

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					1	7	5	2	2	2
--	--	--	--	--	---	---	---	---	---	---

Company Name

V	I	V	A	N	T		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I	D	I
A	R	I	E	S																									

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

U	n	i	t		9	0	7	-	9	0	8		A	y	a	l	a		L	i	f	e		F	G	U		C	e
n	t	e	r	,		M	i	n	d	a	n	a	o		A	v	e	.	,		c	o	r	.		B	i	l	i
r	a	n		R	o	a	d	,		C	e	b	u		B	u	s	i	n	e	s	s		P	a	r	k	,	
C	e	b	u		C	i	t	y																					

Form Type

A	A	F	S
---	---	---	---

Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A
---	---	---

COMPANY INFORMATION

Company's Email Address

vivant@vivant.com.ph

Company's Telephone Number/s

(032) 234-2256

Mobile Number

N/A

No. of Stockholders

1,466

Annual Meeting
Month/Day

June 04

Fiscal Year
Month/Day

December 31, 2014

CONTACT PERSON INFORMATION

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

Name of Contact Person

Atty. Joan A. Giduquio-Baron

Email Address

jbaron@jpgarcialaw.com

Telephone Number/s

(032)232-0253

Mobile Number

0917-5356692

Contact Person's Address

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road, Cebu Business Park, Cebu City

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



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Vivant Corporation
Unit 907-908 Ayala Life FGU Center
Mindanao Ave., cor. Biliran Road
Cebu Business Park, Cebu City

We have audited the accompanying consolidated financial statements of Vivant Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Vivant Corporation and Subsidiaries as at December 31, 2014 and 2013, and their financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Other Matter

The consolidated financial statements of Vivant Corporation and Subsidiaries for the year ended December 31, 2012, 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

Partner

CPA Certificate No. 99910

SEC Accreditation No. 1199-A (Group A),

March 15, 2012, valid until April 30, 2015

Tax Identification No. 209-316-911

BIR Accreditation No. 08-001998-96-2015,

January 5, 2015, valid until January 4, 2018

PTR No. 5564482, January 8, 2015, Cebu City

April 14, 2015



VIVANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱4,859,530,626	₱3,057,406,413
Trade and other receivables (Note 7)	138,516,463	746,093,162
Advances to associates and stockholders (Note 16)	40,930,884	115,486,983
Inventories (Note 8)	106,831,729	99,160,004
Prepayments and other current assets (Note 8)	429,586,090	294,771,279
Total Current Assets	5,575,395,792	4,312,917,841
Noncurrent Assets		
Investments in and advances to associates and joint ventures (Note 10)	5,756,787,415	3,986,834,990
Property, plant and equipment (Note 11)	760,769,518	62,647,848
Investment properties (Note 12)	274,071,000	274,071,000
Deferred income tax assets (Note 20)	14,179,894	21,399,283
Other noncurrent assets (Note 13)	71,876,455	71,956,107
Available-for-sale (AFS) investments (Note 9)	4,324,131	3,846,131
Total Noncurrent Assets	6,882,008,413	4,420,755,359
TOTAL ASSETS	₱12,457,404,205	₱8,733,673,200
LIABILITIES AND EQUITY		
Current Liabilities		
Current portion of notes payable (Note 15)	₱26,155,546	₱–
Trade and other payables (Note 14)	1,295,219,670	1,415,791,742
Advances from related parties (Note 16)	115,486,477	142,744,333
Income tax payable	31,556,533	162,125,636
Total Current Liabilities	1,468,418,226	1,720,661,711
Noncurrent Liabilities		
Notes payable - net of current portion (Note 15)	2,947,573,704	–
Pension liability (Note 19)	23,209,026	18,724,619
Deferred income tax liabilities (Note 20)	27,575,424	27,527,364
Total Noncurrent Liabilities	2,998,358,154	46,251,983
Total Liabilities	4,466,776,380	1,766,913,694
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
Additional paid-in capital	8,339,452	8,339,452

(Forward)



	December 31	
	2014	2013
Other components of equity:		
Share in revaluation increment of an associate (Note 10)	₱1,261,492,837	₱1,292,314,176
Remeasurement loss on employee benefits (Note 19)	(1,735,079)	(874,453)
Share in remeasurement losses on employee benefits of an associate	(67,505,111)	(67,070,264)
Unrealized valuation gain on AFS investments (Note 9)	254,554	191,083
Retained earnings:		
Appropriated for business expansion (Note 21)	2,810,784,261	1,856,476,291
Unappropriated	2,596,929,852	2,357,237,719
Equity Attributable to Equity Holders of the Parent	7,632,017,464	6,470,070,702
Equity Attributable to Non-controlling Interests	358,610,361	496,688,804
Total Equity	7,990,627,825	6,966,759,506
 TOTAL LIABILITIES AND EQUITY	 ₱12,457,404,205	 ₱8,733,673,200

See accompanying Notes to Consolidated Financial Statements.



VIVANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)

	2014	2013	2012
REVENUE			
Sale of power (Note 23)	₱3,207,748,349	₱2,593,003,368	₱2,638,625,802
Equity in net earnings of associates and joint ventures (Note 10)	1,110,762,054	817,167,990	962,678,909
Management fees (Note 16)	138,915,915	167,051,799	148,510,172
Interest income (Notes 6 and 16)	50,712,945	33,592,952	47,592,326
Other income (Notes 12 and 16)	11,396,646	6,446,703	7,015,035
	4,519,535,909	3,617,262,812	3,804,422,244
GENERATION COSTS (Notes 17 and 23)			
	2,067,662,019	1,633,537,609	1,848,144,439
OPERATING EXPENSES			
Professional fees (Notes 16 and 23)	168,936,237	237,426,374	207,255,322
Salaries and employee benefits (Notes 16 and 18)	83,791,123	74,424,765	39,011,034
Management fees (Note 16)	61,560,712	15,775,116	37,640,299
Impairment loss on trade receivables (Note 7)	34,125,014	–	–
Taxes and licenses	25,948,318	28,583,812	22,991,881
Depreciation and amortization (Notes 11 and 13)	17,378,708	13,284,269	9,978,670
Travel	17,336,895	14,497,677	10,551,855
Rent and association dues	5,375,178	6,003,603	3,959,854
Communication and utilities	4,617,323	3,448,265	2,881,912
Representation	3,267,245	3,746,174	1,404,711
Security and janitorial	591,615	569,377	195,000
Impairment loss on AFS investments (Note 9)	–	5,007,071	2,738,047
Other operating expenses (Note 17)	22,899,989	29,349,676	12,421,454
	445,828,357	432,116,179	351,030,039
INCOME FROM OPERATIONS			
	2,006,045,533	1,551,609,024	1,605,247,766
OTHER INCOME (CHARGES)			
Finance costs (Note 15)	(140,546,624)	(17,210,327)	(61,132,342)
Foreign exchange gains	4,269,158	2,951,800	4,531,352
Gain on redemption of an equity interest in an associate (Note 10)	–	10,155,539	18,171,194
Gain on rescinded contract (Note 23)	–	–	643,795,158
Others - net	52,540,394	(21,628,760)	–
	(83,737,072)	(25,731,748)	605,365,362
INCOME BEFORE INCOME TAX			
	1,922,308,461	1,525,877,276	2,210,613,128
PROVISION FOR INCOME TAX (Note 20)			
	226,853,561	221,432,432	178,965,488
NET INCOME			
	1,695,454,900	1,304,444,844	2,031,647,640

(Forward)



	2014	2013	2012
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to consolidated statements of comprehensive income:			
Unrealized valuation gain on AFS investments (Note 9)	₱124,600	₱-	₱-
Items that will not be reclassified to consolidated statements of comprehensive income:			
Share in revaluation increment of an associate, net of tax	40,603,451	884,597,344	-
Remeasurement loss on employee benefits (Note 19)	(1,841,100)	(1,496,260)	(288,834)
Income tax effect of remeasurement loss on employee benefits	192,476	448,878	86,650
	(1,648,624)	(1,047,382)	(202,184)
Share in the remeasurement losses on employee benefits of associates, net of tax (Note 10)	(1,116,142)	(7,653,347)	(461,416)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			
	37,963,285	875,896,615	(663,600)
TOTAL COMPREHENSIVE INCOME	₱1,733,418,185	₱2,180,341,459	₱2,030,984,040
NET INCOME			
Attributable to:			
Equity holders of the parent	₱1,348,042,824	₱1,008,748,891	₱1,461,200,409
Non-controlling interests	347,412,076	295,695,953	570,447,231
	₱1,695,454,900	₱1,304,444,844	₱2,031,647,640
TOTAL COMPREHENSIVE INCOME			
Attributable to:			
Equity holders of the parent	₱1,387,414,273	₱1,885,020,619	₱1,460,536,809
Non-controlling interests	346,003,912	295,320,840	570,447,231
	₱1,733,418,185	₱2,180,341,459	₱2,030,984,040
EARNINGS PER SHARE			
Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22)			
	₱1.317	₱0.986	₱1.428

See accompanying Notes to Consolidated Financial Statements.



VIVANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the 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 (Note 21)	Total	Equity Attributable to Non-Controlling Interests	Total Equity
Balances at January 1, 2014	₱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
Total comprehensive income	-	-	40,603,451	(860,626)	(434,847)	63,471	1,348,042,824	1,387,414,273	346,003,912	1,733,418,185
Conversion of deposits for future stock subscription and additional investments (Note 21)	-	-	-	-	-	-	-	-	3,107,645	3,107,645
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	(71,424,790)	-	-	-	71,424,790	-	-	-
Cash dividends (Note 21)	-	-	-	-	-	-	(225,467,511)	(225,467,511)	(487,190,000)	(712,657,511)
Balances at December 31, 2014	₱1,023,456,698	₱8,339,452	₱1,261,492,837	(₱1,735,079)	(₱67,505,111)	₱254,554	₱5,407,714,113	₱7,632,017,464	₱358,610,361	₱7,990,627,825
Balances at January 1, 2013	₱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	-	-	884,597,344	(672,269)	(7,653,347)	-	1,008,748,891	1,885,020,619	295,320,840	2,180,341,459
Additional deposits for future stock subscription	-	-	-	-	-	-	-	-	10,919,854	10,919,854
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	(46,926,081)	-	-	-	46,926,081	-	-	-
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
Balances at January 1, 2012	₱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	-	-	(54,876,293)	(202,184)	(461,416)	-	1,516,076,702	1,460,536,809	570,447,231	2,030,984,040
Property dividends	-	-	-	-	-	-	-	-	(240,242,151)	(240,242,151)
Cash dividends (Note 21)	-	-	-	-	-	-	(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.


VIVANT CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(With Comparative Figures for the Year Ended December 31, 2012)

	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,922,308,461	₱1,525,877,276	₱2,210,613,128
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 10)	(1,110,762,054)	(817,167,990)	(962,678,909)
Finance costs	140,546,624	17,210,327	61,132,342
Interest income	(50,712,945)	(33,592,952)	(47,592,326)
Depreciation and amortization (Notes 11 and 13)	21,554,410	13,399,269	117,891,167
Impairment loss on trade receivables	34,125,014	-	-
Pension expense (Note 19)	11,591,504	9,285,463	6,416,298
Unrealized foreign exchange gains	(4,677,416)	(2,893,892)	(4,531,352)
Loss (gain) on redemption of an equity interest in an associate and other adjustments (Note 10)	-	10,060,175	(18,171,194)
Impairment loss on AFS investments (Note 9)	-	5,007,071	2,738,047
Gain on rescinded contract (Note 23)	-	-	(643,795,158)
Operating income before working capital changes	963,973,598	727,184,747	722,022,043
Decrease (increase) in:			
Trade and other current receivables	574,908,881	(125,919,563)	(210,971,645)
Prepayments and other current assets	(134,814,811)	158,699,278	(249,842,487)
Inventories	(7,671,725)	4,041,765	59,913,597
Increase (decrease) in trade and other payables	(88,050,229)	760,682,138	113,280,751
Cash received from contract rescission	-	-	664,583,352
Cash generated from operations	1,308,345,714	1,524,688,365	1,098,985,611
Income tax paid	(350,016,142)	(159,514,181)	(33,152,830)
Interest paid	(118,426,438)	(14,546,497)	(61,811,804)
Contributions to the retirement fund	(7,422,815)	(9,270,000)	-
Net cash flows from operating activities	832,480,319	1,341,357,687	1,004,020,977
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase (decrease) in investments and advances to associates and joint ventures (Note 10)	(1,623,238,819)	200,000	-
Dividends received from associates (Note 10)	1,003,535,759	979,868,460	894,754,064
Additions to:			
Property, plant and equipment (Note 11)	(718,711,033)	(28,046,390)	(12,983,243)
AFS investments (Note 9)	(300,000)	-	(3,400,000)
Intangible assets (Note 13)	(3,579,009)	(49,150)	(1,268,995)
Interest received	49,255,749	34,031,184	47,051,925
Decrease (increase) in other noncurrent assets	1,168,232	(5,049,794)	27,480,082
Proceeds from redemption of an equity interest in an associate (Note 10)	-	114,712,200	114,712,200
Net cash flows from (used in) investing activities	(1,291,869,121)	1,095,666,510	1,066,346,033
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loans (Note 15)	2,973,729,250	22,200,989	265,000,000
Cash dividends paid	(767,299,540)	(687,254,570)	(311,047,610)
Advances from associates and stockholders	47,298,244	(141,447,272)	37,530,301

(Forward)



	2014	2013	2012
Additional deposits for future stock subscriptions of non-controlling interest of a subsidiary	₱3,107,645	₱10,919,854	₱-
Net payment of loans (Note 15)	-	(387,200,989)	(696,285,714)
Payment of long-term debt (Note 15)	-	-	(157,659,008)
Net cash from (used in) financing activities	2,256,835,599	(1,182,781,988)	(862,462,031)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,797,446,797	1,254,242,209	1,207,904,979
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	4,677,416	2,893,892	4,804,422
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,057,406,413	1,800,270,312	587,560,911
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱4,859,530,626	₱3,057,406,413	₱1,800,270,312

See accompanying Notes to Consolidated Financial Statements



VIVANT CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 (SEC) 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 2014, 2013 and in 2013. 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, Mindanao Ave. cor. Biliran Road, 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, 2014 and 2013:

	2014		2013	
	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)}
Vivant Geo Power Corp. (VGPC)	–	100.00 ^{(b) (s)}	–	–
Vivant Isla, Inc. (VII)	–	100.00 ^{(a) (t)}	–	–
Vics-Bakun Holdings Corporation (Vics-Bakun)	–	100.00 ^{(a) (h)}	–	100.00 ^{(a) (h)}
Corenergy, Inc. (Core)	–	100.00 ^{(a) (o)}	–	100.00 ^{(a) (o)}
Vivant Malogo Hydropower, Inc. (VMHI)	–	67.00 ^{(a) (n)}	–	75.00 ^{(a) (n)}
Vics-Amlan Holdings Corporation (Vics-Amlan)	–	60.00 ^{(a) (g)}	–	60.00 ^{(a) (g)}
1590 Energy Corp. (1590 EC)	–	52.70 ^{(a) (i)}	–	52.70 ^{(a) (i)}
Associates				
Visayan Electric Company, Inc. (VECO)	34.81	–	34.81	–
Prism Energy, Inc. (PEI)	40.00 ^(m)	–	40.00 ^(m)	–
Abovant Holdings, Inc. (AHI)	–	40.00 ^(c)	–	40.00 ^(c)

(Forward)



	2014		2013	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
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)	—	30.00 ^{(d)(k)}	—	30.00 ^{(d)(k)}
Therma Visayas, Inc. (TVI)	—	20.00 ^{(a)(c)(q)}	—	—
Minergy Coal Corporation (MCC)	—	40.00 ^{(c)(r)}	—	—
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)(i)}	—	46.00 ^{(b)(i)}

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, 2013

p. Incorporated on December 14, 2013

q. Incorporated on October 15, 1997

r. Incorporated on February 18, 2013

s. Incorporated on April 23, 2014

t. Incorporated on July 11, 2014

Subsidiaries. HDFE, VNI, VEC, VIGC, Vics-Amlan, Vics-Bakun, 1590 EC, VMHI, Core, VGPC, and VII qualify as subsidiaries of the Parent Company and are included in the consolidated financial statements. They are hereinafter referred to as the “Subsidiaries”. VGPC and VII are entities incorporated in 2014 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 eight months and six months ended December 31, 2014, 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:

HDFE

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. As of December 31, 2013, HDFE has divested all of its shareholdings in VECO (previously, 12.5% as of December 31, 2012) resulting to Parent Company having direct equity shareholdings in VECO.

VNI

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.



On March 5, 2015, the stockholders and BOD approved the amendment of the Company's secondary purposes to include the conduct of any and all lawful business, and to do or cause to be done any one or more of the acts and things set forth as its purposes, within or without the Philippines, and in any and all foreign countries, and to do everything necessary, desirable or incidental to the accomplishment of the purposes or the exercise of any one or more of the powers of the Company under the Corporation Code of the Philippines, or which shall at any time appear conducive to or expedient for the protection or benefit of the Company. As of April 14, 2015, the Company's application for the amendment of its secondary purposes with the SEC is ongoing.

VEC

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, VMHI, and TVI, 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, Vics-Bakun, and VII.

VIGC

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

VIGC currently exists as a holding company with direct equity shareholdings in MCC and TVI, entities engaged in the power generation business and AHI, a holding entity.

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. Vics-Bakun also has direct equity shareholdings on VGPC, a holding entity.

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 ground breaking.



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, 2014, Core has not yet started commercial operations and has an ongoing application for Retail Electricity Supplier license.

VGPC

VGPC was incorporated on April 23, 2014. Its primary purpose is to establish, maintain, own, and operate geothermal, thermal, hydroelectric, solar, wind, coal, diesel power plants and such other sources that may be viable source of electric light, heat and power system and to sell and/or trade electricity for light, heat and power purposes within cities, municipalities and provinces of the Philippines as the corporation may determine and enter into business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2014, VGPC is still in the pre-operating stage.

VII

VII was incorporated on July 11, 2014. Its primary purpose is to engage in business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, constructing, holding and selling power generation facilities and related facilities, or any other business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2014, VII is still in the pre-operating stage.

Associates. VECO, AHI, CPPC, Delta P, AHPC, PEI, TVI, and MCC 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, 2012. 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, 2014, 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).

TVI

TVI was registered with SEC on October 15, 1997, primarily to acquire by purchase, lease, contract, concession, or otherwise any and all real estate, land, land patents, opinions, grants, concessions, franchises, water and other rights, privileges, easements, estates, interests and mineral properties of every kind and description.

MCC

MCC was registered with SEC on February 18, 2013, primarily to design, construct, erect, assemble, commission and operate power-generating plants and related facilities for the generation and supply of power utilizing any fuel or energy source.

CIPC

CIPC was incorporated on October 19, 2010 primarily to engage in the business of owning, acquiring, commissioning, operating and selling power generation facilities and related facilities, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. Currently, CIPC operates an 8 MW bunker and 0.75 MW diesel-fired power generation plants in the municipalities of Coron and Busuanga, respectively.

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 and associates are all incorporated in the Philippines.

The consolidated financial statements of the Group as at and for the years ended December 31, 2014, 2013 and 2012 were approved and authorized for issuance by the Board of Directors (BOD) on April 14, 2015.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for 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.

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.



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

Transactions with Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals to non-controlling interest is also recognized directly in equity.

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 which were applied starting January 1, 2014. The nature and impact of each new standard and amendment is described below:

- Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments must be applied retrospectively, subject to certain transition relief.

The above amendments have no effect on the Group since it does not qualify as an investment entity as defined under PFRS 10.

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

These amendments, which are to be applied retrospectively, clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.

These have no impact on the Group since it does not have any offsetting arrangements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria, and retrospective application is required. These have no impact on the Group as it has not novated its derivatives during the current and prior periods.



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

These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

The application of these amendments has no material impact on the disclosure in the Group's financial statements.

- Philippine Interpretation IFRIC 21, *Levies*

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

This interpretation has no impact on the Company as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

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

Annual Improvements to PFRSs (2011-2013 cycle). In the 2011–2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards–First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

Standards Issued But Not Yet Effective

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 financial statements.

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a



business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Parent Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

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

Adoption of the interpretation when it becomes effective will not have any impact on the financial statements of the Group.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.



Effective January 1, 2015

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

Amendment to PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. It clarifies that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

This amendment, which becomes effective starting January 1, 2015, is not applicable to the Group since its defined benefit plans do not require contributions from employees or third parties.

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

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

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

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

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



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

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*

The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

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

The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

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

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

The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:

- Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*

The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.



- PAS 40, *Investment Property*

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

Effective January 1, 2016

- PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These will have no impact on the Group given that it has not used a revenue-based method to depreciate its non-current assets.

- PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants (Amendments)*

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

- PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)*

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



- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.

- PFRS 11, *Joint Arrangements - Accounting for Acquisitions of Interests in Joint Operations* (Amendments)

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

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Group shall consider these amendments if it enters into this type of arrangement in the future.

- PFRS 14, *Regulatory Deferral Accounts*

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



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

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*

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

- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*

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

- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- *PAS 19, Employee Benefits - regional market issue regarding discount rate*

This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- *PAS 34, Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'*

The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).



Effective January 1, 2018

- PFRS 9, *Financial Instruments* - Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)

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

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

The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

- PFRS 9, *Financial Instruments* (2014 or final version)

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

The adoption of PFRS 9 will have an effect on the classification and measurement of and impairment methodology for the Group's financial assets, and on its application of hedge accounting. However, it will have no impact on the classification and measurement of its financial liabilities.

After evaluating the impact of PFRS 9 and considering that it will not have any significant effect on the Group's operating results or financial condition, management has decided not to early adopt the said standard. It will be implemented only when it becomes effective on January 1, 2018. Thus, the financial statements do not reflect the impact of this standard.

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



- IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date, once adopted locally.

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 statements 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, 2014 and 2013, 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 associates and stockholders.

- *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, 2014 and 2013, 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 ₱4.3 million and ₱3.8 million as of December 31, 2014 and 2013, 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, 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 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 weighted 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, which pertain to land and buildings and improvements, 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, arising from services involving consultancy, management, technical, and services covered by Service Level Agreements (SLAs), are recognized when the related services are rendered based on the terms of the management 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 statements 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, 2014 and 2013, 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, 2014 and 2013, the carrying values of the Group's financial instruments approximate fair values (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. While the Group has opted to rely on independent appraisers to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The amounts and timing of recorded changes in fair value for any period would differ if the Group made different judgments and estimates or utilized different basis in determining fair value.

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, 2014 and 2013, the carrying value of the Group's investment properties amounted to ₱274.1 million (see Note 12).

Determination of Control or Significant Influence Over an Investee Company. Control is presumed to exist 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. On the other hand, significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that by virtue of its ownership in its subsidiaries and associates as of December 31, 2014 and 2013, the Group had the ability to exercise control over these investees (see Note 1).



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 arrangement pertaining to its interests in VSNRGC and CIPC, 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 arrangement. Given this, the Group then had to assess the other facts and circumstances relating to this arrangement. 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 Group's investments in VSNRGC and CIPC are joint ventures.

Determining Non-Controlling Interest (NCI) that is Material to the Group. The Group assesses whether an NCI is material by considering factors such as the carrying amount of the NCI relative to the net equity of the Group, the profit or loss or OCI of the subsidiary attributable to the NCI, the assets and liabilities of the related subsidiary, or the amount of dividends paid by the subsidiary to the NCI, and the proportion that these amounts bear to the Group's financial position or results of operations. The Group also considers the nature of activities of the subsidiary and its relative importance or risk compared to other operations of the Group. Based on management's assessment, it has determined that the NCI in 1590 EC is material to the Group. Information about this subsidiary with material NCI is disclosed in Notes 1 and 10.

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.



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 losses will increase the Group's recorded expenses and decrease current assets.

As of December 31, 2014 and 2013, trade and other receivables amounted to ₱138.5 million and ₱746.1 million, respectively, and advances to associates and stockholders amounted to ₱57.3 million and ₱115.5 million, respectively (see Note 16). In 2014, provision for impairment losses recognized amounted to ₱34.1 million, while no provision for impairment losses were recognized in 2013 and 2012.

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 2014, 2013 and 2012 (see Note 8). The NRV of inventories amounted to ₱106.8 million and ₱99.2 million as of December 31, 2014 and 2013, 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. The estimated useful lives are also updated if expectations differ from previous estimated due to physical wear and tear, technical obsolescence and legal or other limits on the use of the 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 ₱760.8 million and ₱62.6 million as of December 31, 2014 and 2013, respectively (see Note 11). The carrying value of intangible assets amounted ₱3.0 million and ₱0.3 million as of December 31, 2014 and 2013, 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 ₱4.3 million and ₱3.8 million as of December 31, 2014 and 2013, respectively (see Note 9). In 2014, 2013 and 2012, the Group recognized impairment loss amounting to ₱0.2 million, ₱5.0 million, and ₱2.7 million, respectively.

Estimating Impairment of Nonfinancial 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:

	2014	2013
Property, plant and equipment (see Note 11)	₱760,769,518	₱62,647,848
Investment properties (see Note 12)	274,071,000	274,071,000
Intangible assets (see Note 13)	2,957,834	343,872

The Group did not recognize any impairment loss on its nonfinancial assets in 2014, 2013 and 2012.

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, 2014 and 2013 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, 2014 and 2013, the Parent Company's pension liability amounted to ₱22.1 million and ₱18.7 million, respectively (see Note 19). As of December 31, 2014, 1590 EC's pension liability amounted to ₱1.1 million and pension asset amounted to ₱1.5 million in 2013 (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 ₱23.0 million and ₱21.4 million as of December 31, 2014 and 2013, respectively (see Note 20). Deferred income tax assets have not been recognized on allowance for impairment loss of ₱4.7 million and ₱0.6 million as of December 31, 2014 and 2013, respectively, net operating loss carry-over (NOLCO) of ₱45.0 million and ₱36.8 million as of December 31, 2014 and 2013, respectively, and minimum corporate income tax (MCIT) of ₱0.1 million as of December 31, 2014 and 2013 (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, 2014 and 2013.

6. Cash and Cash Equivalents

	2014	2013
Cash on hand and in banks	₱1,647,369,237	₱1,711,048,047
Short-term investments	3,212,161,389	1,346,358,366
	₱4,859,530,626	₱3,057,406,413

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

Interest income earned from the deposits in bank and short-term investments amounted to ₱50.7 million, ₱29.0 million and ₱33.7 million in 2014, 2013 and 2012, respectively.



7. Trade and Other Receivables

	2014	2013
Trade receivables	P85,262,479	P717,947,963
Accounts receivable (see Note 16)	68,919,357	23,820,924
Accrued interest (see Note 6)	2,530,402	1,073,206
Advances to officers and employees (see Note 16)	6,287,355	2,236,002
Rent receivable	-	32,578
Others	9,974,916	1,315,521
	172,974,509	746,426,194
Less allowance for impairment losses	34,458,046	333,032
	P138,516,463	P746,093,162

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, Delta P 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 losses follows:

	2014	2013
At January 1	P333,032	P3,395,274
Provision for impairment loss	34,125,014	-
Write-off during the year	-	(3,062,242)
At December 31	P34,458,046	P333,032

In 2014, the Group provided allowance on receivable from an electric cooperative which has been outstanding since 2011.

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:

	2014	2013
Spare parts	P60,685,157	P45,910,443
Heavy fuel oil	39,233,856	42,418,530
Lube oil	3,528,080	7,691,793
Light fuel oil	3,384,636	3,139,238
	P106,831,729	P99,160,004

The cost of materials and supplies recognized under "Generation costs and other operating expenses" in the consolidated statements of comprehensive income amounted to P1,452.8 million, P1,311.5 million and P1,426.3 million in 2014, 2013 and 2012, respectively (see Note 17).



Prepayments and Other Current Assets

	2014	2013
Advances to suppliers and other parties	₱325,352,461	₱199,904,425
Input VAT	53,044,665	51,154,197
Prepaid insurance	25,638,897	22,595,060
Creditable withholding taxes	24,319,217	6,811,886
Prepaid royalty fees	–	12,739,990
Others	1,230,850	1,565,721
	₱429,586,090	₱294,771,279

Advances to suppliers and other parties represent advance payments for the purchase of various plant parts and supplies for the succeeding year. This also includes payments made to other parties to comply with certain contractual obligations.

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

Creditable withholding taxes pertain to taxes withheld by the customers on income payments to the companies in the Group from sales of services that can be applied against the Group's income tax liabilities.

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).

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:

	2014	2013
At Fair Value		
Aboitiz Equity Ventures, Inc.	₱573,500	₱395,500
Philippine Long Distance Telephone Co.	600	600
Paper Industries of the Phils.	31	31
	574,131	396,131
At Cost		
Cebu Country Club, Inc. (CCCI)	3,400,000	3,400,000
Tower Club, Inc. (TCI)	300,000	–
INCA Plastic Philippines (net of allowance for impairment allowance of ₱1.95 million)	50,000	50,000
	3,750,000	3,450,000
	₱4,324,131	₱3,846,131



The Group also had AFS investments in VC Exchange Inc. (VEI) amounting to ₱8.3 million representing 15% ownership in VEI common stocks. 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 2012. In 2013, the Group recognized additional provision for impairment loss on AFS investment equal to the remaining book value investment in VEI.

The Group has an accumulated net unrealized valuation gain on AFS investments measured at fair value amounting to ₱0.6 million and ₱0.4 million as of December 31:

	2014	2013
At January 1	₱375,191	₱375,191
Increase in fair value during the year	178,000	-
At December 31	₱553,191	₱375,191

Except for the investments in CCCI and TCI, the above investments represent the investments 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.

In 2014, the Group acquired proprietary ownership shares in TCI. The non-listed equity security is stated at cost, as its fair value cannot be reliably measured, less any impairment in value.

10. Equity Investments

a. Investments in Associates

	2014	2013
Acquisition cost:		
At January 1	₱2,387,554,091	₱2,407,217,791
Additions	1,252,746,654	200,000
Conversion to equity	-	7,643,900
Disposals	-	(27,507,600)
At December 31	3,640,300,745	2,387,554,091
Deposit for future stock subscription:		
At January 1	-	7,643,900
Conversion to equity	-	(7,643,900)
Accumulated share in net earnings:		
At January 1	236,564,226	535,065,436
Equity in net earnings of associates	1,110,762,054	1,005,180,724
Cash dividends received and receivable	(1,003,535,759)	(979,868,460)

(Forward)



	2014	2013
Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment	₱71,424,790	₱46,926,081
Share in the remeasurement losses on employee benefits of associates	(1,116,142)	(7,653,347)
Property dividends	-	(265,421,432)
Disposals	-	(97,664,776)
At December 31	414,099,169	236,564,226
Share in revaluation increment:		
At January 1	1,362,716,673	525,045,410
Share in revaluation increment of an associate, net of tax	40,603,451	884,597,344
Share in the amount transferred to equity in net earnings representing depreciation on revaluation increment of an associate	(71,424,790)	(46,926,081)
At December 31	1,331,895,334	1,362,716,673
Carrying amount at December 31	₱5,386,295,248	₱3,986,834,990

The Group has unrecognized share in losses from results of operations of its investments in associates amounting to ₱25,389 in 2014 and nil in 2013 and 2012.

As of December 31, 2014 and 2013, the undistributed earnings of the associates included in the Group's retained earnings amounting to ₱414.1 million and ₱236.6 million, respectively, are not available for distribution to the stockholders unless declared by the associates.

b. Investments in and Advances to Joint Ventures

The carrying amounts of the Group's interest in joint ventures, which is immaterial, is accounted for using the equity method for the years ended December 31 follow:

	2014	2013
Acquisition cost	₱49,125,000	₱49,125,000
Deposit for future stock subscription:		
At January 1	-	-
Additions	370,492,167	-
At December 31	370,492,167	-
Accumulated share in net losses:		
At January 1	(49,125,000)	138,887,734
Equity in net losses of joint ventures	-	(188,012,734)
At December 31	(49,125,000)	(49,125,000)
Carrying amount at December 31	₱370,492,167	₱-

The Group has unrecognized share in losses from results of operations of its joint ventures amounting to ₱57.2 million in 2014, ₱212.8 million in 2013 and nil in 2012.

The deposit for future stock subscription represents advances by the Group to CIPC and VSNRGC amounting to ₱98.0 million and ₱271.5 million, respectively, for future stock subscriptions.

As of April 14, 2015, the applications for increase in capital stock of the joint ventures are still awaiting approval of SEC.



The carrying values of investments in associates, which are accounted for under the equity method follow:

	2014	2013
Associates:		
VECO	₱2,258,620,918	₱2,248,531,902
AHI	1,634,135,685	1,545,891,226
MCC	1,019,977,599	–
TVI	271,972,172	–
Delta P	122,100,639	104,517,094
CPPC	78,978,301	83,488,205
PEI	509,934	503,709
AHPC	–	3,902,854
	₱5,386,295,248	₱3,986,834,990

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

	Nature of Business	Percentage of Ownership		
		2014	2013	2012
Associates:				
VECO	Power distribution	34.81	34.81	34.74
CPPC	Power generation	40.00	40.00	40.00
Delta P	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
MCC	Power generation	40.00	–	–
TVI	Power generation	20.00	–	–
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, 2014 and 2013:

VECO

	2014	2013
Total current assets	₱2,758,373,152	₱3,208,266,606
Total noncurrent assets*	12,398,588,725	12,140,330,723
Total current liabilities	3,065,730,557	3,165,796,160
Total noncurrent liabilities	5,602,805,816	5,723,358,762
Total equity	6,488,425,504	6,459,442,407

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

Gross revenue	21,072,224,119	19,387,138,622
Operating profit	1,962,682,781	2,265,158,396
Net income	1,593,159,515	1,588,026,904
Group's share in net income	554,578,827	551,680,547
Proportion of Group's ownership	34.81%	34.81%
Carrying amount of the investment	2,258,620,918	2,248,531,902



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 34.81% as of December 31, 2013.

AHI

	2014	2013
Total current assets	₱839,477,042	₱795,384,316
Total noncurrent assets*	3,245,862,171	3,069,343,749
Total equity	4,085,339,213	3,864,728,065
<i>*Inclusive of adjustments not taken up by the Group</i>		
Gross revenue	1,023,500,125	850,892,671
Operating profit	1,023,404,633	850,808,979
Net income	1,023,360,608	850,799,577
Group’s share in net income	409,344,243	340,319,831
Proportion of Group’s ownership	40%	40%
Carrying amount of the investment	₱1,634,135,685	₱1,545,891,226

Individually Immaterial Associates

The carrying amounts 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:

	2014	2013
Income from continuing operations	₱188,987,667	₱146,947,127
Net income	129,966,955	105,431,369
Other comprehensive income	60,815,019	2,262,509
Total comprehensive income	190,781,974	107,693,878



c. Material Partly-Owned Subsidiary

1590 EC

As of December 31, 2014, the Group 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.

	2014	2013
Total current assets	₱938,180,053	₱2,304,275,290
Total noncurrent assets	711,549,160	13,005,100
Total current liabilities	1,184,683,890	1,644,289,711
Total noncurrent liabilities	146,623,040	–
Total equity	318,422,282	672,990,679
Sale of power	3,207,748,349	2,601,488,956
Operating profit	829,301,821	679,947,151
Net income	677,097,561	476,654,563
Total comprehensive income	675,431,603	475,861,511
Net income attributable to non-controlling interests	320,267,146	225,457,608
Total comprehensive income attributable to non-controlling interests	319,479,148	225,082,495
Dividends paid to non-controlling interests	487,190,000	272,410,356

11. Property, Plant and Equipment

	2014							Total
	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	
Cost								
At January 1	₱25,149,566	₱714,286	₱21,107,717	₱19,657,549	₱28,615,583	₱1,658,836	₱505,670	₱97,409,207
Additions	775,266	17,299,759	482,679	8,155,374	4,634,375	687,363,580	–	718,711,033
Reclassifications	–	–	3,566,626	–	–	(3,566,626)	–	–
At December 31	25,924,832	18,014,045	25,157,022	27,812,923	33,249,958	685,455,790	505,670	816,120,240
Accumulated Depreciation								
At January 1	8,344,696	83,333	5,443,252	10,630,359	10,056,234	–	203,485	34,761,359
Depreciation	946,514	3,977,923	3,650,330	6,190,158	5,723,297	–	101,141	20,589,363
At December 31	9,291,210	4,061,256	9,093,582	16,820,517	15,779,531	–	304,626	55,350,722
Net Book Value	₱16,633,622	₱13,952,789	₱16,063,440	₱10,992,406	₱17,470,427	₱685,455,790	₱201,044	₱760,769,518

	2013							Total
	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	
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

The Group has no fully depreciated assets still being used in operations as of December 31, 2014 and 2013.



Total depreciation charged to the following accounts in the consolidated statements of comprehensive income:

	2014	2013	2012
Generation costs	₱4,175,702	₱115,000	₱107,912,497
Operating expenses	16,413,661	12,627,245	9,661,421
	₱20,589,363	₱12,742,245	₱117,573,918

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 2014 and 2013 recorded as part of "Other income" in the consolidated statements of comprehensive income.

The carrying value of the investment properties included a fair value change amounting to ₱91.7 million which 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 2014 and 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 ₱0.9 million in 2014, ₱1.2 million in 2013 and ₱0.5 million in 2012, respectively, included under "Taxes and licenses" account in the consolidated statements 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

	2014	2013
Goodwill (see Note 10)	₱42,559,451	₱42,559,451
Software cost	2,957,834	343,872
Advances to suppliers	24,019,530	26,311,872
Pension asset (see Note 19)	-	1,525,382
Others	2,339,640	1,215,530
	₱71,876,455	₱71,956,107

- a. 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, 2014 and 2013 is recorded as part of “Other noncurrent assets” in the consolidated statements of financial position. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the investment company with those of the Group’s investment in VECO.

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 2014 and 2013.

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.

b. 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.

c. Software Costs

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

	2014	2013
Cost		
At January 1	₱1,318,145	₱1,268,995
Additions	3,579,009	49,150
At December 31	4,897,154	1,318,145
Accumulated Amortization		
At January 1	974,273	317,249
Additions	965,047	657,024
At December 31	1,939,320	974,273
Net Book Value	₱2,957,834	₱343,872



d. Due from RFM Corporation

Included in "Other noncurrent assets" is the amount due from RFM Corporation, 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, 2014 and 2013.

14. **Trade and Other Payables**

	2014	2013
Trade payables (see Note 23)	₱1,109,128,040	₱986,289,902
Deferred output VAT	73,930,174	146,151,528
Output VAT	44,467,318	129,763,407
Accrued interest (see Note 15)	28,895,554	6,775,368
Accrued taxes payable	14,619,026	16,035,630
Accounts payable	6,514,176	9,265,285
Accrued expenses	5,679,215	41,556,191
Dividends payable	2,487,864	57,553,747
Unearned income	100,000	3,000,000
Others	9,398,303	19,400,684
	₱1,295,219,670	₱1,415,791,742

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. On March 28, 2014, the Group filed a Motion for Reconsideration with the ERC. However, ERC issued a denial of the said motion on October 15, 2014 (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.

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

Dividends payable consists of dividends to the non-controlling interests of the Group arising from declaration made by and HDFE. Dividends declared relating to non-controlling interests amounted to ₱487.2 million, ₱477.8 million, and ₱358.0 million in 2014, 2013 and 2012, respectively.

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



15. Notes Payable

Fixed Rate Corporate Notes (FRCN)	
₱1.0 billion @ 5.7271% interest per annum	₱1,000,000,000
2.0 billion @ 5.4450% interest per annum	2,000,000,000
	<hr/>
	3,000,000,000
Less unamortized debt issue costs	26,270,750
	<hr/>
	2,973,729,250
Less current portion - net of unamortized debt issue costs of ₱3.8 million in 2014	26,155,546
	<hr/>
	<u>₱2,947,573,704</u>

The Group entered into a Notes Facility Agreement (Agreement) to issue ₱3.0 billion in Fixed Rate Corporate Notes (FRCN or the Notes) on January 9, 2014 to fund its equity investments in power generation projects, to include but not limited to MCC and TVI. The FRCN was fully subscribed by a consortium of local banks and was issued in two tranches and has a maturity of seven (7) years from the drawdown date. The Notes are unsecured.

The first drawdown amounting to ₱1.0 billion was made on January 29, 2014 and the second drawdown amounting to ₱2.0 billion was made on March 31, 2014. The Notes will mature on February 3, 2021 and are payable at 1% based on the principal amount of the notes in the first 6 years and 94% at maturity. Interest is not repriced and paid quarterly.

Repayments of outstanding principal amounts are scheduled as follows:

Within one year	₱30,000,000
More than one year but not more than five years	150,000,000
More than five years	2,820,000,000
	<hr/>
	<u>₱3,000,000,000</u>

The Agreement requires that the Group shall not permit its debt-to-equity ratio to exceed 2.5:1. The debt-to-equity ratio is based on the consolidated equity of the Group. In addition, the Agreement requires the current ratio not to fall below 1.25:1 and is based on the Group's consolidated current assets and current liabilities. The Group has complied with these ratio requirements as of December 31, 2014.

Total interest expense related to notes payable in 2014 amounted to ₱137.0 million in the consolidated statements of comprehensive income, and the related accrued interest expense as of December 31, 2014 amounted to ₱26.6 million, shown as part of "Trade and other current liabilities" account in the 2014 consolidated statements of financial position (see Note 14).

Debt issue costs were incurred in connection with the financing arrangements. These costs are amortized, using the effective interest rate method, over the term of the related loans.



Rollforward analysis of debt issue costs in 2014 follows:

Cost:	
Additions during the year	₱29,567,922
Accumulated amortization:	
Amortization during the year	3,297,172
	26,270,750
Less current portion	3,844,454
	₱22,426,296

In 2013 and 2012, the Group had notes payable for which interest expense recognized amounted to ₱11.3 million and ₱27.3 million, respectively. These notes were fully paid in 2013.

16. Related Party Transactions

Parties are considered to be related if the one party has the ability, directly, or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. Related parties may be individuals or corporate entities. In the normal course of business, the Group enters into transactions with related parties principally consisting of the following:

Category	Volume	2014 Outstanding Balance		Terms	Conditions
		Receivable	Payables		
Affiliates					
Management fees (see Note 16d):					
VECO	₱30,556,400	₱2,478,059	₱-	30-60 days; noninterest-bearing	Unsecured; no impairment
CEDC	29,040,000	2,347,400	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CPPC	6,500,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P.	2,076,000	167,810	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d):					
CEDC	43,893,333	5,065,500	-	30-60 days; noninterest-bearing	Unsecured; no impairment
VECO	5,000,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
AHPC	12,794	244,921	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
AHPC	12,084,623	17,802,560	-	noninterest-bearing	Unsecured; no impairment
MCC	265,292	265,292	-	noninterest-bearing	Unsecured; no impairment
AHPC	41,646	41,646	-	30-60 days; noninterest-bearing	Unsecured; no impairment
MCC	34,522	34,522	-	noninterest-bearing; due and demandable	Unsecured; no impairment
PEI	-	1,532,400	-	30-60 days; noninterest-bearing	Unsecured; no impairment

(Forward)



2014					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivable	Payables		
VECO	₱-	₱9,543	₱-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances from (see Note 16c): Delta P	18,853,182	-	39,302,898	18-month; 1.56%	Unsecured; no impairment
Operating lease (see Note 16f): VECO	3,970,200	326,986	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Joint Venture					
Management fees (see Note 16f): NR	3,649,165	3,539,690	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	2,970,000	130,950	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d): CIPC	1,141,957	28,154	-	30-60 days; noninterest-bearing	Unsecured; no impairment
NR	7,667,725	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CPPC	5,500,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a): NR	24,423,156	14,688,798	-	noninterest-bearing	Unsecured; no impairment
CIPC	7,693,036	7,780,003	-	noninterest-bearing	Unsecured; no impairment
Advances from (see Note 16c): NR	1,713,934	-	182,564	payable on demand; noninterest-bearing	Unsecured; no impairment
Notes payable (see Note 16c): NR	1,144,546	-	69,645,634	3 years; 4.1577% per annum	Unsecured; no impairment
Stockholder with significant influence					
Management fees (see Note 16e) GPI	37,800,000	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
Service fees (see Note 16e): GPI	21,700,000	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
EUVHCI	20,000,000	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a): GPI	97,321	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment

(Forward)



2014					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivable	Payables		
Advances from (see Note 16c): GPI	₱1,028,197	₱-	₱1,028,197	payable on demand; noninterest-bearing	Unsecured; no impairment
Stockholder with no significant influence					
Service fees (see Note 16e): NGL	3,100,000	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
ICS	2,500,000	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
Advances from (see Note 16c): JLR	-	-	8,897,840	noninterest-bearing	Unsecured; no impairment
2013					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivable	Payables		
Associates					
Management fees - income (see Note 16d): VECO	₱30,056,400	₱-	₱-	30-60 days; noninterest-bearing	Unsecured; no impairment
CPPC	12,000,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P.	2,016,000	162,960	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d): VECO	24,127,708	-	-	30-60 days; noninterest-bearing	Unsecured no impairment
AHPC	7,700	-	-	30-60 days; noninterest-bearing	Unsecured
Rental income (see Note 16f): VECO	3,937,647	-	-	30-60 days; noninterest-bearing	Unsecured no impairment
Advances granted (see Note 16a): AHI	79,927,875	-	-	payable on demand; noninterest-bearing	Unsecured; no impairment
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
Advances received (see Note 16c): Delta P.	4,719,413	-	58,156,080	payable on demand; noninterest-bearing	Unsecured; no impairment
VECO	-	9,543	-	payable on demand; noninterest-bearing	Unsecured; no impairment

(Forward)



Category	Volume	2013		Terms	Conditions
		Outstanding Balance			
		Receivable	Payables		
Joint Venture					
Service income (see Note 16d):					
NR	₱8,260,156	₱10,177,647	₱–	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances granted (see Note 16a):					
CIPC	75,344,630	86,729,830	–	payable on demand; noninterest-bearing	Unsecured; no impairment
NR	4,954,210	8,339,782	–	payable on demand; noninterest-bearing	Unsecured; no impairment
Notes payable (see Note 16c):					
NR	31,250	–	70,790,180	payable within 3 years; bears interest- rate of 4.1577% p.a.	Unsecured; no impairment
Stockholder with significant influence					
Management fees - expense (see Note 16e)					
GPI	27,000,000	–	–	30-60 days; noninterest-bearing	Unsecured; no impairment
Service fees - expense (see Note 16e):					
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; no impairment
Interest on notes receivable (see Note 16b):					
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
Advances granted (see Note 16a):					
GPI	–	–	67,617	payable on demand; noninterest-bearing	Unsecured no impairment
Stockholder with no significant influence					
Interest on notes receivable (see Note 16b):					
Other non-controlling stockholder	107,345	–	–	3.6462% p.a. interest on notes receivable	Unsecured; no impairment
IHI	86,569	–	–	3.6462% p.a. interest on notes receivable	Unsecured; no impairment
Advances received (see Note 16c):					
Other non-controlling stockholder	5,232,068	–	8,897,840	payable on demand; noninterest-bearing	Unsecured; no impairment
IHI	–	–	25,000	payable on demand; noninterest-bearing	Unsecured; no impairment

(Forward)



Category	Volume	2013		Terms	Conditions
		Outstanding Balance			
		Receivable	Payables		
Service fees -expense (see Note 16e):					
Other non-controlling stockholder	₱3,410,000	₱-	₱511,500	30-60 days; noninterest-bearing	Unsecured; no impairment
IHI	2,750,000	-	412,500	30-60 days; noninterest-bearing	Unsecured; no impairment

- 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 statements of financial position, are 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 nil in 2014 and ₱3.5 million and ₱2.3 million in 2013 and 2012, respectively, and are presented as part of “Interest income” account in the consolidated statements 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 2011 and advances from Delta P in 2013. Advances from VSNRGC are payable on demand within 3 years from the date of loan. The said advances are payable together with the interest accrued based on the December 1, 2011 PDST-F rate of 3.6577% plus 0.50% for a term of three (3) years from the date of the loan. On November 30, 2014, the loan was renewed for another three years. Interest expense related to this amounted to ₱2.9 million in 2014 and 2013 and ₱5.9 million in 2012. The related accrued interest payable is presented under “Trade and other payables”.

In September 2014, VEC issued a noninterest-bearing promissory note with Delta P to replace the interest-bearing note issued in 2013. Advances from “non-controlling stockholders” pertain to cash advances provided by certain non-controlling stockholders of 1590 EC in 2014 and 2013 to augment the working capital requirements.

- 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 statements of comprehensive income.



Outstanding receivables for management fees and service fees presented as part of “Accounts receivable” under “Trade and other receivables” account in the consolidated statements of financial position as of December 31, 2014 and 2013 amounted to ₱14.3 million and ₱10.4 million, respectively (see Note 7).

- e. 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 “Management fees” under “Operating expenses” in 2014 and 2013 (see Note 17).

Outstanding balance from these service agreements included as part of “Trade and other payables” in the consolidated statements of financial position amounted to ₱10.2 million and ₱4.2 million as of December 31, 2014 and 2013, respectively.

- f. 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 2014, ₱0.2 million in 2013 and 2012, 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 ₱3.9 million in 2014, ₱3.0 million in 2013 and ₱2.9 million in 2012 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 ₱16.8 million and ₱9.3 million as of December 31, 2014 and 2013, respectively (see Note 19). Other than the contributions to the retirement fund, the Group does not have any other transactions with the fund in 2014 and 2013.

Compensation and Benefits of Key Management Personnel

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

	2014	2013	2012
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):

	2014	2013	2012
Heavy fuel oil (see Note 23)	₱1,275,706,992	₱1,120,423,098	₱990,396,899
Purchased power (see Note 23)	187,127,482	16,883,018	27,102,921
Rent (see Note 23)	152,942,787	140,000,000	84,000,000
Materials and supplies	113,996,076	128,782,038	381,012,270
Contractual and outside services	75,744,391	17,199,290	14,954,094
Salaries, wages and employee benefits (see Note 18)	44,632,098	42,247,517	38,694,109
Lube oil	38,419,158	32,746,186	29,425,334
Repairs and maintenance	33,486,643	18,935,187	71,771,310
Insurance	29,479,302	18,625,942	32,077,511
Professional fees (see Note 16e)	28,721,765	20,250,000	20,357,899
Supply and metering charges	25,870,207	23,698,987	23,785,736
Royalty fees (see Note 23)	25,465,567	12,698,043	-
Light, fuel and oil	21,738,955	25,093,002	22,263,940
Depreciation and amortization (see Notes 11 and 23)	4,175,702	115,000	107,912,497
Market fees (see Note 23)	2,718,005	3,022,906	1,445,248
Light and power	1,679,477	1,207,528	1,233,539
Taxes and licenses	1,026,444	1,478,989	337,692
Transportation	994,791	626,331	1,214,976
Miscellaneous	3,736,177	9,504,547	158,464
	₱2,067,662,019	₱1,633,537,609	₱1,848,144,439

Other Operating Expenses

	2014	2013	2012
Office supplies	₱2,954,389	₱4,442,200	₱3,215,892
Regulatory expenses	1,827,780	1,047,707	397,587
Repairs and maintenance	1,053,181	2,741,534	1,844,284
Stockholders' meeting expenses	639,566	951,335	349,240
Others	16,425,073	20,166,900	6,614,451
	₱22,899,989	₱29,349,676	₱12,421,454

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

Others include 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

	2014	2013	2012
Salaries, wages and employee benefits	₱113,243,415	₱104,599,326	₱68,555,512
Directors' compensation and benefit	3,588,302	2,787,493	2,733,333
Pension costs (see Note 19)	11,591,504	9,285,463	6,416,298
	₱128,423,221	₱116,672,282	₱77,705,143

19. Retirement Plan

The Group has a funded, noncontributory, defined benefit pension plan covering all regular, permanent employees of the Parent Company and 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 Group'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 statements of comprehensive income and the funded status and amounts recognized in the consolidated statements of financial position for the pension plan.

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

	2014	2013	2012
Current service cost	₱10,485,193	₱4,261,557	₱5,783,040
Net interest cost	1,106,311	957,277	633,258
Past service cost	-	4,066,629	-
Pension expense	₱11,591,504	₱9,285,463	₱6,416,298

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

	2014	2013	2012
Actuarial loss on defined benefit plan	₱1,430,925	₱1,507,689	₱288,834
Return on assets excluding amount included in net interest cost	410,175	(11,429)	-
	₱1,841,100	₱1,496,260	₱288,834



The pension liability as of December 31, 2014 pertains to both the Parent Company and 1590 EC's funded retirement plan, while, the pension asset as of December 31, 2013 pertains to the funded retirement plan of 1590 EC, as follows:

	2014	2013
Present value of defined benefit obligation	₱40,040,490	₱7,756,047
Fair value of plan asset	(16,831,464)	(9,281,429)
Pension liability (asset)	₱23,209,026	(₱1,525,382)

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

	2014	2013
At January 1	₱26,480,666	₱15,687,514
Current service cost	10,485,193	4,261,557
Interest cost on defined benefit obligation	1,643,706	957,277
Past service cost	-	4,066,629
Actuarial loss (gain) due to:		
Changes in financial assumptions	2,080,310	1,368,129
Experience adjustments	(649,385)	139,560
At December 31	₱40,040,490	₱26,480,666

Present value of obligation as of December 31, 2013 consists of the following:

Parent Company's unfunded retirement plan	₱18,724,619
1590 ECs funded retirement plan	7,756,047
	₱26,480,666

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

	2014	2013
At January 1	₱9,281,429	₱-
Contributions to the retirement fund	7,422,815	9,270,000
Return on assets excluding amount included in net interest income	127,220	11,429
At December 31	₱16,831,464	₱9,281,429

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

	2014	2013
At January 1	₱17,199,237	₱15,687,514
Pension expense for the year	11,591,504	9,285,463
Actuarial loss recognized for the year	1,841,100	1,496,260
Contributions to retirement fund	(7,422,815)	(9,270,000)
At December 31	₱23,209,026	₱17,199,237



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

	2014	2013
Fixed income securities:		
Savings deposit	₱21,105	₱1,232
Due from Bangko Sentral ng Pilipinas	16,809,000	9,269,000
Accrued interest receivable	22,791	16,920
Total assets	16,852,896	9,287,152
Liabilities of the fund:		
Accrued trust fees	19,031	3,663
Withholding taxes payable	2,401	2,060
Total liabilities	21,432	5,723
Fair value of plan assets	₱16,831,464	₱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 obligation for the Group's pension plan as of December 31 follow:

	2014	2013
Discount rate	5.60%–4.17%	6.38%–5.79%
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, 2014, assuming all other assumptions were held constant:

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2014	2013
Discount rate	+100 basis points	(₱2,882,308)	(₱4,132,237)
	–100 basis points	1,168,007	1,820,569
Future salary increase rate	+100 basis points	1,396,501	1,594,574
	–100 basis points	(3,092,339)	(4,012,212)

The average duration of the defined benefit obligation as of December 31, 2014 is 16.9 years and 25.1 years, and as of December 31, 2013, average duration is 13.5 years and 25.1 years for the Parent Company and 1590 EC, respectively.



The Group expects to contribute ₱7.8 million to the defined benefit plan in 2015.

The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2014 and 2013:

	2014	2013
Less than one year	₱6,580,740	₱6,163,290
More than one year to five years	7,998,578	8,221,121
More than five years to 10 years	8,232,482	8,668,848
More than 10 years to 15 years	13,092,768	13,092,768
More than 15 years to 20 years	38,131,425	17,125,631
More than 20 years	278,572,808	170,838,117
Total	₱352,608,801	224,109,775

20. Income Taxes

	2014	2013	2012
Current	₱213,065,461	₱216,784,056	₱176,533,911
Final	6,381,578	6,695,118	3,060,829
	219,447,039	223,479,174	179,594,740
Deferred	7,406,522	(2,046,742)	(629,252)
	₱226,853,561	₱221,432,432	₱178,965,488

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

	2014	2013	2012
Income before income tax	₱1,922,308,461	₱1,525,877,276	₱2,210,613,128
Tax calculated at 30% statutory rate	₱576,692,538	₱457,763,183	₱663,183,938
Adjustments for the tax effects of:			
Equity in net earnings of associates	(333,228,616)	(245,150,397)	(288,803,672)
Excess of OSD over deductible expenses	(56,549,861)	-	-
Unrecognized NOLCO and derecognition of expired NOLCO	40,399,423	5,479,453	5,874,536
Interest income subject to final tax	(6,293,605)	(5,183,737)	(10,074,730)
Non-deductible expenses	4,513,032	10,472,475	1,762,191
Change in value of unrecognized deferred income tax assets	1,326,053	1,279,421	681,491
Gain on redemption of an equity interest subjected to final tax	-	(3,046,662)	(5,451,357)
Nontaxable gain on rescinded contract	-	-	(193,138,547)
Others	(5,403)	(181,304)	4,931,638
	₱226,853,561	₱221,432,432	₱178,965,488



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

	2014	2013
Deferred income tax assets on:		
Allowance for impairment losses	₱13,923,329	₱13,923,329
Pension liability	7,747,577	5,081,858
NOLCO	682,128	1,562,021
Remeasurement loss on employee benefits	539,783	535,528
Unrealized foreign exchange loss	100,325	-
Deferred expenses	-	348,723
MCIT	-	2,148
	22,993,142	21,453,607
Deferred income tax liability:		
Debt issue cost	7,881,225	-
Unrealized foreign exchange gain	932,023	54,324
	8,813,248	54,324
	₱14,179,894	₱21,399,283

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

	2014	2013
Unrealized fair value gain on investment property	₱27,521,100	₱27,521,100
Unrealized gain on AFS investments	53,400	-
Accrued rent	924	6,264
	₱27,575,424	₱27,527,364

In 2014 and 2013, the Group has deductible temporary differences and tax credits 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 and tax credits follow:

	2014	2013
NOLCO	₱44,976,177	₱36,822,317
Allowance for impairment losses	585,000	4,688,047
	45,561,177	41,510,364
MCIT	102,189	130,462
	₱45,663,366	₱41,640,826

21. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding shares in 2014, 2013 and 2012.

Authorized capital stock - ₱1 par value	2,000,000,000
Issued and outstanding shares, December 31, 2014	1,023,456,698
Unissued shares, December 31, 2014	976,543,302



The Parent Company's issued common shares as of December 31, 2014 and 2013 consists of 224,880,067 common shares and 600,000,000 preferred shares that were listed in the Philippine Stock Exchange (PSE) 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 1,467, 1,481 and 1,501 stockholders as of December 31, 2014, 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 declared cash dividends to its stockholders as follows:

	2014	2013	2012
Date of declaration	June 25, 2014	June 21, 2013	June 15, 2012
Date of record	July 9, 2014	July 4, 2013	July 4, 2012
Date of payment	July 31, 2014	July 30, 2013	July 16, 2012
Dividends declared:			
Regular dividends	₱175,420,478	₱159,501,588	₱144,968,499
Special dividends	50,047,033	50,000,000	50,000,000
	₱225,467,511	₱209,501,588	₱194,968,499
Dividends per share	₱0.2203	₱0.2047	₱0.1905

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 Group 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 was started in the first quarter of 2014 and are expected to be completed within the next three (3) years.

Out of the 2013 retained earnings appropriation, the Group invested ₱491.9 million in 2014 in two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

The BOD has determined, in a board meeting held on December 19, 2014, that the Group's operations require additional allocation as reserve for the investment in the two ongoing power plant projects in Visayas and Mindanao and a future investment in a new renewable power plant project also in the Visayas. In the same board meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1,446.2 million to be used for future investments in these projects which are expected to be implemented starting 2015.

As of December 31, 2014 and 2013, the Group's appropriated retained earnings amounted to ₱2,810.9 million and ₱1,856.5 million, respectively.

Unappropriated Retained Earnings

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱414.1 million and ₱236.6 million as at December 31, 2014 and 2013, respectively. Such amounts are not available for dividend distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.



Non-Controlling Interests

In 2013, VMHI, a subsidiary, received deposits for future stock subscription amounting to ₱33.0 million from its shareholders with a view of applying the same as payment for additional issuance of stock. As of December 31, 2013, these deposits were not yet converted to capital stock pending approval of VMHI's increase in authorized capital stock with the SEC. Subsequently in 2014, VMHI's increase in capital stock was already approved by SEC and thus, the deposits have been converted to capital stock of VMHI.

In addition, VMHI issued additional capital stock amounting to ₱8.8 million in 2014.

22. Earnings Per Share (EPS)

The amounts of earnings per share are computed as follows:

	2014	2013	2012
Net income attributable to shareholders of the Parent Company	₱1,348,042,824	₱1,008,748,891	₱1,461,200,409
Weighted average number of outstanding common shares	1,023,456,698	1,023,456,698	1,023,456,698
Basic and diluted EPS	₱1.317	₱0.986	₱1.428

There are no potential dilutive shares as of December 31, 2014, 2013 and 2012.

23. Contracts and Commitments

Interim Power Supply Agreements

On March 31, 2014, 1590 EC entered into an Interim Power Supply Agreement (IPSA) with Manila Electric Company (Meralco) to supply 140 MW for the period April 1 to June 30, 2014. On June 30, 2014, the Energy Regulatory Commission approved the extension of the IPSA to October 31, 2014.

On April 4, 2014, 1590 EC entered into a Contract to Purchase Generated Energy with Trans-Asia Oil and Energy Development Corporation (TAO) to supply 20MW for the period starting April 4 to June 25, 2014. TAO requested through a letter dated June 16, 2014 for the extension of the agreement. In a letter dated June 18, 2014, 1590 EC replied providing a 1 month extension to the agreement from June 26 to July 25, 2014.

As of December 31, 2014, total revenue from the IPSA with Meralco amounted to ₱168.6 million, while total revenue from the IPSA with TAO amounted to ₱1,359 million.

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 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. Upon expiration of the previous agreement, the contract was renewed starting May 1, 2014 to April 30, 2016 between 1590 EC and PSPC.



Heavy fuel oil expense recognized in the consolidated statements of comprehensive income amounted to ₱1,275.7 million, ₱1,120.4 million and ₱990.4 million in 2014, 2013 and 2012, 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 statements of financial position (see Note 12).

The Group also leased out an office space to VECO (see Note 16f). 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 ₱1.7 billion in 2014, ₱2.6 billion in 2013 and 2012 were generated from its participation in the trading of electricity at the Wholesale Electricity Supply Market (WESM).

On March 6, 2014, the ERC rendered an Order voiding the WESM prices for the supply months of November and December 2013 and in lieu thereof, substituting regulated prices. The Order came after the ERC formed an Investigating Unit to investigate the unusual increase in WESM prices and the seemingly simultaneous withholding of capacity by electric power generators during the supply months of November and December 2013. 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 amounting 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 ₱378.7 million as of December 31, 2013 (see Note 14).

On March 28, 2014, 1590 EC filed its Motion for Reconsideration (MR) to the Order. In an Order dated October 15, 2014, the ERC denied the MR.

On December 10, 2014, as a result of the denial of the MR by the ERC, 1590 EC filed a Petition for Review with Application for Injunction and Temporary Restraining Order with the Court of Appeals requesting for the (a) issuance of a Temporary Restraining Order and Writ of Preliminary Injunction enjoining ERC and PEMC from implementing all orders, decisions, and resolutions in ERC Case No. 2014-021 MC and (b) reversal of the Order of the ERC in ERC Case No. 2014-021 MC and (c) reinstating the November and December 2014 WESM market prices. The Petition is still pending.

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 ₱189.8 million, ₱19.9 million and ₱28.5 million in 2014, 2013 and 2012, 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 ₱0.5 million, ₱0.6 million and ₱3.7 million in 2014, 2013 and 2012, 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 July 26, 2011 and January 26, 2012.



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 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.

On April 26, 2012, 1590 EC and PGLU agreed to mutually rescind the December 8, 2010 CTS and its amendments on July 23, 2012 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” in 2012 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).

Operating Leases - Group as Lessee

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 ₱153.0 million, ₱140.0 million and ₱84.0 million in 2014, 2013 and 2012, respectively, and total royalty fees recognized in the 2014, 2013 and 2012 consolidated statements of comprehensive income amounted to ₱25.0 million, ₱12.7 million and nil, respectively (see Note 17).

Professional Fees

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 statements 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 the trade receivables of 1590 EC which is fully provided with allowance for impairment and portion of the receivables provided with allowance amounting to ₱34.1 million, management evaluated that the Group’s consolidated financial assets as summarized below are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for doubtful accounts, amounted to ₱5,108.1 million and ₱3,767.2 million as of December 31, 2014 and 2013, 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:

2014							
	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 days		
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	₱4,859,530,626	₱-	₱-	₱-	₱-	₱-	₱4,859,530,626
Trade and other receivables	1,512,402	63,634,623	868,242	1,252,147	71,249,049	34,458,046	172,974,509
Advances to associates and stockholders	39,035,941	-	-	353,000	1,541,943	-	40,930,884
Advances to suppliers and other parties under "Prepayments and other current assets"	203,673,372	-	-	-	-	-	203,673,372
Due from RFM Corporation under "Other noncurrent assets"	-	-	-	-	-	46,078,063	46,078,063
AFS Investments	4,324,131	-	-	-	-	-	4,324,131
	₱5,108,076,472	₱63,634,623	₱868,242	₱1,605,147	₱72,790,992	₱80,536,109	₱5,327,511,585

2013							
	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired	Total
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 Days		
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 associates and stockholders	106,118,219	-	-	-	9,368,764	-	115,486,983
Due from RFM Corporation under "Other noncurrent assets"	-	-	-	-	-	46,078,063	46,078,063
AFS Investments	3,846,131	-	-	-	-	-	3,846,131
	₱3,767,187,539	₱19,323,198	₱27,756,231	₱1,261,833	₱106,978,888	₱46,411,095	₱3,968,918,784

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

2014					
	Total	Neither Past Due nor Impaired			Past Due or Individually Impaired
		High Grade	Standard	Substandard	
Loans and Receivables					
Cash and cash equivalents (excluding cash on hand)	₱4,859,530,626	₱4,859,530,626	₱-	₱-	₱-
Trade and other receivables	172,974,509	1,512,402	-	-	171,462,107
Advances to associates and stockholders	40,930,884	39,035,941	-	-	1,894,943
Advances to suppliers and other parties (under "Prepayments and other current assets")	203,673,372	203,673,372	-	-	-
Due from RFM Corporation (under "Other noncurrent assets")	46,078,063	-	-	-	46,078,063
AFS Investments	4,324,131	4,324,131	-	-	-
	₱5,327,511,585	₱5,108,076,472	₱-	₱-	₱219,435,113



2013					
	Total	Neither Past Due nor Impaired			Past Due or Individually Impaired
		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	600,141,776	-	-	146,284,418
Advances to associates and stockholders	115,486,983	106,118,219	-	-	9,368,764
Due from RFM Corporation (under "Other noncurrent assets")	46,078,063	-	-	-	46,078,063
AFS Investments	3,846,131	3,846,131	-	-	-
	₱3,968,918,784	₱3,767,187,539	₱-	₱-	₱201,731,245

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 Associates and Stockholders* - high grade since these pertains to advances to 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:

	Total Carrying Amount	2014				
		Contractual Undiscounted Payments				
		Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years
Financial Assets						
Loans and receivables:						
Cash and cash equivalents (excluding cash on hand)	₱4,859,530,626	₱4,859,530,626	₱4,859,530,626	₱-	₱-	₱-
Trade and other receivables	138,516,463	172,974,509	-	138,516,463	34,458,046	-
Advances to associates and stockholders	40,930,884	40,930,884	-	40,930,884	-	-
Advances to suppliers and other parties (under "Prepayments and other current assets")	203,673,372	203,673,372	-	203,673,372	-	-
Due from RFM Corporation (under "Other noncurrent assets")	-	46,078,063	-	-	46,078,063	-

(Forward)



2014						
Total Carrying Amount	Contractual Undiscounted Payments					
	Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years	
AFS Investments	₱4,324,131	₱4,324,131	₱-	₱4,324,131	₱-	₱-
	5,246,975,476	5,327,511,585	4,859,530,626	387,444,850	80,536,109	-
Financial Liabilities						
Trade and other current payables*	1,162,103,152	1,162,103,152	231,261,864	930,841,288	-	-
Notes payable	26,155,546	2,973,729,250	-	26,155,546	2,947,573,704	-
Advances from related parties	115,486,477	115,486,477	-	115,486,477	-	-
	1,303,745,175	4,251,318,879	231,261,864	1,072,483,311	2,947,573,704	-
Net Financial Assets (Liabilities)	₱3,943,230,301	₱1,076,192,706	₱4,628,268,762	(₱685,038,461)	(₱2,867,037,595)	₱-

*Excluding statutory payables and unearned income

2013						
Total Carrying Amount	Contractual Undiscounted Payments					
	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 associates and stockholders	115,486,983	115,486,983	115,486,983	-	-	-
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	₱2,661,183,691	₱2,661,516,723	₱3,030,149,063	(₱368,965,372)	₱333,032	₱-

*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 statements of comprehensive income, net foreign exchange gain of ₱4.3 million and ₱3.0 million on its foreign currency transactions in 2014 and 2013, 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, 2014 and 2013.

	Change in Philippine Peso to US Dollar	
	3.29% Appreciation	2.89% Depreciation
Effect in income before income tax:		
2014	₱2,737,770	(₱2,404,910)
2013	(13,067,211)	11,480,247
	Change in Philippine Peso to Euro	
	4.34% Appreciation	4.94% Depreciation
Effect in income before income tax:		
2014	(₱1,185)	₱1,349
2013	(1,541)	1,175



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:

	2014		
	USD	EUR	Php Equivalent
Asset			
Cash	US\$2,310,034	€502.63	₱103,378,233
Liability			
Accruals	US\$4,170,000	–	185,598,568
	(US\$1,859,966)	€502.63	(₱82,220,335)
	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

The December 31 exchange rate used follows:

	2014	2013
US Dollar	₱44.74 to US\$1	₱44.40 to US\$1
Euro Dollar	₱54.34 to €1	₱60.82 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 ₱4.7 million and ₱2.1 million in 2014 and 2013, 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, 2014 and 2013, the carrying values of the Group's financial instruments, except for the notes payable, approximate fair values due to their relatively short-term maturity. The Group considers the notes payable with fair value of ₱3.0 billion under Level 2 classification.

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, 2014 and 2013, 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.

The estimated fair value using unobservable market inputs (level 2) of the Group's notes payable are based on the present value of expected future cash flows using the effective interest rates ranging from 2.33% to 3.67% in 2014.

Valuation Techniques Used to Derive Level 2 Fair Values

The table below presents the following for the Group's notes payable:

Description	Fair Value as of December 31, 2014	Valuation Technique	Key Observable Inputs	Range (Weighted Average)
Notes payable	₱2,423,298,930	Discounted Cash Flow Approach	Risk-free interest rate	2.33%–3.67% (3.61%)

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, 2014, 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 statements of financial position by level of the fair value hierarchy:

	Total	Fair Value Measurement Using		
		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)	₱574,131	₱574,131	₱–	₱–
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
	₱274,645,131	₱574,131	₱–	₱274,071,000

Unrealized valuation gain on AFS investments, recognized in the consolidated statements of comprehensive income, amounted to ₱0.2 million in 2014, and nil in 2013 and 2012 (see Note 9). Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statements of comprehensive income, amounted to nil in 2014, 2013 and 2012 (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, 2014, 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, 2014 and 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, 2014 and 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 2014, 2013 and 2012.

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:

	2014	2013
Notes payable	₱2,973,729,250	₱-
Less: cash and cash equivalents	4,859,530,626	3,057,406,413
Net cash and cash equivalents (a)	(1,885,802,376)	(3,057,406,413)
Equity	7,632,017,464	6,470,070,702
Equity and net cash and cash equivalents (b)	₱5,746,215,088	₱3,412,664,289
Gearing ratio (a/b)	(0.33):1.00	(0.90):1.00

25. Operating Segment Information

The Group is currently organized into two operating segments: 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, Core, VII and VGPC, 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.



	2012		
	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 2012	₱955,709,563	₱1,075,938,077	₱2,031,647,640

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 71% and 54% pertains to energy fees of 1590 EC in 2014 and 2013, respectively. In 2014, 100% of energy fees arising from power generation segment revenue are derived from trading at WESM, an external customer, of the electricity generated.

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

Other segment information included in the consolidated statements of financial position as of December 31, 2014, 2013 and 2012 is as follows:

	2014		
	Power Generation	Investing in Shares of Stock	Consolidated
Assets	₱1,676,195,418	₱10,781,208,787	₱12,457,404,205
Liabilities	1,331,968,721	3,134,807,659	4,466,776,380
Capital expenditures	344,226,702	7,646,401,123	7,990,627,825

	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	6,303,396,721	6,966,759,506



		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

Other segment information included in the consolidated statements of comprehensive income for the years ended December 31, 2014, 2013 and 2012 is as follows:

	Power Generation	Investing in Shares of Stock	Consolidated
Depreciation and amortization:			
2014	₱8,217,035	₱13,337,375	₱21,554,410
2013	5,017,257	8,382,012	13,399,269
2012	110,990,676	6,900,491	117,891,167

