management consultancy services.

   Expenses incurred related to the consultancy and management service agreements are recognized as part of "Professional fees" and "Repairs and maintenance" under "Generation costs" and "Management fees" and "Professional fees" under "Operating expenses" in 2013 and 2012 (see Note 17).

   Outstanding balance from these service agreements included as part of "Advances from related parties" in the consolidated statements of financial position amounted to ₱4.2 million and ₱66.6 million as of December 31, 2013 and 2012, respectively.

g. The Group has a lease agreement with VECO (see Note 23). VECO leased an office space owned by the Group to be utilized as their Customer Care Office. The monthly rental is ₱0.3 million in 2013, ₱0.2 million in 2012 and 2011, subject to an annual increase of 10%.

   The Group recognized, as part of "Other income" account in the consolidated statements of comprehensive income, the amount of ₱3.0 million in 2013, ₱2.9 million in 2012 and ₱2.7 million in 2011 representing rent income received from VECO.

The above transactions are generally settled through cash.

The retirement fund of a subsidiary is in the form of a trust being maintained and managed by a trust and investment entity in the Philippines. The fund, which is invested mostly in fixed income securities, has a carrying amount and fair value of ₱9.3 million as of December 31, 2013 (see Note 19). The Group does not have any other transactions with the fund since its establishment in 2013.

Compensation and Benefits of Key Management Personnel

The compensation of the of the Group's key management personnel by benefit type as follows:

| | 2013 | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Short-term employee benefits | **₱40,254,493** | ₱30,831,832 | ₱7,138,724 |
| Post-employment pension benefits (see Note 19) | **6,476,063** | 2,454,658 | – |
| | **₱46,730,556** | ₱33,286,490 | ₱7,138,724 |

## 17. **Generation Costs and Operating Expenses**

Generation Costs

The Group's generation costs pertain to the costs incurred in the operation of the BDPP (see Note 23):

| | 2013 | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Heavy fuel oil (see Note 23) | **₱1,120,423,098** | ₱990,396,899 | ₱456,152,899 |
| Rent (see Note 23) | **140,000,000** | 84,000,000 | 18,734,064 |
| Materials and supplies | **128,782,038** | 381,012,270 | 66,726,978 |
| Salaries, wages and employee benefits (see Note 18) | **42,247,517** | 38,694,109 | 34,319,555 |
| Lube oil | **32,746,186** | 29,425,334 | 8,176,919 |
| Light fuel oil | **25,093,002** | 22,263,940 | 27,927,336 |
| Supply and metering charges | **23,698,987** | 23,785,736 | 12,952,735 |
| Professional fees (see Note 16e) | **20,250,000** | 20,357,899 | 20,279,425 |
| Repairs and maintenance | **18,935,187** | 71,771,310 | 24,157,376 |
| Insurance | **18,625,942** | 32,077,511 | 25,786,734 |
| Contractual and outside services | **17,199,290** | 14,954,094 | 13,664,442 |
| Purchased power (see Note 23) | **16,883,018** | 27,102,921 | 18,485,047 |
| Royalty fees (see Note 23) | **12,698,043** | – | – |
| Market fees (see Note 23) | **3,022,906** | 1,445,248 | 969,569 |
| Taxes and licenses | **1,478,989** | 337,692 | 430,843 |
| Light and power | **1,207,528** | 1,233,539 | 1,058,952 |
| Transportation | **626,331** | 1,214,976 | 1,092,038 |
| Depreciation and amortization (see Notes 11 and 23) | **115,000** | 107,912,497 | 323,509,983 |
| Miscellaneous | **9,504,547** | 158,464 | 2,243,700 |
| | **₱1,633,537,609** | ₱1,848,144,439 | ₱1,056,668,595 |

Other Operating Expenses

| | 2013 | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Office supplies | **₱4,442,200** | ₱3,215,892 | ₱1,921,493 |
| Repairs and maintenance | **2,741,534** | 1,844,284 | 1,388,718 |
| Regulatory expenses | **1,047,707** | 397,587 | 3,013,091 |
| Stockholders' meeting expenses | **951,335** | 349,240 | 360,614 |
| Miscellaneous expenses | **20,166,900** | 6,614,451 | 6,026,352 |
| | **₱29,349,676** | ₱12,421,454 | ₱12,710,268 |

Regulatory expenses represent payments of various charges imposed by the PSE and SEC.

Miscellaneous expenses represents employee training and development expenses, donations and contributions, brokerage fees, insurance expenses, medical and health expenses, outing expenses, and bank charges among others.

## 18. **Personnel Expenses**

| | 2013 | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Salaries, wages and employee benefits | **₱104,599,326** | ₱66,240,402 | ₱49,918,145 |
| Directors' compensation and benefit | **2,787,493** | 2,733,333 | 2,294,444 |
| Pension costs (see Note 19) | **9,285,463** | 6,416,298 | 8,982,382 |
| | **₱116,672,282** | ₱75,390,033 | ₱61,194,971 |

## 19. **Retirement Plan**

The Group has an unfunded, noncontributory, defined benefit pension plan covering all regular, permanent employees for VC while it has a funded, noncontributory defined benefit pension plan for 1590 EC. Both plans provide lump sum benefits upon a member's normal retirement. The benefits are based on the member's final monthly salary and length of service with the Group.

The retirement fund of 1590 EC's employees is administered by a trust and investment entity in the Philippines under the supervision of a trustee. The trustee is responsible for the investment strategy of the plan.

Under the existing regulatory framework, Republic Act 7641, The Retirement Pay Law, 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.

The following tables summarize the components of pension expense recognized in the consolidated statement of comprehensive income and the funded status and amounts recognized in the consolidated statement of financial position for the pension plan.

The components of the pension expense recognized under "Generation costs" and "Operating expenses" in the consolidated statement of comprehensive income follow:

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Current service cost | **₱4,261,557** | ₱5,783,040 | ₱8,982,382 |
| Past service cost | **4,066,629** | – | – |
| Net interest cost | **957,277** | 633,258 | – |
| Pension expense | **₱9,285,463** | ₱6,416,298 | ₱8,982,382 |

Remeasurement effects recognized in the consolidated statement of comprehensive income follow:

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Actuarial loss on defined benefit plan | **₱1,507,689** | ₱288,834 | ₱– |
| Return on assets excluding amount included in net interest cost | **(11,429)** | – | – |
| | **₱1,496,260** | ₱288,834 | ₱– |

The pension liability resulting from the unfunded retirement plan of the Parent Company amounted to ₱18.72 million and ₱11.59 million as of December 31, 2013 and 2012, respectively.

The pension liability (asset) resulting from the funded retirement plan of 1590 EC follows:

| | **2013** | 2012 (As restated - see Note 3) |
|---|---|---|
| Present value of defined benefit obligation | **₱7,756,047** | ₱4,101,187 |
| Fair value of plan asset | **(9,281,429)** | – |
| Pension liability (asset) | **(₱1,525,382)** | ₱4,101,187 |

Changes in the present value of the defined benefit obligation follow:

| | 2013 | 2012 (As restated - see Note 3) |
|---|---|---|
| At January 1 | **₱15,687,514** | ₱8,982,382 |
| Current service cost | **4,261,557** | 5,783,040 |
| Interest cost on defined benefit obligation | **957,277** | 633,258 |
| Past service cost | **4,066,629** | – |
| Actuarial loss (gain) due to: | | |
| Changes in financial assumptions | **1,368,129** | 924,304 |
| Experience adjustments | **139,560** | (635,470) |
| At December 31 | **₱26,480,666** | ₱15,687,514 |

Changes in the fair value of plan assets representing the funded retirement plan of 1590 EC follow:

| | 2013 | 2012 (As restated - see Note 3) |
|---|---|---|
| At January 1 | **₱–** | ₱– |
| Contributions to the retirement fund | **9,270,000** | – |
| Return on assets excluding amount included in net interest income | **11,429** | – |
| At December 31 | **₱9,281,429** | ₱– |

Changes in the amounts recognized in the consolidated statement of financial position for pension follows:

| | 2013 | 2012 (As restated - see Note 3) |
|---|---|---|
| At January 1 | **₱15,687,514** | ₱8,982,382 |
| Pension expense for the year | **9,285,463** | 6,416,298 |
| Actuarial loss recognized for the year | **1,496,260** | 288,834 |
| Contributions to retirement fund | **(9,270,000)** | – |
| At December 31 | **₱17,199,237** | ₱15,687,514 |

The fair value of the plan assets of by each class as of December 31, 2013 are as follows:

| | |
|---|---|
| Fixed income securities: | |
| Savings deposit | ₱1,232 |
| Due from Bangko Sentral ng Pilipinas | 9,269,000 |
| Accrued interest receivable | 16,920 |
| Total assets | 9,287,152 |
| Liabilities of the fund: | |
| Accrued trust fees | 3,663 |
| Withholding taxes payable | 2,060 |
| Total liabilities | 5,723 |
| Fair value of plan assets | ₱9,281,429 |

The control and administration of the fund vest on the trustee. The trustee shall have the full and complete power and authority to hold, manage, administer, convert, sell, assign, alter, divide, invest and reinvest the fund without distinction between principal and income, to the same extent and with the same effect as might be lawfully done by persons who own and control property and may thus exercise every power and right with respect to each item of property in this trust authority specified in the agreement and expressly conferred upon it by law.

The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of providing the necessary funding for the benefits payable under the plan and achieving such liquidity as the trustee shall, in its discretion, deem appropriate in the circumstances. The Group's current investment strategy consists substantially of fixed income securities.

The principal assumptions used in determining pension liability (asset) for the Group's pension plan as of December 31 follow:

| | **2013** | 2012 |
|---|---|---|
| Discount rate | **6.38%−5.79%** | 6.11%−6.08% |
| Future salary increase rate | **7.50%−6.00%** | 7.50%−6.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2013, assuming all other assumptions were held constant:

| | Increase (Decrease) | Present Value Change of Defined Benefit Obligation |
|---|---|---|
| Discount rate | +100 basis points | (₱4,132,237) |
| | −100 basis points | 1,820,569 |
| Future salary increase rate | +100 basis points | 1,594,574 |
| | −100 basis points | (4,012,212) |

The average duration of the defined benefit obligation as of December 31, 2013 is 13.5 years for the Parent Company and 25.1 years for 1590 EC.

The Group expects to contribute ₱8.7 million to the defined benefit plan in 2014.

The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payment as of December 31, 2013:

| | |
|---|---|
| Less than one year | ₱6,163,290 |
| More than one year to five years | 8,221,121 |
| More than five years to 10 years | 8,668,848 |
| More than 10 years to 15 years | 13,092,768 |
| More than 15 years to 20 years | 17,125,631 |
| More than 20 years | 170,838,117 |
| Total | ₱224,109,775 |

## 20. **Income Taxes**

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Current | **₱216,784,056** | ₱176,533,911 | ₱11,597,307 |
| Final | **6,695,118** | 3,060,829 | 2,755,887 |
| | **223,479,174** | 179,594,740 | 14,353,194 |
| Deferred | **(2,046,742)** | (629,252) | 31,780,100 |
| | **₱221,432,432** | ₱178,965,488 | ₱46,133,294 |

The reconciliation of income tax expense computed at the applicable statutory rates to income tax expense in the consolidated statement of comprehensive income is as follows:

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Income before income tax | **₱1,525,877,276** | ₱2,210,613,128 | ₱853,877,396 |
| Tax calculated at 30% statutory rate | **₱457,763,183** | ₱663,183,938 | ₱256,163,219 |
| Adjustments for the tax effects of: | | | |
| Equity in net earnings of associates | **(245,150,397)** | (288,803,672) | (207,238,785) |
| Non-deductible expenses | **10,472,475** | 1,762,191 | 3,598,027 |
| Unrecognized NOLCO and derecognition of expired NOLCO | **5,479,453** | 5,874,536 | 699,305 |
| Interest income subject to final tax | **(5,183,737)** | (10,074,730) | (2,233,281) |
| Gain on redemption of an equity interest subjected to final tax | **(3,046,662)** | (5,451,357) | (6,826,680) |
| Change in value of unrecognized deferred income tax assets | **1,279,421** | 681,491 | 437,212 |
| Nontaxable gain on rescinded contract | **–** | (193,138,547) | – |
| Others | **(181,304)** | 4,931,638 | 1,534,277 |
| | **₱221,432,432** | ₱178,965,488 | ₱46,133,294 |

The components of the Group's net deferred income tax assets as of December 31 are as follows:

| | **2013** | 2012 (As restated - see Note 3) |
|---|---|---|
| Deferred income tax assets on: | | |
| Allowance for impairment losses | **₱13,923,329** | ₱14,842,002 |
| Pension liability | **5,081,858** | 4,619,604 |
| NOLCO | **1,562,021** | 1,563,723 |
| Remeasurement loss on employee benefits | **535,528** | 86,650 |
| Deferred expenses | **348,723** | 7,500 |
| MCIT | **2,148** | 12,253 |
| Unrealized foreign exchange loss | **–** | 117,686 |
| | **21,453,607** | 21,249,418 |
| Deferred income tax liability on unrealized foreign exchange gain | **54,324** | – |
| | **₱21,399,283** | ₱21,249,418 |

The components of the Group's deferred income tax liabilities are as follows:

| | **2013** | 2012 |
|---|---|---|
| Unrealized fair value gain on investment property | **₱27,521,100** | ₱27,521,100 |
| Accrued rent | **6,264** | 9,047 |
| Unrealized foreign exchange gain | **–** | 1,441,326 |
| Capitalized issue cost on capital increase | **–** | 901,647 |
| | **₱27,527,364** | ₱29,873,120 |

As of December 31, 2013, the Group has accumulated NOLCO and MCIT which can be claimed as deduction against future taxable income and income tax due, respectively, as follows:

| Period of Recognition | Availment Period | As at December 31, 2012 | Additions | Applied | Expired | As at December 31, 2013 |
|---|---|---|---|---|---|---|
| **NOLCO** | | | | | | |
| 2010 | 2011-2013 | ₱2,385,852 | ₱– | ₱– | (₱2,385,852) | ₱– |
| 2011 | 2012-2014 | 5,263,993 | – | – | – | 5,263,993 |
| 2012 | 2013-2015 | 18,505,890 | – | – | – | 18,505,890 |
| 2013 | 2014-2016 | – | 18,259,171 | – | – | 18,259,171 |
| | | ₱26,155,735 | ₱18,259,171 | – | (₱2,385,852) | ₱42,029,054 |
| **MCIT** | | | | | | |
| 2010 | 2011-2013 | ₱22,415 | ₱– | ₱– | (₱22,415) | ₱– |
| 2011 | 2012-2014 | 132,610 | – | – | – | 132,610 |
| | | ₱155,025 | ₱– | ₱– | (₱22,415) | ₱132,610 |

In 2013 and 2012, the Group has deductible temporary differences for which deferred tax assets have not been recognized since management believes that no sufficient taxable income will be available in the year these are expected to be reversed, settled or realized. These unrecognized deductible temporary differences follow:

| | **2013** | 2012 |
|---|---|---|
| NOLCO | **₱36,822,317** | ₱20,943,325 |
| Allowance for impairment losses | **4,688,047** | 4,688,047 |
| | **41,510,364** | 25,631,372 |
| MCIT | **130,462** | 142,772 |
| | **₱41,640,826** | ₱25,774,144 |

## 21. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding shares in 2013, 2012 and 2011.

The Parent Company's issued common shares as of December 31, 2013 and 2012 consists of 224,880,067 common shares and 600,000,000 preferred shares that were listed in the Philippine Stock Exchange since 2003 and 198,576,631 preferred shares that were approved for listing by the PSE on June 29, 2004. In June 2005, the SEC approved the amendment to Article VII that relates to the conversion of the Parent Company's preferred shares to common shares.

The Parent Company has 1,481 and 1,501 stockholders as of December 31, 2013 and 2012, respectively, and has complied with the Minimum Public Ownership requirement of the PSE for listed entities as of the same dates.

Dividends
The BOD of the Parent Company declared cash dividends to its stockholders as follows:

| | **2013** | 2012 | 2011 |
|---|---|---|---|
| Date of declaration | **June 21, 2013** | June 15, 2012 | June 23, 2011 |
| Date of record | **July 4, 2013** | July 4, 2012 | July 7, 2011 |
| Date of payment | **July 30, 2013** | July 16, 2012 | August 2, 2011 |
| Dividends declared: | | | |
| Regular dividends | **159,501,588** | 144,968,499 | 131,765,909 |
| Special dividends | **50,000,000** | 50,000,000 | 50,000,000 |
| | **₱209,501,588** | ₱194,968,499 | ₱181,765,909 |
| Dividends per share | **₱0.2047** | ₱0.1905 | ₱0.1776 |

Appropriation of Retained Earnings for Business Expansion
On December 20, 2013, a resolution was passed and duly approved by the BOD allowing the participation and investment by the Parent Company in prospective power plant projects in the Visayas and Mindanao. In the same board meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1,856.5 million to be used for future investments in these projects which are expected to start in the first quarter of 2014.

Unappropriated Retained Earnings
As at December 31, 2013 and 2012, the consolidated retained earnings include earnings of the subsidiaries, associates and joint ventures amounting to ₱1.4 billion and ₱1.9 billion, respectively, which are not available for dividend declaration.

## 22. Earnings Per Share (EPS)

The amounts of earnings per share are computed as follows:

| | **2013** | 2012 (As restated - see Note 3) | 2011 (As restated - see Note 3) |
|---|---|---|---|
| Net income attributable to shareholders of the Parent Company | **₱1,008,748,891** | ₱1,461,200,409 | ₱670,651,494 |
| Weighted average number of outstanding common shares | **1,023,456,698** | 1,023,456,698 | 1,023,456,698 |
| Basic and diluted EPS | **₱0.986** | ₱1.428 | ₱0.655 |

There are no potential dilutive shares as of December 31, 2013, 2012 and 2011.

## 23. Contracts and Commitments

Supply Agreement for Heavy Fuel
On April 1, 2012, 1590 EC entered into a Supply Agreement (Consignment) with Pilipinas Shell Petroleum Corporation (PSPC) for the supply of the entity's petroleum product requirements. Under the agreement, PSPC shall sell and deliver, or procure to be delivered, and 1590 EC shall purchase the entity's entire petroleum products exclusively from PSPC. The agreement is in force for a period of two (2) years commencing April 1, 2012 to April 30, 2014.

Heavy fuel oil expense recognized in the consolidated statement of comprehensive income amounted to ₱1,120.4 million, ₱990.4 million and ₱456.2 million in 2013, 2012 and 2011, respectively (see Note 17).

Operating Leases - Group as Lessor
The Group entered into lease agreements with third parties to lease out its land and building classified under "Investment properties" in the consolidated statement of financial position (see Note 12).

The Group also leased out an office space to VECO (see Note 16g). The lease agreement has no lease term and can be terminated upon mutual agreement of parties and upon 30 days prior written notice.

Participation in WESM
The revenue from sale of power recognized by 1590 EC amounting to ₱2.6 billion in 2013, ₱2.6 billion in 2012 and ₱1.3 billion in 2011 were generated from its participation in the trading of electricity at the Wholesale Electricity Supply Market (WESM).

On December 23, 2013, as a result of two separate Petitions filed against the Manila Electric Company (Meralco), the Energy Regulatory Commission (ERC), and the Department of Energy (DOE), the Supreme Court (SC) issued a temporary restraining order (TRO) to Manila Electric Company (Meralco) enjoining it from increasing the generation rates it charged to its consumers arising from the increased generation costs from its suppliers for the supply month of November 2013, including the supply from the Wholesale Electricity Supply Market (WESM). The said TRO also enjoined the ERC from implementing its December 9, 2013 letter authorizing Meralco to implement from its customers a staggered collection of its increased generation costs for the supply month of November 2013. The TRO was for a period of 60 days from December 23, 2013 to February 21, 2014.

On January 10, 2014, the SC impleaded Meralco's suppliers of generation costs, including Philippine Electricity Market Corporation (PEMC), the operator of the WESM, as additional parties-respondents in the cases.

On February 18, 2014, the SC extended the TRO for another 60 days up to April 22, 2014 and expanded the TRO to prevent PEMC from collecting from Meralco the increased generation costs. As a result of the TRO, Meralco has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has been prevented from paying its suppliers of generation costs, including PEMC.

On March 11, 2014, the ERC released its ERC Order (in ERC Case No. 2014-021MC, dated March 3, 2014) voiding the Luzon WESM prices during the November and December 2013 supply months and declaring the imposition of regulated prices in lieu thereof. Based on the WESM adjustment bills from PEMC for the said billing periods, the Group recorded a reduction in its 2013 revenue from sale of power of 1590 EC and NR aggregating to ₱2.1 billion. The Group also recognized as liabilities the collections of revenue from sale of power in excess of the amounts determined by PEMC in the adjustment bills amounting to ₱385.9 million (see Note 14).

The Group filed for Motion for Reconsideration on ERC's decision on March 28, 2014 and are currently awaiting the resolution thereof.

Amounts recognized in the consolidated statements of comprehensive income related to 1590 EC's participation in WESM trading, are presented as "Purchased power" and "Market fees" under "Generation costs" aggregating to ₱19.9 million, ₱28.5 million and ₱19.5 million in 2013, 2012 and 2011, respectively. Trade receivable from WESM has a term of 30 days and earns interest of 2% plus the rate of the prevailing 91-day Treasury Bill per annum on the past due receivables. Total interest income earned amounted to ₱0.6 million, ₱3.7 million and ₱0.7 million in 2013, 2012 and 2011, respectively.

Contract to Sell Involving a Power Plant

On December 8, 2010, a Contract to Sell (CTS) was executed in favor of 1590 EC to purchase the diesel power plant owned by PGLU. 1590 EC recognized a long-term debt equivalent to the purchase price of the power plant in the amount of ₱3.1 billion subject to a total down payment of ₱559.5 million payable on January 26, 2011 and July 26, 2011 in the amount of ₱146.5 million and ₱413.0 million plus 6% interest rate per annum, respectively. The balance of ₱2.5 billion (after deducting the consideration from the interim agreement of ₱50.0 million) plus 6% interest rate per annum, is payable in thirty-six (36) equal monthly installments commencing on August 26, 2011 (see Note 11). Payments made for the purchases of the power plant are allocated between PGLU and to an escrow account, managed by a reputable commercial banking institution. Upon full payment, PGLU shall execute a Deed of Absolute Sale transferring ownership to 1590 EC and all payments deposited into the escrow account shall be transferred to PGLU.

On July 23, 2011, an amendment to the CTS was made moving the deadline for payment of the ₱413.0 million plus 6% interest per annum from July 26, 2011 to January 26, 2012. As a result of the deferral of the second down payment, incremental monthly interest payments shall be made every 26$^{th}$ day of each month commencing on August 26, 2011 until the second down payment is due on January 26, 2012 for a total amount of ₱12.5 million. All other payments indicated in the CTS and the schedule of payments remained the same.

As of December 31, 2011, 1590 EC paid a total of ₱550.6 million as first down payment and monthly amortization inclusive of the consideration for the extension of the exclusive right to purchase and the right to an interim management and operation of the power plant under the Interim Agreement.

The PGLU remains to be the owner of the property until full payment by 1590 EC of the purchase price. In the event that 1590 EC will discontinue its payments to PGLU, the payments already made shall be forfeited in favor of the latter and 1590 EC shall transfer possession of the properties to PGLU without need of demand.

On April 26, 2012, 1590 EC and PGLU agreed to mutually rescind the December 8, 2010 CTS and its amendments on July 23, 2011 through a MRA. As a result of the MRA, the ownership of the BDPP shall remain with the PGLU and any obligation of the PGLU to sell the BDPP and all assets included in the CTS to the 1590 EC shall be extinguished. Likewise, any and all payment obligations of 1590 EC under the CTS shall also be extinguished.

The MRA also provides that in consideration, as well as, the grant of concomitant rights to preserve, maintain, and operate the BDPP, together with the right to use and sell power from December 8, 2010 until the execution of the MRA, PGLU shall be entitled to the monthly payments already received under the CTS which shall be credited in favor of the settlement of this obligation by 1590 EC amounting to ₱228.7 million. Further, total monthly payments deposited to the escrow account from the execution of the CTS shall be reverted back in favor of 1590 EC.

As a result of the MRA, the Company recorded a “Gain on rescinded contract” amounting to ₱643.8 million, as the difference of the derecognition of the property, plant, and equipment and long-term debt (see Note 11), and the return of cash from the escrow account amounting to ₱674.4 million. Cash received from the escrow account includes interest earned, net of final tax, amounting to ₱9.8 million.

Immediately upon execution of the MRA, PGLU authorized 1590 EC to preserve, maintain and operate the BDPP, as well as the right to use and sell power, in order to ensure the continued operation and maintenance of the BDPP as a source of power as required by public interest for a consideration of a monthly payment of ₱10.5 million (see Note 17).

<u>Operating Leases - Group as Lessee</u>
On May 11, 2012, a MOA was entered into by 1590 EC and PGLU for the right to preserve, maintain and operate the BDPP, including the right to use and sell the power generated therefrom. The MOA commenced on May 26, 2012 until June 25, 2013, but subject to yearly renewal unless otherwise terminated by a mutual agreement, for a monthly consideration of ₱10.5 million.

On March 22, 2013, a new MOA was executed by the Company and PGLU for the continued operation, preservation, maintenance and management of the BDPP. The MOA is for a period of one year commencing immediately after the expiration of the first MOA or on June 26, 2013, provided that it shall be renewed under the same terms and conditions set forth in the MOA for another one year. The new MOA provides for a monthly consideration of ₱12.5 million. On April 2, 2014, an amendment to the MOA was executed thereby extending the agreement to December 31, 2015. All other terms and conditions remain.

In addition, the MOA stipulates for the payment by 1590 EC to PGLU of royalty fees equivalent to 1590 EC’s one and one-half percent (1.5%) of monthly gross profit, the latter computed as 1590 EC’s monthly revenues less monthly costs related to heavy fuel, light fuel and lube oil.

Total rent expense from this operating lease amounted to ₱140.0 million and ₱84.0 million in 2013 and 2012, respectively, and total royalty fees recognized in the 2013 consolidated statement of comprehensive income amounted to ₱12.7 million (see Note 17).

<u>Professional Fees</u>
Professional fees represent expenses for management consultancy, technical consultancy, legal, and auditing services. These are covered by consultancy and service contracts. These are recognized as “Professional fees” presented as part of the Group’s operating expenses in the consolidated statement of comprehensive income.

## 24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, advances to related parties, AFS investments, trade and other payables, notes payable and advances from related parties. The main purpose of these financial instruments is to raise funds for the Group's operations.

The main risks from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk. The BOD reviews and agrees policies for managing each of these risks and these policies are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

With respect to cash investments, the risk is mitigated by the short-term and/or liquid nature of its investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing.

Receivable balances are actively monitored on an ongoing basis and acted upon regularly to avoid significant concentrations of credit risk.

Except for Due from RFM which is fully provided with allowance for impairment and portion of the receivables provided with allowance amounting to ₱3.40 million, management evaluated that the Group's consolidated financial assets as summarized above are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for doubtful accounts, amounted to ₱3.9 million and ₱2.5 million as of December 31, 2013 and 2012, respectively.

There are no significant concentrations of credit risk within the Group.

The following tables set out the aging analysis per class of financial assets that were past due but not impaired as of December 31:

| | 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | | |
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱3,057,081,413** | **₱–** | **₱–** | **₱–** | **₱–** | **₱–** | **₱3,057,081,413** |
| Trade and other receivables | **600,141,776** | **19,323,198** | **27,756,231** | **1,261,833** | **97,610,124** | **333,032** | **746,426,194** |
| Advances to related parties | **106,118,219** | **–** | **–** | **–** | **9,368,764** | **–** | **115,486,983** |
| **AFS Investments** | **3,846,131** | **–** | **–** | **–** | **–** | **–** | **3,846,131** |
| | **₱3,767,187,539** | **₱19,323,198** | **₱27,756,231** | **₱1,261,833** | **₱106,978,888** | **₱333,032** | **₱3,922,840,721** |

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired: Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 Days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱1,800,270,312 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱1,800,270,312 |
| Trade and other receivables | 619,511,831 | 1,100,000 | – | – | – | 3,395,274 | 624,007,105 |
| Advances to related parties | 28,753,622 | – | – | – | – | – | 28,753,622 |
| **AFS Investments** | 8,853,202 | – | – | – | – | – | 8,853,202 |
| | ₱2,457,388,967 | ₱1,100,000 | ₱– | ₱– | ₱– | ₱3,395,274 | ₱2,461,884,241 |

The following tables summarize the credit quality per class of financial assets that were neither past due nor impaired as of December 31:

| | **2013** | | | | |
|---|---|---|---|---|---|
| | | **Neither Past Due nor Impaired** | | | **Past Due or Individually Impaired** |
| | **Total** | **High Grade** | **Standard** | **Substandard** | |
| **Loans and Receivables** | | | | | |
| Cash and cash equivalents (excluding cash on hand) | **₱3,057,081,413** | **₱3,057,081,413** | **₱–** | **₱–** | **₱–** |
| Trade and other receivables | **746,426,194** | **746,093,162** | **–** | **–** | **333,032** |
| Advances to related parties | **115,486,983** | **115,486,983** | **–** | **–** | **–** |
| **AFS investments** | **3,846,131** | **3,846,131** | **–** | **–** | **–** |
| | **₱3,922,840,721** | **₱3,922,507,689** | **₱–** | **₱–** | **₱333,032** |

| | 2012 | | | | |
|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | Past Due or Individually Impaired |
| | Total | High Grade | Standard | Substandard | |
| **Loans and Receivables** | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱1,800,270,312 | ₱1,800,270,312 | ₱– | ₱– | ₱– |
| Trade and other receivables | 624,007,105 | 620,611,831 | – | – | 3,395,274 |
| Advances to related parties | 28,753,622 | 28,753,622 | – | – | – |
| **AFS investments** | 8,853,202 | 8,853,202 | – | – | – |
| | ₱2,461,884,241 | ₱2,458,488,967 | ₱– | ₱– | ₱3,395,274 |

The credit quality of the financial assets was determined as follows:

- *Cash and Cash Equivalents* - high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.

- *Trade and Other Receivables* - high grade since these pertains to receivables from customers or parties who have established good credit standing with the Group.

- *Advances to Related Parties* - high grade since these pertains to advances to related parties since these are from related parties who are consistent in the payment of its accounts.

- *AFS Investments* - high grade since these pertains to investments in AFS securities, which include listed shares, of companies with good credit standing.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

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 and the Group's trade receivables are maintained to meet maturing obligations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity instruments.

The following tables summarize the Group's financial assets that can be used to manage its liquidity risk and the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of December 31:

| | | **2013** | | | | |
|---|---|---|---|---|---|---|
| | | **Contractual Undiscounted Payments** | | | | |
| | **Total Carrying Amount** | **Total** | **On Demand** | **Less than 1 Year** | **1 to 5 Years** | **More than 5 Years** |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents | **₱3,057,406,413** | **₱3,057,406,413** | **₱3,057,406,413** | **₱–** | **₱–** | **₱–** |
| Trade and other receivables | **746,093,162** | **746,426,194** | **–** | **746,093,162** | **333,032** | **–** |
| Advances to related parties | **115,486,983** | **115,486,983** | **115,486,983** | **–** | **–** | **–** |
| AFS Investments: | | | | | | |
| AFS Investments | **3,846,131** | **3,846,131** | **–** | **3,846,131** | **–** | **–** |
| | **3,922,832,689** | **3,923,165,721** | **3,172,893,396** | **749,939,293** | **333,032** | **–** |
| **Financial Liabilities** | | | | | | |
| Trade and other current payables* | **1,118,904,665** | **1,118,904,665** | **–** | **1,118,904,665** | **–** | **–** |
| Notes payable | **–** | **–** | **–** | **–** | **–** | **–** |
| Advances from related parties | **142,744,333** | **142,744,333** | **142,744,333** | **–** | **–** | **–** |
| | **1,261,648,998** | **1,261,648,998** | **142,744,333** | **1,118,904,665** | **–** | **–** |
| **Net Financial Assets (Liabilities)** | **₱2,661,183,691** | **₱2,661,516,723** | **₱3,030,149,063** | **(₱368,965,372)** | **₱333,032** | **₱–** |

**Excluding statutory payables and unearned income*

| | | 2012 | | | | |
|---|---|---|---|---|---|---|
| | | Contractual Undiscounted Payments | | | | |
| | Total Carrying Amount | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents | ₱1,800,270,312 | ₱1,800,270,312 | ₱1,800,270,312 | ₱– | ₱– | ₱– |
| Trade and other receivables | 617,216,557 | 620,611,831 | – | 617,216,557 | 3,395,274 | – |
| Advances to related parties | 28,753,622 | 28,753,622 | 28,753,622 | – | – | – |
| AFS Investments: | | | | | | |
| AFS Investments | 8,853,202 | 8,853,202 | – | 8,853,202 | – | – |
| | 2,455,093,693 | 2,458,488,967 | 1,829,023,934 | 626,069,759 | 3,395,274 | – |
| **Financial Liabilities** | | | | | | |
| Trade and other current payables* | 450,681,212 | 450,681,212 | 450,681,212 | – | – | – |
| Notes payable | 365,000,000 | 365,000,000 | – | 365,000,000 | – | – |
| Advances from related parties | 197,458,244 | 197,458,244 | 197,458,244 | – | – | – |
| | 1,013,139,456 | 1,013,139,456 | 648,139,456 | 365,000,000 | – | – |
| **Net Financial Assets** | ₱1,441,954,237 | ₱1,445,349,511 | ₱1,180,884,478 | ₱261,069,759 | ₱3,395,274 | ₱– |

**Excluding statutory payables and unearned income*

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense is denominated in a different currency from the Group's functional currency.

The Group has recognized in its consolidated statement of comprehensive income, net foreign exchange gain of ₱3.0 million and ₱4.5 million on its foreign currency transactions in 2013 and 2012, respectively.

The table below demonstrates the sensitivity to a reasonable possible change in the Philippine Peso, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2013 and 2012.

| | Change in Philippine Peso to US Dollar | |
|---|---|---|
| | 3.29% Appreciation | 2.89% Depreciation |
| Effect in income before income tax: | | |
| **2013** | **(₱13,067,211)** | **₱11,480,247** |
| 2012 | 2,818,927 | (2,476,200) |

| | Change in Philippine Peso to Euro | |
|---|---|---|
| | 4.34% Appreciation | 4.94% Depreciation |
| Effect in income before income tax: | | |
| **2013** | **(₱1,541)** | **₱1,175** |
| 2012 | (11,504) | 13,094 |

There is no other impact on the Group's equity other than those already affecting the consolidated income before income tax.

The foreign-currency-denominated monetary assets and their Philippine Peso equivalents follow:

| | **2013** | | |
|---|---|---|---|
| | **USD** | **EUR** | **Php Equivalent** |
| **Assets** | | | |
| Cash | **US$3,246,080** | **€584** | **₱144,145,218** |
| Prepayments and other current assets | **5,700,416** | **–** | **253,069,968** |
| | **US$8,946,496** | **€584** | **₱397,215,186** |

| | 2012 | | |
|---|---|---|---|
| | USD | EUR | Php Equivalent |
| **Asset** | | | |
| Cash | US$2,086,997 | €4,861 | ₱85,998,733 |
| **Liability** | | | |
| Trade and other payables | 2,434,300 | – | 108,070,749 |
| | (US$347,303) | €4,861 | (₱22,072,016) |

The December 31 exchange rate used follows:

| | **2013** | 2012 |
|---|---|---|
| US Dollar | **₱44.40 to US$1** | ₱41.05 to US$1 |
| Euro Dollar | **₱60.82 to €1** | ₱54.53 to €1 |

As a result of the translation of these net foreign-currency-denominated assets and liabilities, the Group reported an unrealized foreign exchange gain of ₱2.1 million and ₱2.9 million in 2013 and 2012, respectively.

Fair Value of Financial Instruments
Fair value is defined as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

Fair Value Hierarchy
The Group uses the following hierarchy for determining the fair value of financial instruments:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2: valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

- Level 3: valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

As of December 31, 2013 and 2012, the carrying values of the Group's financial instruments approximate fair values due to their relatively short-term maturity.

The Group's AFS investments and investment properties, which are classified under Level 1 and Level 3, respectively, are measured at fair value. As of December 31, 2013 and 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Changes in Valuation Techniques
There were no changes in the valuation techniques used by the Group in determining the fair value of its AFS investments and investment properties during the year.

Highest and Best Use
As at December 31, 2013, the current use of the Group's investment properties is considered its highest and best use.

Fair Value Hierarchy
The following table shows an analysis of the Group's assets measured at fair value recognized in the consolidated statement of financial position by level of the fair value hierarchy:

| | | Fair Value Measurement Using | | |
|---|---|---|---|---|
| | Total | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **Assets measured at fair value:** | | | | |
| AFS investments (see Note 9) | ₱395,500 | ₱395,500 | ₱– | ₱– |
| Investment properties (see Note 12): | | | | |
| Land | 270,103,000 | – | – | 270,103,000 |
| Buildings and improvements | 3,968,000 | – | – | 3,968,000 |
| | 274,071,000 | – | – | 274,071,000 |
| | ₱274,466,500 | ₱395,500 | ₱– | ₱274,071,000 |

Unrealized valuation gain on AFS investments, recognized in the consolidated statement of comprehensive income, amounted to nil in 2013 and 2012, and ₱385,500 in 2011 (see Note 9). Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statement of comprehensive income, amounted to nil in 2013 and 2012, ₱91.7 million in 2011 (see Note 12).

All gains and losses recorded in the consolidated statements of comprehensive income for recurring fair value measurement categorized within Level 3 of the fair value hierarchy are attributable to changes in unrealized valuation gain on AFS investments and unrealized gain on fair value remeasurement of investment properties held at the end of the reporting period.

As of December 31, 2013, the Group does not have liabilities measured at fair value. There were no transfers between Levels 1 and 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Valuation Techniques Used to Derive Level 3 Fair Value

The table below presents the following for each class of the Group's investment properties as of December 31, 2013 (see Note 12):

- The fair value measurements at the end of the reporting period;
- The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety;
- A description of the valuation techniques applied;
- The inputs used in the fair value measurement; and
- For Level 3 fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.

| Class of Property | Fair Value as of December 31, 2013 | Valuation Technique | Key Unobservable Inputs | Range |
|---|---|---|---|---|
| Investment properties (see Note 10): | | | | |
| Land | ₱270,103,000 | Sales Comparison Approach | Price per square meter | ₱787–₱34,920 |
| Buildings | 3,968,000 | Cost Approach | Reproduction cost | 488,000–1,882,000 |

Descriptions and Definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values:

*Sales Comparison Approach*. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

The appraiser gathers data on actual sales and/or listings, offers, and renewal options, and identifies the similarities and differences in the data, ranks the data according to their relevance, adjusts the sales prices of the comparable to account for the dissimilarities with the unit being appraised, and forms a conclusion as to the most reasonable and probable market value of the subject property.

The elements of comparison include location, physical characteristics, available utilities, zoning, and highest and best use. The most variable elements of comparison are the site's physical characteristics, which include its size and shape, frontage, topography and location.

*Cost Approach*. This is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer's profit/loss is commonly added.

*Sensitivity Analysis to Significant Changes in Unobservable Inputs within Level 3 of the Hierarchy*

- *Land*. Significant increases (decreases) in price per square meter in isolation would result in a significantly higher (lower) fair value measurement.

- *Buildings and Improvements*. Significant increases (decreases) in the reproduction cost in isolation would result in a significantly higher (lower) fair value measurement.

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 2013, 2012 and 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group determines net debt as the sum of long-term debt and notes payable less cash and cash equivalents.

Gearing ratios of the Group as of December 31 are as follows:

| | **2013** | 2012 (As restated - see Note 3) |
|---|---|---|
| Notes payable | **₱–** | ₱365,000,000 |
| Less: cash and cash equivalents | **3,057,406,413** | 1,800,270,312 |
| Net cash and cash equivalents (a) | **(3,057,406,413)** | (1,435,270,312) |
| Equity | **6,470,070,702** | 4,794,551,671 |
| Equity and net cash and cash equivalents (b) | **₱3,412,664,289** | ₱3,359,281,359 |
| Gearing ratio (a/b) | **(0.90):1.00** | (0.43):1.00 |

25. **Operating Segment Information**

The Group is currently organized into two operating segments: the Group's activity of investing in shares of stock and 1590 EC's power generation operation.

The operating segments and their corresponding principal activities are as follows:

Investing in Shares of Stock
As disclosed in Note 1, except for 1590 EC, VMHI and Core, the Parent Company and all other subsidiaries are operating as holding and investing companies. Revenue from this segment principally comes from equity in net earnings and management fees from investee companies.

Power Generation
1590 EC operates a diesel power plant wherein power generated is primarily traded at WESM while VMHI and Core are on its pre-operating stage of building a hydro power plant in Silay, Negros Occidental and operating as a retail electricity supplier, respectively (see Note 1).

The segment results for the years ended December 31, 2013, 2012 and 2011 are as follow:

| | | **2013** | |
|---|---|---|---|
| | **Power Generation** | **Investing in Shares of Stock** | **Consolidated** |
| Revenues from external customers | **₱2,593,003,368** | **₱2,003,536** | **₱2,595,006,904** |
| Revenue from inter-segment, associates and affiliates | **212,467** | **3,292,454,538** | **3,292,667,005** |
| Interest income | **8,677,984** | **24,914,968** | **33,592,952** |
| Inter-segment revenues | **–** | **(2,304,004,049)** | **(2,304,004,049)** |
| | **2,601,893,819** | **1,015,368,993** | **3,617,262,812** |
| Income from operations | **755,376,797** | **796,232,227** | **1,551,609,024** |
| Finance cost | **–** | **(17,210,327)** | **(17,210,327)** |
| Forex currency exchange gain | **2,951,800** | **–** | **2,951,800** |
| Gain on redemption of an equity interest in an associate | **–** | **10,155,539** | **10,155,539** |
| Other expense | **(1,013,045)** | **(20,615,715)** | **(21,628,760)** |
| Income before income tax | **757,315,552** | **768,561,724** | **1,525,877,276** |
| Income tax expense | **(203,292,588)** | **(18,139,844)** | **(221,432,432)** |
| Net income for the period | **₱554,022,964** | **₱750,421,880** | **₱1,304,444,844** |

| | | 2012 (As restated - see Note 3) | |
|---|---|---|---|
| | Power Generation | Investing in Shares of Stock | Consolidated |
| Revenues from external customers | ₱2,638,625,802 | ₱1,849,261 | ₱2,640,475,063 |
| Revenue from inter-segment, associates and affiliates | – | 1,271,689,004 | 1,271,689,004 |
| Interest income | 24,907,255 | 22,685,071 | 47,592,326 |
| Inter-segment revenues | – | (156,590,000) | (156,590,000) |
| | 2,663,533,057 | 1,139,633,336 | 3,803,166,393 |
| Income from operations | 464,809,891 | 1,140,437,875 | 1,605,247,766 |
| Finance cost | (29,677,774) | (31,454,568) | (61,132,342) |
| Forex currency exchange gain | 643,795,158 | – | 643,795,158 |
| Gain on redemption of an equity interest in an associate | – | 18,171,194 | 18,171,194 |
| Other income | 4,531,352 | – | 4,531,352 |
| Income before income tax | 1,083,458,627 | 1,127,154,501 | 2,210,613,128 |
| Income tax expense | (127,749,064) | (51,216,424) | (178,965,488) |
| Net income for the period | ₱955,709,563 | ₱1,075,938,077 | ₱2,031,647,640 |

| | 2011 (As restated - see Note 3) | | |
|---|---|---|---|
| | Power Generation | Investing in Shares of Stock | Consolidated |
| Revenues from external customers | ₱1,298,454,988 | ₱6,533,782 | ₱1,304,988,770 |
| Revenue from inter-segment, associates and affiliates | – | 843,250,835 | 843,250,835 |
| Interest income | 1,264,040 | 15,462,205 | 16,726,245 |
| Inter-segment revenues | – | (21,940,000) | (21,940,000) |
| | 1,299,719,028 | 843,306,822 | 2,143,025,850 |
| Income from operations | 183,677,843 | 745,552,356 | 929,230,199 |
| Finance cost | (156,949,254) | (32,896,149) | (189,845,403) |
| Forex currency exchange gain | – | 91,737,000 | 91,737,000 |
| Gain on redemption of an equity interest in an associate | – | 22,755,600 | 22,755,600 |
| Income before income tax | 26,728,589 | 831,975,555 | 853,877,396 |
| Income tax expense | (8,375,529) | (37,757,765) | (46,133,294) |
| Net income for the period | ₱18,353,060 | ₱794,217,790 | ₱807,744,102 |

The Group's Chief Operating Officer monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

Of the Group's total revenues, about 54% and 69% pertains to energy fees of 1590 EC in 2013 and 2012, respectively. In 2013, 100% of energy fees arising from power generation segment revenue are derived from trading at WESM, an external customer, of the electricity generated. In 2012, approximately 3% of the energy fees were derived also by selling energy through a bilateral contract.

Inter-segment revenues are eliminated upon consolidation and reflected in the 'inter-segment revenues' row.

Other segment information included in the consolidated statement of financial position as of December 31, 2013, 2012 and 2011 is as follows:

| | **2013** | | |
|---|---|---|---|
| | **Power Generation** | **Investing in Shares of Stock** | **Consolidated** |
| Assets | **₱2,340,743,316** | **₱6,392,929,883** | **₱8,733,673,199** |
| Liabilities | **1,677,380,531** | **89,533,163** | **1,766,913,694** |
| Capital expenditures | **663,362,785** | **6,303,396,720** | **6,966,759,505** |

| | 2012 | | |
|---|---|---|---|
| | Power Generation | Investing in Shares of Stock | Consolidated |
| Assets | ₱2,008,843,147 | ₱4,234,912,052 | ₱6,2943,755,199 |
| Liabilities | 951,086,967 | 407,230,751 | 1,358,317,718 |
| Capital expenditures | 1,057,756,180 | 4,639,350,564 | 5,697,106,744 |

| | 2011 | | |
|---|---|---|---|
| | Power Generation | Investing in Shares of Stock | Consolidated |
| Assets | ₱3,320,462,410 | ₱5,074,290,875 | ₱8,394,753,285 |
| Liabilities | 3,218,415,793 | 957,251,158 | 4,175,666,951 |
| Capital expenditures | 102,046,617 | 4,117,039,717 | 4,219,086,334 |

Other segment information included in the consolidated statement of comprehensive income for the year ended December 31, 2013, 2012 and 2011 is as follows:

| | Power Generation | Investing in Shares of Stock | Consolidated |
|---|---|---|---|
| Depreciation and amortization: | | | |
| 2013 | ₱4,045,852 | ₱8,382,012 | ₱12,427,864 |
| 2012 | 110,359,046 | 6,900,491 | 117,259,537 |
| 2011 | 325,017,864 | 2,626,665 | 327,644,529 |