

## **ANNEX B**

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

**Consolidated Financial Statements  
December 31, 2012 and 2011  
and Years Ended December 31, 2012, 2011 and 2010**

**and**

**Report of Independent Auditors**



## Alsons Consolidated Resources, Inc.

2nd Floor, Alsons Building  
2286 Chino Roces Ext., (formerly P. Tamo Ext.,) Makati City  
1231 Metro Manila, Philippines  
Tel. Nos.: (632) 817 -5506 to 10, 812 -0294  
Fax Nos.: (632) 894-0655; 812 -1005  
Website: www.acr.com.ph

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

Securities and Exchange Commission,  
SEC Building, EDSA, Greenhills, Mandaluyong City

The management of **Alsons Consolidated Resources Inc.**, is responsible for the preparation and fair presentation of the consolidated financial statements as of **December 31, 2012 and 2011** and for each of the three years in the period ended December 31, 2012, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

  
**TOMAS I. ALCANTARA**  
Chairman and President

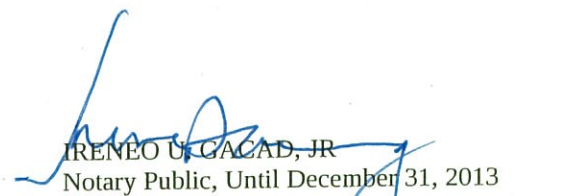
  
**TIRSO G. SANTILLAN, JR.**  
Executive Vice-President

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

SUBSCRIBED AND SWORN to before me this APR 12 2013 of 2 affiants exhibiting to me their passports as follows:

Name	Cert No.	Date	Place of Issue
Tomas I. Alcantara	XX2763093	01-08-09	DFA Manila
Tirso G. Santillan, Jr.	XX3178388	03-07-09	DFA Manila
Luis R. Ymson, Jr.	EB1623317	12-29-10	DFA Manila

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Book No. LVI  
Series of 2013

  
**IRENEO U. GACAB, JR.**  
Notary Public, Until December 31, 2013  
PTR No. 3677986; 01/09/2013; Makati City  
IBP No. 911197; 12/20/12; Manila 1 Chapter  
TIN: 108-447-582; Commission No. M-89  
Roll No. 22596;  
Unit 304, Guadalupe Commercial Complex  
Guadalupe Nuevo, Makati City



SyCip Gorres Velayo & Co.  
6760 Ayala Avenue  
1226 Makati City  
Philippines  
Phone: (632) 891 0307  
Fax: (632) 819 0872  
www.sgv.com.ph

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity, and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

### *Auditors' Responsibility*

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

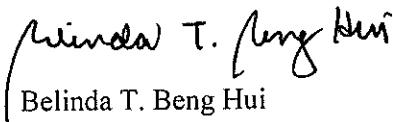
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements,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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823

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

Tax Identification No. 153-978-243

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

PTR No. 3669663, January 2, 2013, Makati City

March 25, 2013



# ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31	
	2012	2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Notes 7, 33 and 34)	2,277,436,876	2,453,177,125
Short-term cash investments (Notes 7, 33 and 34)	1,068,264,481	776,046,934
Trade and other receivables (Notes 8, 21, 33 and 34)	2,926,644,834	2,945,026,324
Spare parts and supplies - at cost (Note 9)	125,257,320	144,184,895
Real estate inventories (Note 10)	843,244,822	796,235,647
Prepaid expenses and other current assets (Notes 33 and 34)	241,105,192	129,177,878
<b>Total Current Assets</b>	<b>5,481,953,525</b>	<b>5,243,848,803</b>
<b>Noncurrent Assets</b>		
Noncurrent portion of installment receivables (Notes 8, 33 and 34)	11,408,975	10,051,213
Investments in real estate (Note 10)	2,347,744,165	2,373,689,798
Investments in associates (Note 11)	1,315,533,080	1,362,930,089
Property, plant and equipment (Notes 12 and 20)	2,642,798,253	2,937,879,296
Available-for-sale (AFS) financial assets (Notes 13 and 34)	64,394,470	46,374,762
Goodwill (Note 14)	923,214,539	983,029,619
Retirement asset (Note 29)	60,554,087	68,935,253
Deferred tax assets - net (Note 30)	6,115,738	6,323,800
Other noncurrent assets (Note 15)	1,170,071,868	958,449,310
<b>Total Noncurrent Assets</b>	<b>8,541,835,175</b>	<b>8,747,663,140</b>
	<b>₱14,023,788,700</b>	<b>₱13,991,511,943</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Notes 16, 33 and 34)	2,461,450,851	2,415,441,324
Loan payable (Notes 17, 33 and 34)	—	10,156,855
Income tax payable (Note 30)	69,482,159	64,358,347
Derivative liability (Notes 18 and 34)	21,545,856	—
Current portion of long-term debt - net of unamortized transaction costs (Notes 18, 33 and 34)	496,909,791	258,134,367
<b>Total Current Liabilities</b>	<b>1,049,388,657</b>	<b>748,090,893</b>
<b>Noncurrent Liabilities</b>		
Long-term debt - net of current portion and unamortized transaction costs (Notes 18, 33 and 34)	1,184,866,758	777,633,622
Deferred tax liabilities - net (Note 30)	406,795,745	403,453,737
Retirement payable (Note 29)	38,238,549	23,319,673
Customers' deposits (Notes 19, 33 and 34)	57,994,573	50,423,523
Asset retirement obligation (Notes 12 and 20)	69,558,363	62,225,406
Deferred lease income (Note 19)	11,597,353	7,059,717
<b>Total Noncurrent Liabilities</b>	<b>1,769,051,341</b>	<b>1,324,115,678</b>
<b>Total Liabilities</b>	<b>2,818,439,998</b>	<b>2,072,206,571</b>
<b>Equity (Note 22)</b>		
Capital stock	6,291,500,000	6,291,500,000
Other reserves	31,679,317	22,417,458
Cumulative translation adjustment	1,093,631,739	1,254,366,627
Retained earnings:		
Appropriated	850,000,000	—
Unappropriated	804,037,231	1,208,306,857
Attributable to equity holders of the parent	9,070,848,287	8,776,590,942
Non-controlling interests	2,134,500,415	3,142,714,430
<b>Total Equity</b>	<b>11,205,348,702</b>	<b>11,919,305,372</b>
	<b>₱14,023,788,700</b>	<b>₱13,991,511,943</b>

See accompanying Notes to Consolidated Financial Statements.

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

	Years Ended December 31		
	2012	2011	2010
<b>REVENUE</b>			
Energy fees (Note 35)	₱2,068,686,056	₱2,059,619,021	₱2,034,235,077
Power sales and service income (Note 35)	814,633,773	703,806,014	545,812,881
Sale of real estate (Note 35)	143,467,858	103,736,837	65,054,014
Management fees (Note 35)	32,019,719	30,448,095	29,980,044
Rental income and others (Note 32)	14,242,536	14,435,692	13,097,022
	<b>3,073,049,942</b>	<b>2,912,045,659</b>	<b>2,688,179,038</b>
<b>INCOME (EXPENSES)</b>			
Cost of services (Notes 23 and 25)	(1,524,507,767)	(1,447,658,087)	(1,276,365,144)
Cost of real estate sold (Note 10)	(165,092,449)	(90,679,634)	(87,524,418)
General and administrative expenses (Notes 7, 24 and 25)	(419,492,659)	(343,493,554)	(341,843,968)
Interest income (Note 7)	49,715,083	69,138,738	52,333,963
Finance charges (Note 27)	(84,873,519)	(30,046,879)	(60,069,754)
Other income - net (Note 28)	406,515,093	381,804,381	406,155,317
	<b>(1,737,736,218)</b>	<b>(1,460,935,035)</b>	<b>(1,307,314,004)</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,335,313,724</b>	<b>1,451,110,624</b>	<b>1,380,865,034</b>
<b>PROVISION FOR (BENEFIT FROM)</b>			
<b>INCOME TAX (Note 30)</b>			
Current	247,231,263	258,203,513	285,690,178
Deferred	9,683,590	(23,349,796)	(46,955,447)
	<b>256,914,853</b>	<b>234,853,717</b>	<b>238,734,731</b>
<b>NET INCOME</b>	<b>₱1,078,398,871</b>	<b>₱1,216,256,907</b>	<b>₱1,142,130,303</b>
Attributable to:			
Equity holders of the parent (Note 31)	₱508,645,374	₱455,889,039	₱377,861,510
Non-controlling interests	569,753,497	760,367,868	764,268,793
	<b>₱1,078,398,871</b>	<b>₱1,216,256,907</b>	<b>₱1,142,130,303</b>
Basic/diluted earnings per share attributable to equity holders of the parent (Note 31)	<b>₱0.081</b>	<b>₱0.072</b>	<b>₱0.060</b>

*See accompanying Notes to Consolidated Financial Statements.*

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

	Years Ended December 31		
	2012	2011	2010
<b>NET INCOME</b>	<b>₱1,078,398,871</b>	<b>₱1,216,256,907</b>	<b>₱1,142,130,303</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
Actuarial gains (losses) (Note 29)	(12,151,615)	37,504,584	(3,446,575)
Unrealized gains on fair valuation of AFS financial assets (Note 13)	18,019,708	3,813,882	783,432
Limit on retirement asset (Note 29)	(4,978,395)	(1,515,863)	3,131,665
Tax effect (Note 30)	704,767	(5,639,520)	(42,990)
	1,594,465	34,163,083	425,532
Translation adjustments	(266,651,873)	1,067,077	(288,147,598)
	(265,057,408)	35,230,160	(287,722,066)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱813,341,463</b>	<b>₱1,251,487,067</b>	<b>₱854,408,237</b>
Attributable to:			
Equity holders of the parent	₱357,172,345	₱474,994,254	₱210,797,158
Non-controlling interests	456,169,118	776,492,813	643,611,079
	<b>₱813,341,463</b>	<b>₱1,251,487,067</b>	<b>₱854,408,237</b>

*See accompanying Notes to Consolidated Financial Statements.*

**SONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010**

	Attributable to Equity Holders of the Parent							
	Unrealized							
	Capital Stock (Note 22)	Actuarial Gains (Losses) (Notes 22 and 29)	Financial Assets (Notes 13 and 22)	Unappropriated Retained Earnings (Note 22)	Appropriated Retained Earnings (Note 22)	Cumulative Translation Adjustment	Total	Non-controlling Interests (Note 1)
Income at December 31, 2011	₱6,291,500,000	₱4,941,568	₱17,475,890	₱1,208,306,857	₱-	₱1,254,366,627	₱8,776,590,942	₱3,142,714,430
Income	-	-	-	508,645,374	-	-	508,645,374	569,753,497
Other comprehensive income	-	(8,757,849)	18,019,708	-	-	(160,734,888)	(151,473,029)	(113,584,379)
Net comprehensive income	-	(8,757,849)	18,019,708	508,645,374	-	(160,734,888)	357,172,345	456,169,118
Emission of preferred shares	-	-	-	-	-	-	-	(1,102,514,545)
Capital contribution	-	-	-	-	-	-	-	-
Appropriation of retained earnings	-	-	-	(850,000,000)	850,000,000	-	-	-
Dividends	-	-	-	(62,915,000)	-	-	-	-
Income at December 31, 2012	₱6,291,500,000	(₱3,816,281)	₱35,495,598	₱804,037,231	₱850,000,000	₱1,093,631,739	₱9,070,848,287	₱2,134,500,415
Income at December 31, 2010	₱6,291,500,000	(₱3,892,053)	₱13,662,008	₱821,624,316	₱-	₱1,247,908,915	₱8,370,803,186	₱2,914,192,161
Income	-	-	-	455,889,039	-	-	455,889,039	760,367,868
Other comprehensive income	-	8,833,621	3,813,882	-	-	6,457,712	19,105,215	16,124,945
Net comprehensive income	-	8,833,621	3,813,882	455,889,039	-	6,457,712	474,994,254	776,492,813
Capital contribution	-	-	-	(69,206,498)	-	-	(69,206,498)	(547,970,544)
Income at December 31, 2011	₱6,291,500,000	₱4,941,568	₱17,475,890	₱1,208,306,857	₱-	₱1,254,366,627	₱8,776,590,942	₱3,142,714,430
Income at December 31, 2009	₱6,291,500,000	(₱3,313,821)	₱12,878,575	₱506,677,806	₱-	₱1,415,178,468	₱8,222,921,028	₱2,840,716,815
Income	-	-	-	377,861,510	-	-	377,861,510	764,268,793
Other comprehensive income	-	-	783,433	-	-	-	(167,064,352)	-
Net comprehensive income	-	(578,232)	783,433	377,861,510	-	(167,269,553)	210,797,158	643,611,079
Capital contribution	-	-	-	(62,915,000)	-	-	(62,915,000)	(570,135,733)
Income at December 31, 2010	₱6,291,500,000	(₱3,892,053)	₱13,662,008	₱821,624,316	₱-	₱1,247,908,915	₱8,370,803,186	₱2,914,192,161

accompanying Notes to Consolidated Financial Statements.





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

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,335,313,724	₱1,451,110,624	₱1,380,865,034
Adjustments for:			
Depletion, depreciation and amortization (Note 26)	622,842,832	609,506,648	623,560,558
Finance charges (Note 27)	84,873,519	30,046,879	60,069,754
Reversal of impairment loss on real estate inventories (Notes 10 and 28)	(72,066,280)	—	—
Interest income (Note 7)	(49,715,083)	(69,138,738)	(52,333,963)
Equity in net losses (earnings) of associates (Notes 11 and 28)	22,850,988	(5,153,081)	(12,273,175)
Provisions for impairment of:			
Trade and other receivables (Notes 8 and 24)	20,000,000	539,296	29,899,268
Short-term cash investments (Notes 7 and 24)	3,968,330	—	—
Deferred project cost (Notes 15 and 24)	2,849,457	2,886,458	2,837,124
Property, plant and equipment (Notes 12 and 28)	—	—	1,300,000
Recovery of impairment loss on real estate inventories due to sale (Note 10)	(17,108,236)	(6,744,646)	—
Mark-to-market loss on derivative liability (Notes 28 and 34)	11,632,044	—	—
Unrealized foreign exchange gain (Note 28)	(8,619,819)	(5,917,759)	(7,046,866)
Pension costs (Notes 25 and 29)	6,627,551	11,054,155	8,792,194
Operating lease income based on straight-line amortization of deferred lease (Note 19)	(1,567,108)	(1,036,813)	(940,251)
Gain on sale of property, plant and equipment (Note 28)	(1,023,156)	(1,037,601)	(368,319)
Reversal of provisions for liquidation expenses (Notes 1 and 28)	(956,400)	(17,606,990)	—
Gain on dacion en pago (Notes 10, 18, 21 and 28)	—	(56,890,005)	(33,437,402)
Write-off of receivables (Notes 8 and 24)	—	2,318,787	5,576,455
Accrual of income from insurance (Note 12)	—	—	(82,268,410)
Gain on debt buy-back (Notes 18 and 28)	—	—	(35,200,034)
Operating income before working capital changes	1,959,902,363	1,943,937,214	1,889,031,967
Decrease (increase) in:			
Trade and other receivables	40,574,852	73,546,532	(214,178,258)
Real estate inventories	40,610,481	177,998,819	80,194,630
Spare parts and supplies	12,138,514	6,371,957	(8,449,309)
Prepaid expenses and other current assets	(114,291,455)	(5,930,636)	(1,104,665)
Increase (decrease) in:			
Accounts payable and other current liabilities	30,364,474	(41,005,359)	(182,187,587)
Customers' deposits	13,429,818	3,116,800	1,494,837
Net cash flows from operations	1,982,729,047	2,158,035,327	1,564,801,615
Income taxes paid (Note 30)	(242,107,451)	(294,053,285)	(213,957,756)
Retirement contributions and benefit paid (Note 29)	(457,519)	(7,810,941)	(23,851,532)
Net cash flows from operating activities	1,740,164,077	1,856,171,101	1,326,992,327

(Forward)

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (increase) in:			
Due from related parties	(P43,551,124)	(P459,742,424)	(P301,940,571)
Short-term cash investments	(307,791,146)	154,116,196	230,785,946
Other noncurrent assets	(275,115,177)	(331,466,351)	(69,837,701)
Investments in real estate	23,128,693	(101,414,638)	—
Decrease in other noncurrent liabilities	—	—	(1,825,781)
Additions to:			
Property, plant and equipment (Note 12)	(449,681,050)	(236,375,442)	(489,512,245)
Computer software (Note 15)	(14,688,552)	(226,000)	—
Interest received	61,320,352	64,227,612	52,769,313
Proceeds from disposal of:			
Associate (Note 11)	24,546,021	—	—
Property and equipment	2,771,926	1,511,990	1,593,462
Net cash flows used in investing activities	(979,060,057)	(909,369,057)	(577,967,577)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments of:			
Dividends	(779,366,988)	(617,177,042)	(695,965,733)
Debts	(283,920,990)	(383,885,322)	(93,271,533)
Interest	(46,884,571)	(32,696,812)	(62,415,398)
Loans (Note 17)	(10,156,855)	(19,843,145)	(7,109,000)
Transaction costs	(84,306,743)	—	—
Availment of loans	1,010,617,028	—	—
Capital contribution from noncontrolling interest (Note 1)	354,583,400	—	—
Cash outflow from redemption of redeemable preferred shares (Note 1)	(1,102,514,545)	—	—
Net cash flows used in financing activities	(941,950,264)	(1,053,602,321)	(858,761,664)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(180,846,244)	(106,800,277)	(109,736,914)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	5,105,995	2,492,857	5,212,901
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7)</b>	453,177,125	557,484,545	662,008,558
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	<b>P277,436,876</b>	<b>P453,177,125</b>	<b>P557,484,545</b>

See accompanying Notes to Consolidated Financial Statements

# ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. General Information

#### Corporate Information

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

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

Subsidiaries	Nature of business	Percentage of Ownership			
		2012		2011	
		Direct	Indirect	Direct	Indirect
Conal Holdings Corporation (CHC)	Investment holding	60.00	—	60.00	—
Alsing Power Holdings, Inc. (APHI)	Investment holding	20.00	80.00	20.00	80.00
Western Mindanao Power Corporation (WMPC)	Power generation	—	55.00	—	55.00
Southern Philippines Power Corporation (SPPC)	Power generation	—	55.00	—	55.00
Alto Power Management Corporation (APMC)	Management services	—	60.00	—	60.00
APMC International Limited (AIL)	Management services	—	100.00	—	100.00
Mapalad Power Corporation (MPC)*	Power generation	100.00	—	100.00	—
Sarangani Energy Corporation (Sarangani)*	Power generation	75.00	—	100.00	—
Siguil Hydro Power Corporation (Siguil)**	Power generation	100.00	—	100.00	—
Kalaong Power Corporation (Kalaong)**	Power generation	100.00	—	100.00	—
San Ramon Power, Inc. (SRPI)**	Power generation	100.00	—	100.00	—
Alsons Land Corporation (ALC)	Real estate	99.55	—	99.55	—
Lima Land, Inc. (LLI)	Real estate	—	59.93	—	59.93
Lima Utilities Corporation (LUC)	Power distribution	—	100.00	—	100.00
Lima Water Corporation (LWC)	Water distribution	—	100.00	—	100.00
Alsons Power International Limited (APIL)	Power generation	100.00	—	100.00	—
ACR Mining Corporation (ACRMC)	Exploration and mining	100.00	—	100.00	—
MADE (Markets Developers), Inc.	Distribution	80.44	—	80.44	—
Kamanga Agro-Industrial Ecozone Development Corporation (KAED)	Agro-industrial economic zone	100.00	—	100.00	—
ACES Technical Services Corporation (ACES)**	Management services	100.00	—	100.00	—

\*Indirectly owned through CHC in 2010 but were transferred to Parent Company in 2011

\*\*Newly incorporated in 2011

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

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

### Status of Operations

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

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

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

CHC recognized a loss of ₱0.5 million in 2012 and ₱10 million in 2011 on remeasurement of payable to non-controlling shareholders as a result of the reversal of provisions for liquidation expenses. The loss was presented net of the gain on reversal of provisions for liquidation expenses in the consolidated statement of income amounting to ₱1.0 million in 2012 and ₱17.6 million in 2011 (see Note 28). The net distributable assets of NMPC at the end of the three-year liquidation period on November 15, 2012 amounted to ₱81.0 million. Payable to non-controlling shareholders of a dissolved subsidiary amounted to ₱28.5 million and ₱29.1 million as at December 31, 2012 and 2011, respectively (see Note 16).

*MPC.* CHC organized and incorporated MPC on July 13, 2010 as wholly owned subsidiary to rehabilitate and operate the 102 MW Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II located in Iligan City. On June 27, 2011, ACR acquired full control of MPC through an agreement with CHC, wherein CHC assigns all shares to ACR. The deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. MPC is already in the process of rehabilitating the plant and expects to operate beginning April 2013 as "merchant" power plants.

*Sarangani.* CHC organized Sarangani on October 15, 2010, as wholly owned subsidiary to construct, commission and operate power generating plant facilities of electricity in Maasim, Sarangani Province. On June 27, 2011, ACR acquired full control of Sarangani through an agreement with CHC, wherein CHC assigns all shares to ACR. On December 10, 2012, ACR entered into a shareholders agreement with Toyota Tsusho Corporation (TTC), a company incorporated in Japan, wherein TTC agreed to subscribe and paid ₱355 million worth of Sarangani shares, representing 25% of the total equity of Sarangani. On the same date, ACR entered into a Development Fee Agreement with TTC, wherein TTC agreed to pay ACR a development fee amounting to \$5.75 million or ₱236 million, representing compensation to ACR as sole project proponent for the time, risk, and resources in developing Sarangani project. The development fee

received by ACR was recorded as part of "Other income - net" in the 2012 consolidated statement of income (see Note 28).

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

*Siguil and Kalaong.* The Parent Company organized and incorporated Siguil and Kalaong on July 22, 2011 as wholly owned subsidiaries. Siguil and Kalaong were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. As at March 25, 2013, Siguil and Kalaong have not started commercial operations.

*SRPI.* The Parent Company organized and incorporated SRPI on July 22, 2011, as wholly owned subsidiary. SRPI was incorporated primarily to acquire, construct, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPI has obtained its ECC on March 20, 2012 for the planned 105MW coal fired power plant to be located in Zamboanga Ecozone. As at March 25, 2013, SRPI has not started commercial operations.

*ACRMC.* In 2007, the Parent Company infused capital in ACRMC amounting to ₱195 million to support the latter's acquisition of the 75% interest of Alsons Development and Investment Corporation (Aldevinco), stockholder of Parent Company, in the Joint Venture with Southern Exploration Corporation (SECO) to explore and develop the Manat Mining Claims situated in the provinces of Davao del Norte and Compostela Valley (see Note 15). On October 25, 2012, the Declaration of Mining Project Feasibility was submitted to the Mines and Geosciences Bureau. As at March 25, 2013, ACRMC has not yet started commercial operations.

*MADE.* MADE, which is in the distribution business, has incurred significant losses in prior years resulting in capital deficiency. Because of the recurring losses, MADE decided to cease operations effective April 30, 2006 and significantly reduced its employees. These factors indicate the existence of a material uncertainty which may cast significant doubt about MADE's ability to continue operating as a going concern. As at March 25, 2013, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading operations.

*KAED.* On September 3, 2010, the Parent Company incorporated KAED to establish, develop, operate and maintain an agro-industrial economic zone and provide the required infrastructure facilities and utilities such as power and water supply and distribution system, sewerage and drainage system, waste management system, pollution control device, communication facilities and other facilities as may be required for an agro-industrial economic zone. As at March 25, 2013, KAED has not started commercial operations.

*ACES.* The Parent Company organized and incorporated ACES on July 7, 2011 with primary purpose as the operations and maintenance contractor of the coal power plant. As at March 25, 2013, ACES has not started commercial operations.

#### Approval and Authorization of the Issuance of the Consolidated Financial Statements

The consolidated financial statements upon recommendation for approval by the Audit Committee on March 8, 2013, were authorized for issue by the BOD on March 25, 2013.

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## 2. Basis of Preparation and Statement of Compliance

### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Group, except for CHC and Subsidiaries whose functional currency is U.S. dollar. All values are rounded off to the nearest Philippine peso, except when otherwise indicated.

### Statement of Compliance

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

### Basis of Consolidation

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

The subsidiaries are consolidated from the date of acquisition, being the date on which the Parent Company obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. All significant intercompany balances, transactions, income and expense and profits or losses from intercompany transactions are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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



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### 3. Changes in Accounting Policies and Disclosures

#### New Standards and Interpretations Issued and Effective as at January 1, 2012

The accounting policies adopted are consistent with those of the previous financial year, except for the following amended PFRS which the Group has adopted during the year.

- PFRS 7, *Financial Instruments: Disclosures (Amendment) - Transfers of Financial Assets and Enhanced Derecognition Requirements*, became effective for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. During the year, the Group has no financial assets that have been transferred but not derecognized. Accordingly, the disclosure requirements under these Amendments are not presented in the consolidated financial statements.
- PAS 12, *Income Taxes (Amendment) Deferred Tax: Recovery of Underlying Assets* became effective for annual periods beginning on or after January 1, 2012. This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Group's investment in real estate and property, plant and equipment are carried at cost. Thus, the amendments have no impact on the consolidated financial statements.

#### Standards Issued but not yet Effective

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

- PFRS 7, *Financial instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2013. These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement,' irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:
  - (a) The gross amounts of those recognized financial assets and recognized financial liabilities;
  - (b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;

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

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

- PFRS 9, *Financial Instruments: Classification and Measurement*, will become effective for annual periods beginning on or after January 1, 2015. PFRS 9 reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. In subsequent phases, hedge accounting and impairment of financial assets will be addressed. The completion of this project is expected on the first half of 2012. 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 classification and measurements of financial liabilities. The Group has decided not to early adopt PFRS 9 for the 2012 reporting ahead of its effectivity date on January 1, 2015. Therefore the consolidated financial statements as at December 31, 2012 do not reflect the impact of this new standard.
- PFRS 10, *Consolidated Financial Statements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 10 replaces the portion of *PAS 27, Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. PFRS 10 defines control as when an investor is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power. A reassessment of control was performed by the Group on all its subsidiaries in accordance with the provisions of PFRS 10. Following the reassessment, the Group determined that it has no subsidiaries where the Group has lost its control or new control was gained over previously accounted associates.
- PFRS 11, *Joint Arrangements*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 describes the accounting for a joint arrangement which is defined as a contractual arrangement over which two or more parties have joint control. The standard requires a joint arrangement to be classified as either a joint operation or a joint venture, based on the contractual rights and obligations of that joint arrangement. The standard removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

The application of this new standard will impact the financial statements of the Group. Upon adoption of PFRS 11, the Group's investment in Eagle Ridge Golf and Country Club, Inc., a joint venture, will be accounted for under the equity method. Currently, proportionate consolidation is applied for this joint venture. The change in the accounting for this joint venture will decrease total consolidated assets by ₱368 million and ₱389 million as at December 31, 2012 and December 31, 2011, respectively; and decrease total consolidated

liabilities by ₱58 million and ₱55 million as at December 31, 2012 and, 2011, respectively. Consolidated revenues will also decrease by ₱2 million and ₱9 million for the years ended December 31, 2012 and 2011, respectively, while consolidated income before income tax and earnings per share will not change since share in the net income using proportionate consolidation will still be the same using the equity method.

- PFRS 12, *Disclosures of Interests in Other Entities*, will become effective for annual periods beginning on or after January 1, 2013. This standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will affect disclosures only and have no impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement*, will become effective for annual periods beginning on or after January 1, 2013. PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.
- PAS 1, *Financial Statement Presentation - Presentation of Items of Other Comprehensive Income*, will become effective for annual periods beginning on or after July 1, 2012. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendments will be applied retrospectively and will result to the modification of the presentation of items of OCI and has therefore no impact on the Group's financial position or performance.
- PAS 19, *Employee Benefits (Amendment)*, will become effective for annual periods beginning on or after January 1, 2013. Amendments range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance since actuarial gains and losses are recognized in full in the period in which these occur in other comprehensive income based on the Group's current accounting policy.
- PAS 27, *Separate Financial Statements (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosures of Interest in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the entities in the Group.
- PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*, will become effective for annual periods beginning on or after January 1, 2013. As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosures of Interest in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and

describes the application of the equity method to investments in joint ventures in addition to associates. The Group does not expect this revised standard to have any significant impact on its consolidated financial statements.

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, will become effective for annual periods beginning on or after January 1, 2014. These amendments to PAS 32 clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to PAS 32 are to be applied retrospectively. The Group is currently assessing impact of the amendments to PAS 32.
- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contracts qualify as construction contract under PAS 11, *Construction Contracts*, or involve rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The Philippine SEC deferred its implementation until the final Revenue Standard is issued by the International Accounting Standards Board (IASB) and after an evaluation on the requirements and guidance in the said interpretation vis-à-vis the practices and regulations in the Philippines real estate industry is completed. The Group does not expect this interpretation to have any significant impact on its consolidated financial statements.
- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*, will become effective for annual periods beginning on or after January 1, 2013. This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (“production stripping costs”) and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation will have no impact in the consolidated financial statements.

#### *Annual Improvements to PFRSs (2009-2011 cycle)*

The *Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. Earlier application is permitted.

- PFRS 1, *First-time Adoption of PFRS - Borrowing Costs*. The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements - Clarification of the requirements for comparative information*. The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in

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

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

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#### 4. Summary of Significant Accounting Policies

##### Cash and Cash Equivalents

Cash include 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 three months or less from dates of acquisitions and are subject to an insignificant risk of change in value.

##### Short-term Cash Investments

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

##### Financial Assets and Financial Liabilities

*Date of Recognition.* The Group recognizes a financial asset in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

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

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

*Determination of Fair Value.* The fair value for financial instruments traded in active markets at balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques using inputs and assumptions based on market observable data and conditions and reflect appropriate adjustments that market participants would make for credit liquidity risk existing as at each of the periods indicated. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

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

*Amortized Cost of Financial Assets and Liabilities.* Amortized cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

#### Categories of Financial Instruments

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

The Group has no HTM investment as at December 31, 2012 and 2011.



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

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

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

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

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

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

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

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

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

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

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

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

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

Included in this category are the Group’s accounts payable and other current liabilities, loan payable, long-term debt, customers’ deposits and payable to non-controlling shareholders of a dissolved subsidiary.

#### Derivative Financial Instruments

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

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

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

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

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

Options arising from the Parent Company's loan payable with Alsons Power Holdings Corporation (APHC) are the Group's bifurcated embedded derivatives (see Note 18).

#### Classification of Financial Instruments Between Debt and Equity

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

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

#### Derecognition of Financial Assets and Liabilities

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

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

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

*Financial Liability.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

#### Impairment of Financial Assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Loans and Receivables.* For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized are not included in a collective assessment for impairment.

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

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

recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is presented as "Gain on recovery of bad debts" under other income - net in the consolidated statement of income.

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

#### Offsetting of Financial Instruments

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

#### Spare Parts and Supplies

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

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

#### Real Estate Inventories

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

#### Investments in Real Estate

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

Included in the investments in real estate is investment property consisting of building which is measured initially at cost, including transaction costs less accumulated depreciation and accumulated impairment in value, if any. The building is depreciated over 10 years.

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

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

#### Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the Group's share of the financial performance of the associates. Unrealized gains and losses from transactions with the associates are eliminated to the extent of the Group's interest in the associates. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

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

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

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

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39, from that date, provided the associate does not become subsidiary or a joint venture. When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.



#### Interest in Joint Venture

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

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

#### Property, Plant and Equipment

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

Land is carried at cost less any impairment losses.

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

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

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

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

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

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

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

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

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

#### Goodwill

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

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

#### Computer Software

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

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

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

#### Deferred Project Costs

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

#### Mining Rights

Mining rights (included as part of "Other noncurrent assets" account) are stated at cost less any accumulated depletion and any accumulated impairment losses. The cost of the mining rights includes the purchase price, fees, licenses directly related to the quarry and other similar payments to third parties. Mining rights are not yet subject to depletion until actual extraction of mineral

reserves. Depletion of the mining rights is computed using the unit-of-production method. Mining rights are charged to current operations in the year these are determined to be worthless.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less cost to sell or its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

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

#### Transaction costs

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

#### Capital Stock

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

#### Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory

redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Redeemable preferred shares is presented as equity when the option for redeeming the redeemable preferred shares is at the Group's discretion and the price of redemption is to be decided by the BOD.

#### Retained Earnings

Retained earnings include accumulated profits attributable to the equity holders of the Parent Company reduced by dividends declared. Dividends are recognized as a liability and deducted from equity when they are declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Revenue Recognition

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

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

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

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

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

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

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

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

### Costs and Expenses

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

### Deferred Oil Exploration Costs

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

### Retirement Costs

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

The past service cost is recognized as expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a retirement plan, past service cost is recognized immediately.

The retirement obligation is the present value of the defined retirement obligation reduced by the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains not recognized reduced by past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled. Plan assets are assets held by a long-term employee benefits fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value is based on market price information and in the case of quoted securities it is the published bid price.

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

### Leases

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

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

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

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

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

*Group as Lessor.* Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as rental income in the consolidated statement of income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which these are earned.

### Foreign Currency-denominated Transactions and Translations

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

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

### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset as part of the cost of that asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized when it is probable that they will result in future economic benefits to the Group. All other borrowing costs are expensed as incurred. For



borrowing associated with a specific asset, the actual rate on that borrowing is used. Otherwise, a weighted average cost of borrowings is used.

### Taxes

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable income; or
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO). Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of MCIT and NOLCO can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income; or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

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

#### Provisions

*General.* Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. 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 an interest expense.

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

#### Basic/Diluted Earnings Per Share

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

#### Business Segments

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

*Segment Assets and Liabilities.* Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, short-term cash investments, trade and other receivables, investments in real estate and real estate inventories, and property, plant and equipment, net of allowances and provision. Segment liabilities include all operating liabilities

and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

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

#### Contingencies

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

#### Events After the Reporting Period

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

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### **5. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in accordance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change.

#### Judgments

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

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

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

*Classification as Investment in an Associate.* While Parent Company holds less than 20% interest in Indophil Resources, NL (Indophil), the Company classifies and accounts for it as investment in an associate by virtue of an Agreement for the Joint Voting of Indophil shares entered into with Alsons Prime Investment Corporation (APIC) and Alsons Corporation (Alcorp), companies under the Alcantara Group, which defines the basic principles governing their conduct as common shareholders of Indophil and the exercise of their respective voting rights therein. The carrying value of investment in Indophil amounted to ₱1,316 million as at December 31, 2012 and 2011 (see Note 11).

*Determining Whether an Arrangement Contains a Lease and Proper Classification of the Lease.*

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

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

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

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

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

The Parent Company assesses that its preferred stock met all the features or conditions set out to be classified as equity. There was no issuance of redeemable preferred shares as at December 31, 2012 and 2011. On February 4, 2013, all of the Parent Company's preferred shares have been subscribed by Alcorp (see Note 22).

Estimates and Assumptions

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

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

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

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

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

The carrying values of trade and other receivables (including noncurrent portion of installment receivables) amounted to ₱2,938 million and ₱2,955 million as at December 31, 2012 and 2011, respectively (see Note 8). Provisions for impairment losses amounted to ₱20 million, ₱1 million and ₱30 million in 2012, 2011 and 2010, respectively (see Notes 8 and 24).

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

The carrying values of spare parts and supplies amounted to ₱125 million and ₱144 million as at December 31, 2012 and 2011, respectively (see Note 9). The carrying values of real estate inventories as at the same dates amounted to ₱843 million and ₱796 million, respectively (see Note 10). In 2012, due to the improvement in the sale activity of real estate inventories and improvement on the price of the Group's real estate inventories, reversal of impairment loss amounting to ₱72 million is recognized as part of "Other income - net" in the 2012 consolidated statement of income (see Note 28). Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱17 million in 2012 and ₱7 million in 2011 are also recognized as part of "Other income - net" in the consolidated statement of income (see Note 28). There was no provision for (reversal of) impairment on real estate inventories in 2010 (see Note 10).

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

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

There are no changes in the estimated useful lives of property, plant and equipment in 2012 and 2011. The carrying values of property, plant and equipment amounted to ₱2,643 million and ₱2,938 million as at December 31, 2012 and 2011, respectively (see Note 12).

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

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

The carrying value of AFS financial assets amounted to ₱64 million and ₱46 million as at December 31, 2012 and 2011, respectively. No impairment loss was recognized on AFS financial assets in 2012, 2011 and 2010. Unrealized gains on fair valuation of AFS financial assets recognized in other comprehensive income amounted to ₱18 million, ₱4 million and ₱1 million in 2012, 2011 and 2010, respectively (see Note 13).

*Impairment of Nonfinancial Assets (except Goodwill).* An impairment review is performed when certain impairment indicators are present. Determining the value in use of nonfinancial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect the consolidated financial statements. Future events could cause the Company to conclude that such financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial position and financial performance. Provision for impairment loss on deferred project costs amounted to ₱3 million in 2012, 2011 and 2010 (see Notes 15 and 24).

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

	2012	2011
	(In Millions)	
Real estate inventories and investments in real estate (see Note 10)	₱2,348	₱2,374
Investments in associates (see Note 11)	1,316	1,363
Property, plant and equipment (see Note 12)	2,643	2,938
Deferred project costs (see Note 15)	931	743
Mining rights (see Note 15)	195	195
Computer software (see Note 15)	15	—
	<b>₱7,448</b>	<b>₱7,613</b>

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

As at December 31, 2012 and 2011, based on the assessment of the Group, there is no impairment in the carrying value of goodwill. The carrying amount of goodwill amounted to ₱923 million and ₱983 million as at December 31, 2012 and 2011, respectively (see Note 14).

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

The Group obtained actuarial valuation reports in 2012 and 2011. Retirement asset of SPPC, WMPC, and APMC amounted to ₱61 million and ₱69 million as at December 31, 2012 and 2011, respectively (see Note 29). Retirement payable of the Parent Company and ALC, LLI, LUC and LWC amounted to ₱38 million and ₱23 million as at December 31, 2012 and 2011, respectively (see Note 29). Pension costs recognized in the consolidated statements of income amounted to ₱7 million, ₱11 million and ₱9 million in 2012, 2011 and 2010, respectively (see Notes 25 and 29).

*Asset Retirement Obligation.* The asset retirement obligation arises from the Company's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in consolidated statement of income. Carrying amount of asset retirement obligation as at December 31, 2012 and 2011 amounted to ₱70 million and ₱62 million, respectively (see Note 20).

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

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

Deferred tax assets recognized net of deferred tax liabilities amounted to ₱6 million as at December 31, 2012 and 2011. Unrecognized deferred tax assets as at the same dates amounted to ₱118 million and ₱163 million, respectively (see Note 30).

*Legal Contingencies.* The Group is involved in certain legal proceedings as discussed in Note 36. The estimate of the probable costs for the assessment and resolution of these possible claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon thorough analysis of potential results. As at March 25, 2013, there are no provisions for probable losses arising from contingencies recognized in the Group's consolidated financial statements as management believes that the resolution will not materially affect the Group's financial position and financial performance.

## 6. Segment Information

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

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

	2012					
	Energy and Power	Property Development	Other Investments	Total	Adjustments and Eliminations	Consolidated
<b>Earnings Information</b>						
Revenues						
External customer	₱2,100,705,775	₱972,344,167	₱-	₱3,073,049,942	₱-	₱3,073,049,942
Inter-segment	-	-	417,286,012	417,286,012	(417,286,012)	-
Total revenues	2,100,705,775	972,344,167	417,286,012	3,490,335,954	(417,286,012)	3,073,049,942
Interest income	45,683,270	3,852,085	179,728	49,715,083	-	49,715,083
Finance charges	(47,227,132)	(7,305,779)	(30,340,608)	(84,873,519)	-	(84,873,519)
Provision for income tax	202,844,489	8,667,495	₱28,137,558	239,649,542	17,265,311	256,914,853
Net income	830,976,251	69,346,265	567,126,925	1,467,449,441	(389,050,570)	1,078,398,871
<b>Other Information</b>						
Investments in associates and due from related parties	420,716,889	680,639,085	3,768,079,375	4,869,435,349	(1,543,814,724)	3,325,620,625
Segment assets	7,109,473,955	3,199,766,307	301,013,861	10,610,254,123	4,293,209,859	14,023,788,700
Segment liabilities	260,196,644	292,117,315	76,263,642	628,577,601	2,189,862,397	2,818,439,998
Depletion, depreciation and amortization	(589,403,206)	(29,773,368)	(3,666,258)	(622,842,832)	-	(622,842,832)
Reversal of (provisions for) impairment losses, bad debts, income from reversal of estimated liquidation expenses	(1,893,057)	69,174,516	-	67,281,459	-	67,281,459
Capital expenditures	402,290,426	47,331,526	59,098	449,681,050	-	449,681,050
Equity in net losses	-	(22,850,988)	-	(22,850,988)	-	(22,850,988)
Net cash flows provided by (used in)						
Operating activities	1,385,438,937	200,256,876	216,126,442	1,801,822,255	(61,658,178)	1,740,164,077
Investing activities	836,188,500	43,244,215	164,841,584	1,044,274,299	(2,023,334,356)	(979,060,057)
Financing activities	(2,435,130,909)	(219,976,855)	(352,863,125)	(3,007,970,889)	2,066,020,625	(941,950,264)
	2011					
	Energy and Power	Property Development	Other Investments	Total	Adjustments and Eliminations	Consolidated
<b>Earnings Information</b>						
Revenues						
External customer	₱2,090,067,116	₱821,978,543	₱-	₱2,912,045,659	₱-	₱2,912,045,659
Inter-segment	-	-	326,953,656	326,953,656	(326,953,656)	-
Total revenues	2,090,067,116	821,978,543	326,953,656	3,238,999,315	(326,953,656)	2,912,045,659
Interest income	64,658,981	5,406,331	1,127,954	71,193,266	(2,054,528)	69,138,738
Finance charges	(15,608,259)	(8,830,307)	(7,662,841)	(32,101,407)	2,054,528	(30,046,879)
Provision for (benefit from) income tax	246,088,033	(5,264,019)	-	240,824,014	(5,970,297)	234,853,717
Net income	1,100,066,905	122,427,971	349,827,499	1,572,322,375	(356,065,468)	1,216,256,907

(Forward)



2011						
	Energy and Power	Property Development	Other Investments	Total	Adjustments and Eliminations	Consolidated
<b>Other Information</b>						
Investments in associates and due from related parties	468,112,990	742,827,690	4,654,788,635	5,865,729,315	(2,536,262,805)	3,329,466,510
Segment assets	7,109,473,955	3,119,766,307	301,013,861	10,530,254,123	3,461,257,820	13,991,511,943
Segment liabilities	221,064,182	292,800,448	445,979,226	959,843,856	1,112,362,715	2,072,206,571
Depletion, depreciation and amortization	(580,279,935)	(25,551,655)	(3,675,058)	(609,506,648)	-	(609,506,648)
Reversal of impairment losses, bad debts, income from reversal of estimated liquidation expenses	14,113,745	4,493,350	-	18,607,095	-	18,607,095
Capital expenditures	212,771,293	23,424,109	180,040	236,375,442	-	236,375,442
Equity in net earnings	-	5,153,081	-	5,153,081	-	5,153,081
<b>Net cash flows provided by (used in)</b>						
Operating activities	1,625,814,467	83,964,270	(28,630,078)	1,681,148,659	175,022,442	1,856,171,101
Investing activities	(674,458,584)	30,640,791	142,205,400	(501,612,393)	(407,756,664)	(909,369,057)
Financing activities	(962,061,873)	(408,789,266)	(134,919,523)	(1,505,770,662)	452,168,341	(1,053,602,321)
2010						
	Energy and Power	Property Development	Other Investments	Total	Adjustments and Eliminations	Consolidated
<b>Earnings Information</b>						
<b>Revenues</b>						
External customer	P2,064,215,121	P623,963,917	P-	P2,688,179,038	P-	P2,688,179,038
Inter-segment	-	-	362,569,138	362,569,138	(362,569,119)	-
Total revenues	2,064,215,121	623,963,917	362,569,138	3,050,748,176	(362,569,138)	2,688,179,038
Finance charges	(25,127,261)	(32,427,723)	(2,514,770)	(60,069,754)	-	(60,069,754)
Interest income	47,171,973	4,268,652	893,338	52,333,963	-	52,333,963
Provision for income tax	255,023,938	2,985,412	704,000	258,713,350	(19,978,620)	238,734,731
Net income	1,094,081,638	118,111,636	336,889,113	1,549,082,387	(406,952,084)	1,142,130,303
<b>Other Information</b>						
Investments in associates and due from related parties	368,739,437	746,556,804	4,222,669,122	5,337,965,363	2,530,775,587	2,967,959,774
Segment assets	6,040,228,053	3,465,450,281	1,865,657,139	11,371,335,473	2,649,084,618	14,020,420,091
Segment liabilities	227,171,687	292,907,496	25,420,397	545,499,580	2,189,925,164	2,735,424,744
Depletion, depreciation and amortization	(596,050,426)	(23,823,894)	(3,686,238)	(623,560,558)	-	(623,560,558)
Provisions for impairment losses, bad debts and probable losses on input VAT	(4,240,949)	-	(28,495,485)	(32,736,434)	-	(32,736,434)
Capital expenditures	226,581,007	74,844,868	188,086,370	489,512,245	-	489,512,245
Equity in net earnings	-	12,273,175	-	12,273,175	-	12,273,175
<b>Net cash flows provided by (used in)</b>						
Operating activities	1,407,879,855	137,096,952	(63,481,802)	1,481,495,005	(154,502,678)	1,326,992,327
Investing activities	(211,677,688)	(76,122,210)	294,121,731	6,321,833	(584,289,410)	(577,967,577)
Financing activities	(1,314,938,100)	(50,065,640)	(208,865,913)	(1,573,869,653)	715,107,989	858,761,664

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to P23 million in 2012, P21 million in 2011 and P20 million in 2010, the Group operates and derives principally all of its revenues from domestic operations. Thus, geographical business information is not required.

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

	2012	2011	2010
<b>Assets</b>			
Total assets for reportable segments	P9,730,578,841	P10,530,254,123	P11,371,335,473
Investments in shares of stocks and due from related parties	10,126,043,952	9,990,102,697	8,044,298,155
Fair value adjustment on real estate inventories	(552,825,212)	(560,340,458)	(664,823,071)
Goodwill	(43,139,631)	(43,139,631)	(43,139,631)
<b>(Forward)</b>			

	2012	2011	2010
Accumulated impairment loss on real estate inventories	₱14,386,867	₱38,495,103	₱45,239,750
Accrued interest	11,050,358	23,311,994	10,626,558
Elimination and adjustments	(5,262,306,475)	(5,987,171,885)	(4,743,117,143)
Consolidated assets	₱14,023,788,700	₱13,991,511,943	₱14,020,420,091
<b>Liabilities</b>			
Total liabilities for reportable segments	₱628,577,601	₱959,843,856	₱545,499,580
Due to related parties	1,857,656,599	3,278,750,778	2,369,570,061
Long-term debt	1,681,776,549	1,035,767,989	1,487,946,460
Deferred tax liabilities	241,526,251	255,449,554	286,914,214
Income tax payable	69,482,159	64,358,347	96,301,458
Accrued interest	21,294,760	4,479,488	158,301,212
Loans	—	10,156,855	30,000,000
Others	(12,841,899)	(6,839,880)	3,061,266
Elimination and adjustments	(1,669,032,022)	(3,529,760,416)	(2,242,169,507)
Consolidated liabilities	₱2,818,439,998	₱2,072,206,571	₱2,735,424,744

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

	2012	2011
Cash on hand	₱3,793,583	₱3,484,351
Cash in banks	227,803,154	117,149,895
Short-term deposits	45,840,139	332,542,879
	₱277,436,876	₱453,177,125

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

Short-term cash investments amounting to ₱1,068 million and ₱776 million as at December 31, 2012 and 2011, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging from 2.26% to 4.11% in 2012 and 2.96% to 4.00% in 2011.

Interest income from cash and cash equivalents and short-term cash investments amounted to ₱50 million, ₱69 million and ₱52 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Provision for impairment loss of ₱4 million was recognized under “General and administrative expenses” account in the 2012 consolidated statement of income (see Note 24).

## 8. Trade and Other Receivables

	2012	2011
Trade		
Power	₱470,126,890	₱522,701,316
Real estate	380,859,309	389,197,555
Product distribution and others	31,730,458	31,730,458
Due from related parties (see Notes 10 and 21)	2,010,087,545	1,966,536,421
Accrued interest	1,393,058	12,998,327
Others (see Notes 12 and 35)	130,749,009	136,016,664
	3,024,946,269	3,059,180,741
Less allowance for impairment losses	98,301,435	114,154,417
	<b>₱2,926,644,834</b>	<b>₱2,945,026,324</b>

### Power

Represent billings to NPC by SPPC and WMPC under existing ECAs (see Note 35). These receivables are noninterest-bearing and are generally on 30 days term. The trade receivables include long-outstanding receivables of SPPC from NPC amounting to ₱106 million (\$2.59 million) as at December 31, 2012, representing billings from 2005 to 2006 for additional 5MW installed capacity nominated by SPPC. The allowance provided amounting to ₱28 million (\$0.69 million) is management best estimate of impairment loss on the long-outstanding receivables from NPC. No additional provision for impairment was recognized nor a reversal of allowance for this receivable was made in 2012, 2011 and 2010.

In 2011 and 2010, receivables amounting to ₱2 million and ₱6 million, respectively, were charged to expense since management believes that this can no longer be recovered (see Note 24). There was no direct write-off of receivables in 2012.

### Real Estate

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

Real estate receivables are generally noninterest-bearing and have terms of less than one year except for installment receivables amounting to ₱64 million as at December 31, 2012 and 2011, which are collectible in monthly installment over a period of 2 to 10 years and bear interest rates ranging from 18% to 21% computed on the outstanding balance of the principal. Title on the lots sold is passed on to the buyer only upon full settlement of the contract price. The noncurrent portion of the installment receivables amounted to ₱11 million and ₱10 million as at December 31, 2012 and 2011, respectively.

Real estate receivables amounting to ₱216 million and ₱239 million as at December 31, 2012 and 2011, respectively, relate to the Group's share on the sale of the developed residential and commercial lots and golf shares in the Eagle Ridge Golf and Residential Estates jointly developed with Sta. Lucia Realty and Development, Inc. (SLRDI) (see Notes 10 and 35f). In 2012, allowance for doubtful accounts amounting to ₱20 million was recorded under "General and administrative expenses" account in the consolidated statement of income (see Note 24).

### Product Distribution and Others

Pertains to receivables from the supply of goods and merchandise to customers.

Product distribution and other receivables are noninterest-bearing and generally have a term of less than one year.

### Due from Related Parties, Accrued Interest and Other Receivables

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

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

Included in the other receivables is LLI's long outstanding advances to minority shareholder, amounting to ₱41 million as at December 31, 2012 and 2011. These advances are noninterest-bearing, unsecured and due and demandable. No provision for impairment loss was provided for these advances.

Also included in the other receivables is LUC's claim from NPC for advances amounting to ₱3 million as at December 31, 2012 and 2011 representing reimbursement due to the installation of transmission line from NPC to substations in Lipa Batangas. No provision for impairment loss was provided for these advances.

The Parent Company has various advances to third parties that were nonmoving since prior years. These advances have been fully provided with allowance and specifically identified to be potentially uncollectible. In 2012, the Parent Company written-off ₱34 million receivable against allowance for doubtful accounts.

Movements of allowance for impairment losses are as follows:

2012					
	Power	Real Estate	Product Distribution	Others	Total
Balance at beginning of year	₱29,987,875	₱11,561,222	₱31,730,458	₱40,874,862	₱114,154,417
Provision for impairment losses (see Note 24)	-	20,000,000	-	-	20,000,000
Write-off of allowance for impairment losses	-	-	-	(33,550,741)	(33,550,741)
Recovery of bad debts (see Note 28)	-	-	-	(119,999)	(119,999)
Effect of change in foreign exchange rate	(1,642,932)	-	-	(539,310)	(2,182,242)
Balance at end of year	₱28,344,943	₱31,561,222	₱31,730,458	₱6,664,812	₱98,301,435
Individually impaired	₱12,769,547	₱-	₱-	₱5,062,943	₱17,832,490
Collectively impaired	15,575,396	31,561,222	31,730,458	1,601,869	80,468,945
	₱28,344,943	₱31,561,222	₱31,730,458	₱6,664,812	₱98,301,435

2011					
	Power	Real Estate	Product Distribution	Others	Total
Balance at beginning of year	₱29,987,875	₱11,021,926	₱31,955,358	₱40,893,444	₱113,858,603
Provision for impairment losses (see Note 24)	-	539,296	-	-	539,296
Write-off of allowance for impairment losses	-	-	(208,400)	(18,364)	(226,764)
Recovery of bad debts (see Note 28)	-	-	(16,500)	-	(16,500)
Effect of change in foreign exchange rate	-	-	-	(218)	(218)
Balance at end of year	₱29,987,875	₱11,561,222	₱31,730,458	₱40,874,862	₱114,154,417
Individually impaired	₱13,637,440	₱-	₱-	₱5,062,943	₱18,700,383
Collectively impaired	16,350,435	11,561,222	31,730,458	35,811,919	95,454,034
	₱29,987,875	₱11,561,222	₱31,730,458	₱40,874,862	₱114,154,417

### 9. Spare Parts and Supplies - At Cost

	2012	2011
Spare parts	₱117,423,461	₱139,246,485
Oil, lubricants and chemicals	7,584,562	4,425,677
Operating supplies and consumables	249,297	512,733
	₱125,257,320	₱144,184,895

Spare parts amounting to ₱6 million which were fully provided with allowance for inventory obsolescence in prior years were written off in 2011.

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

Real estate inventories consist of the following:

	2012	2011
Eagle Ridge Project (General Trias, Cavite)	₱627,199,776	₱555,618,280
Lima Technology Center Project (LTC) (Lipa and Malvar, Batangas)	216,045,046	240,617,367
	<b>₱843,244,822</b>	<b>₱796,235,647</b>

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

	2012	2011
<b>Cost</b>		
Balance at beginning of year	₱915,676,338	₱1,092,120,297
Disposals (recognized as cost of real estate sold)	(117,853,630)	(35,211,749)
Land acquired during the year	70,110,901	1,969,183
Land acquired from cancellation of sale	3,820,073	—
Construction / development cost incurred	3,283,892	3,134,492
Reclassifications from (to):		
Investments in real estate	(1,554,860)	—
Property, plant and equipment (see Note 12)	—	1,554,860
Borrowing cost capitalized	28,283	1,599,826
Cost of dacioned lots to settle liabilities	—	(149,490,571)
Balance at end of year	<b>873,510,997</b>	<b>915,676,338</b>
<b>Allowance for impairment loss</b>		
Balance as at beginning of year	119,440,691	126,185,337
Reversal of allowance for impairment (see Note 28)	(72,066,280)	—
Recovery of impairment due to sale (see Note 28)	(17,108,236)	(6,744,646)
Balance at end of year	<b>30,266,175</b>	<b>119,440,691</b>
<b>Net realizable value</b>	<b>₱843,244,822</b>	<b>₱796,235,647</b>

Investments in real estate consist of the following:

	2012	2011
CASI Property (Lanang, Davao City)	₱1,226,174,500	₱1,226,174,500
LTC Project (Lipa and Malvar, Batangas)	1,012,278,074	1,039,778,567
Batangas Project (Lipa and Malvar, Batangas)	104,605,655	103,050,795
Laguna Project (Cabuyao, Laguna)	4,685,936	4,685,936
	<b>₱2,347,744,165</b>	<b>₱2,373,689,798</b>

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

	2012		
	Land	Building	Total
<b>Cost</b>			
Balance as at December 31, 2011	₱2,336,639,382	₱43,567,377	₱2,380,206,759
Additions	24,110,126	—	24,110,126
Disposals (recognized as cost of real estate sold)	(47,238,819)	—	(47,238,819)
Reclassification from real estate inventories	420,000	1,524,439	1,944,439
Balance as at December 31, 2012	2,313,930,689	45,091,816	2,359,022,505
<b>Accumulated depreciation</b>			
Balance as at December 31, 2011	—	6,516,961	6,516,961
Depreciation	—	4,371,800	4,371,800
Reclassification from real estate inventories	—	389,579	389,579
Balance as at December 31, 2012	—	11,278,340	11,278,340
<b>Carrying value</b>	<b>₱2,313,930,689</b>	<b>₱33,813,476</b>	<b>₱2,347,744,165</b>

	2011		
	Land	Building	Total
<b>Cost</b>			
Balance as at December 31, 2010	₱1,236,984,371	₱—	₱1,236,984,371
Additions	1,233,566,452	—	1,233,566,452
Disposals (recognized as cost of real estate sold)	(55,467,885)	—	(55,467,885)
Reclassification from (to) property, plant and equipment	(78,443,556)	43,567,377	(34,876,179)
Balance as at December 31, 2011	2,336,639,382	43,567,377	2,380,206,759
<b>Accumulated depreciation</b>			
Balance as at December 31, 2010	—	—	—
Depreciation	—	—	—
Reclassification from (to) property, plant and equipment	—	6,516,961	6,516,961
Balance as at December 31, 2011	—	6,516,961	6,516,961
<b>Carrying value</b>	<b>₱2,336,639,382</b>	<b>₱37,050,412</b>	<b>₱2,373,689,794</b>

#### CASI Property

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

On December 29, 2011, a Memorandum of Agreement (MOA) was made and executed by ACR and Aldevinco with the following salient features:

- a. ACR has limited rights as shareholder having a sole interest in CASI is its right to receive in full, as a return of capital, the Lanang landholdings. ACR will not exercise any right as CASI shareholder such as, but not limited to, nominating any individual stockholder to the BOD of CASI, voting for any such nominee, or ratifying any act of the BOD of CASI.
- b. ACR will create a voting trust that confers upon Aldevinco, as trustee, the right to vote and any all rights pertaining to the CASI shares owned by ACR.

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

#### Eagle Ridge and LTC Projects

In 1997, the joint venture of LLI and Landmark Communities Inc. (LCI) started development works on the LTC projects in Lipa City and Malvar, Batangas. The project was temporarily suspended in 2001 and partially resumed in 2006 with the start of the development of the housing project of the joint venture of LLI and LCI called "Summer Hills Subdivision" (shown as part of "Real estate inventories" account). The costs of the housing project being developed in a portion of LLI's undeveloped lots are being shouldered by LCI which shall receive 50% of the total sales proceeds. The remaining balance of 50% shall be for LLI (see Note 35e).

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

Accumulated costs of the Eagle Ridge Project of ALC and certain portion of the LTC Project of LLI that have been opened up for sale are presented as "Real estate inventories" and shown as part of current assets in the consolidated balance sheet. Accumulated costs of the remaining portion of the LTC, Batangas and Laguna projects that have not been opened up for sale are presented as "Investments in real estate" and shown as part of noncurrent assets in the consolidated balance sheet (see Note 35e).

The carrying cost of the Eagle Ridge and LTC Projects as at December 31, 2012 and 2011 include ₱553 million and ₱560 million, respectively, of allocated excess of acquisition cost over the carrying value of the underlying net assets of ALC at date of acquisition for the unsold areas at the Eagle Ridge and LTC Projects as at those dates.

In 2012, due to the improvement in the sale activity of real estate inventories and improvement on the price of the Group's real estate inventories, reversal of impairment loss amounting to ₱72 million is recognized as part of "Other income - net" in the consolidated statement of income. Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱17 million in 2012 and ₱7 million in 2011 are recognized also as part of "Other income - net" in the consolidated statement of income (see Note 28). There was no provision for (reversal of) impairment on real estate inventories in 2010. Accumulated impairment losses on real estate inventories amounted to ₱30 million and ₱119 million as at December 31, 2012 and 2011, respectively.

In 2012, ALC reclassified house and lot with aggregate cost of ₱2 million, from real estate inventories to investments in real estate. In 2011, LLI reclassified building, with carrying value of ₱37 million, that is held to earn rentals to investments in real estate from property and equipment (see Note 12). As at December 31, 2012 and 2011, the accumulated depreciation of building under investments in real estate amounted to ₱11 million and ₱7 million, respectively.

In 2011, LLI sold to LUC parcels of land with a aggregate area of 52,039 square meters for a total consideration of ₱96 million. Gain on sale amounting to ₱2 million was eliminated in the consolidated financial statements.

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

Included in "Real estate inventories" account are properties with a carrying amount of ₱161 million as at December 31, 2012 and 2011, were used as collateral for the loans availed by ALC, Parent Company and certain affiliates.

Investments in real estate with carrying value of ₱86 million as at December 31, 2011 were pledged as collateral to secure LLI's loans payable (see Note 17). In 2012, LLI settled the loan payable, therefore releasing the pledged on its investment in real estate.

#### Fair Value

The latest fair value of investments in real estate (LTC, Batangas and Laguna Projects) amounted to ₱1,316 million as determined by an independent firm of appraisers using market value approach. The fair value was based on the latest appraisal of the market value of the property on January 21, 2009. In December 2011, the fair value of Lanang landholdings of property amounted to ₱1,226 million, as also determined by an independent firm of appraisers using market value approach. The fair value represents the amount at which the assets could be exchanged between knowledgeable parties in an arm's length transaction at the date of valuation.

### **11. Investments in Associates**

	Percentage of Ownership	2012	2011
<b>At equity:</b>			
Acquisition costs:			
Indophil	2.75	₱1,315,533,080	₱1,315,533,080
RCPHI	31.24	80,851,701	80,851,701
T'boli Agro-Industrial Development, Inc.	22.32	66,193,299	66,193,299
Lima Logistics Corporation (LLC)	35.00	—	62,750,000
Duta, Inc.	30.00	13,725,000	13,725,000
		<b>1,476,303,080</b>	<b>1,539,053,080</b>
Accumulated equity in net losses and impairment:			
Balance at beginning of year		(159,209,539)	(164,362,620)
Equity in net earnings (losses) for the year (see Note 28)		(22,850,988)	5,153,081
Disposal during the year		21,290,527	
Balance at end of year		<b>(160,770,000)</b>	<b>(159,209,539)</b>
		<b>1,315,533,080</b>	<b>1,379,843,541</b>
Deferred income on intercompany sale of land by LLI to LLC			
		—	(16,913,452)
		<b>₱1,315,533,080</b>	<b>₱1,362,930,089</b>



*Indophil.* On December 23, 2010, the Parent Company purchased 29,149,000 shares of Indophil in the amount of ₱1,316 million. Indophil shares are listed in the Australian Stock Exchange. The Parent Company previously accounted its investment in Indophil as AFS financial assets. On December 11, 2011, Alsons Power Holdings Corporation (APHC), also a company under the Alcantara Group, entered into a placement agreement (the Agreement) with Indophil to subscribe to Indophil shares in two tranches, 66,666,667 shares in tranche 1 and 141,041,667 shares in tranche 2. On December 26, 2011, APHC incorporated APIC as a wholly owned subsidiary. On December 29, 2011, APIC completed the tranche 1 placement. Accordingly, APIC was issued with 66,666,667 shares representing 6.28% of Indophil's issued shares of stock, bringing the effective ownership of the Alcantara Group to 9.37%. On the same date, Mr. Nicasio Alcantara, a Director of Aldevinco, APIC and Alcorp, was appointed to Indophil's BOD as a Nonexecutive Director (Indophil has five nonexecutive directors out of seven directors). On December 30, 2011, APIC, Alcorp and ACR entered into an Agreement for the Joint Voting of Indophil shares, which defines the basic principles governing their conduct as common shareholders of Indophil and the exercise of their respective voting rights therein.

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

Due to these developments in investments of the Alcantara Group in Indophil, ACR has concluded that it has significant influence over Indophil. Accordingly, ACR now treats its investment in Indophil as investment in associate using equity method in the consolidated financial statements. The Group has determined that the acquisition cost of Indophil includes goodwill amounting to ₱785 million.

*LLC.* LLI's proportionate share in the unrealized profit from the sale of land at its industrial estate to LLC in 1998 of ₱17 million has been deferred in the accounts until December 31, 2011. On June 4, 2012, LLI, together with the rest of the shareholders of LLC, signed an Agreement to Sell Shares with Royal Cargo Combined Logistics Inc. (RCCL). The transfer of LLC's shares to RCCL was finally completed on October 8, 2012. LLI received ₱22 million as a return of capital from LLC and received additional ₱2 million as proceeds from the sale of LLC's shares to RCCL.

The condensed financial information of the significant associate (Indophil) as at December 31, 2012 and 2011 follow:

	2012	2011
	<i>Amounts in Thousands</i>	
Total assets	₱21,792,075	₱19,360,594
Total liabilities	88,086	212,797
Revenue	905,156	576,692
Net income	280,555	43,614

## 12. Property, Plant and Equipment

	2012					
	Land, Buildings and Leasehold Improvements	Main Engine	Plant Structures and Others	Machinery and Other Equipment	Construction in Progress	Cumulative Translation Adjustments
Cost						Total
Balance at December 31, 2011	P595,966,490	P5,146,178,023	P2,499,345,886	P761,065,853	P41,918,732	P9,932,981,488
Additions	105,734,736	132,118,739	-	78,166,141	133,661,434	449,681,050
Adjustment on decommissioning liability (see Note 20)	-	3,238,339	-	-	-	3,238,339
Disposals (see Note 28)	(44,642,925)	(111,851,158)	-	(16,675,193)	-	(173,169,276)
Reclassifications	(642,265)	6,581,962	-	(4,339,416)	(6,581,962)	(4,981,681)
Cumulative translation adjustments	-	-	-	-	-	(520,272,196)
Balance at December 31, 2012	656,416,036	5,176,265,005	2,499,345,886	818,217,385	168,998,204	9,687,477,724
Accumulated Depletion, Depreciation and Amortization and Impairment Loss						
Balance at December 31, 2011	(118,674,479)	(3,903,540,258)	(1,574,259,437)	(447,426,002)	-	(6,995,102,192)
Depletion, depreciation and amortization for the year (see Note 26)	(6,288,919)	(333,191,772)	(67,017,290)	(35,273,391)	-	(618,471,032)
Disposals (see Note 28)	44,649,675	111,850,748	-	14,920,083	-	171,420,506
Reclassifications	-	-	-	4,981,681	-	4,981,681
Cumulative translation adjustments	-	-	-	-	-	392,491,566
Balance at December 31, 2012	(80,313,723)	(4,124,881,282)	(1,641,276,727)	(462,797,629)	-	(7,044,679,471)
Net Book Value	P576,102,313	P1,051,384,623	P858,069,159	P355,419,756	P168,998,204	P2,642,798,253



2011

	Land, Buildings and Leasehold Improvements	Main Engine	Plant Mechanical, Electrical, Switchyard & Desulfurization Equipment	Plant Structures and Others	Machinery and Other Equipment	Construction in Progress	Cumulative Translation Adjustments	Total
<b>Cost</b>								
Balance at December 31, 2010	₱557,063,204	₱5,093,110,160	₱3,502,552,074	₱2,495,610,630	₱775,001,290	₱18,137,887	(₱2,648,181,926)	₱9,793,293,319
Additions	6,499,736	157,704,245	-	-	43,000,873	29,170,588	-	236,375,442
Adjustment on decommissioning liability (see Note 20)	-	27,605,446	-	-	-	-	-	27,605,446
Transfers from (to):								
Investments in real estate	34,876,179	-	-	-	-	-	-	34,876,179
Real estate inventories	(1,944,439)	-	-	-	-	-	-	(1,944,439)
Disposals (see Note 28)	(3,719,652)	(133,245,413)	-	-	(5,578,751)	-	-	(142,543,816)
Reclassifications	(454,920)	1,003,585	-	3,735,256	454,920	(4,738,841)	-	-
Others	3,646,382	-	-	-	(51,812,479)	(650,902)	-	(48,816,999)
Cumulative translation adjustments	-	-	-	-	-	-	34,136,356	34,136,356
Balance at December 31, 2011	595,966,490	5,146,178,023	3,502,552,074	2,499,345,886	761,065,853	41,918,732	(2,614,045,570)	9,932,981,488
<b>Accumulated Depletion, Depreciation and Amortization and Impairment Loss</b>								
Balance at December 31, 2010	(116,491,252)	(3,708,015,000)	(2,125,519,652)	(1,508,131,390)	(473,903,868)	-	1,352,397,914	(6,579,663,248)
Depletion, depreciation and amortization for the year (see Note 26)	(8,982,918)	(328,770,671)	(174,355,016)	(66,128,047)	(31,269,996)	-	-	(609,506,648)
Transfers to:								
Investments in real estate	6,516,961	-	-	-	-	-	-	6,516,961
Real estate inventories	389,579	-	-	-	-	-	-	389,579
Disposals (see Note 28)	3,326,366	133,245,413	-	-	5,497,648	-	-	142,069,427
Reclassifications	213,167	-	-	-	(213,167)	-	-	-
Others	(3,646,382)	-	-	-	52,463,381	-	-	48,816,999
Cumulative translation adjustments	-	-	-	-	-	-	(3,725,262)	(3,725,262)
Balance at December 31, 2011	(118,674,479)	(3,903,540,238)	(2,299,874,668)	(1,574,259,437)	(447,426,002)	-	1,348,672,652	(6,995,102,192)
<b>Net Book Value</b>	₱477,292,011	₱1,242,637,765	₱1,202,677,406	₱925,086,449	₱313,639,851	₱41,918,732	(₱1,265,372,918)	₱2,937,879,296



The capitalized asset retirement costs, net of accumulated depreciation, amounted to ₱23 million and ₱28 million as at December 31, 2012 and 2011, respectively.

Property, plant and equipment with a net book value of ₱1,144 million and ₱1,613 million as at December 31, 2012 and 2011, respectively, are mortgaged as collateral for the long-term debt of SPPC and WMPC (see Note 18).

Land and building and improvements of ALC with book value of ₱126 million as at December 31, 2012 and 2011 are mortgaged as collateral to secure ALC's long-term debt (see Note 18).

The Group recognized a provision for impairment loss on the land of MADE amounting to ₱1 million in 2010 (see Note 28). The impairment loss represents the excess of the cost of land over its fair value.

A main engine and certain machinery of WMPC were destroyed by fire in 2009. WMPC recognized as income under "Income from insurance claim" account its claim for reimbursement of revenue losses amounting to ₱82 million and its collections of reimbursements for restoration cost amounting to ₱131 million in 2010 (see Note 28). WMPC recognized as income under "Income from insurance claims" account its claim approved by insurance company amounting to ₱4 million in 2012 and ₱201 million in 2011 (see Note 28). The ₱3 million uncollected amount of WPMC's claim as at December 31, 2012 is presented as part of other receivables.

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱2,148 million and ₱2,018 million as at December 31, 2012 and 2011, respectively.

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

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

	2012	2011
<b>Acquisition costs</b>		
Balance at beginning and end of year	₱74,559,512	₱74,559,512
<b>Cumulative unrealized gain on change in fair value recognized in equity</b>		
Balance at beginning of year	17,475,890	13,662,008
Increase in fair value	18,019,708	3,813,882
Balance at end of year	35,495,598	17,475,890
<b>Accumulated impairment loss</b>		
Balance at beginning and end of year	(45,660,640)	(45,660,640)
<b>Carrying value</b>	<b>₱64,394,470</b>	<b>₱46,374,762</b>

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#### 14. Goodwill

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

The carrying amount of goodwill allocated to SPPC and WMPC amounted to ₱923 million and ₱983 million as at December 31, 2012 and 2011, respectively. The movement during the year is due to the effect of foreign exchange rate changes from ₱43.84/\$1 as at December 31, 2011 to ₱41.05/\$1 as at December 31, 2012 used in translating the amount of goodwill allocated to SPPC and WMPC from their functional currency of U.S. dollars to the Group's functional currency of Philippine peso (see Note 2).

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

##### Key assumptions used in value in use calculations

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

*Discount Rates.* Discount rates reflect management's estimate of the risks specific to the cash-generating unit. The discount rate used for the cash-generating unit is based on weighted average cost of capital. This rate was further adjusted to reflect the market assessment of any risk specific to the generating unit for which estimates of cash flows have not been adjusted. The discount rates used was 8.60% and 6.89% in 2012 and 2011, respectively.

*Terminal Values.* Terminal values represent the market values of the power plant complexes upon dismissal after the ECA period. The terminal values included in the value in use computation as at December 31, 2012 and 2011, respectively, amounted to \$43.50 million (₱1,782 million) and \$27.37 million (₱1,200 million), respectively.

*Consumer Price Index Estimates.* The assumptions used for consumer price index are 1.00% and 2.00% in 2012 and 2011 for US dollar-denominated billings. On the other hand, assumptions used for Philippine peso-denominated billings are 3.00% and 4.00% in 2012 and 2011, respectively.

*Exchange Rate Inflation.* The assumption used to determine foreign exchange rate is a depreciating U.S. dollar of 1.00% and 2.00% every year in 2012 and 2011, respectively.

##### Sensitivity to Changes in Assumptions

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

The estimated recoverable amount of the cash-generating units exceeds their carrying amounts by \$8.21 million (₱337 million) and \$6.87 million (₱301 million) as at December 31, 2012 and 2011, respectively.

## 15. Other Noncurrent Assets

	2012	2011
Deferred project costs	₱930,718,879	₱742,762,857
Mining rights	195,000,000	195,000,000
Computer software	14,914,552	226,000
Others (see Note 35)	29,438,437	20,460,453
	<b>₱1,170,071,868</b>	<b>₱958,449,310</b>

### Mining Rights

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

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

In 2007, ACRMC acquired Aldevinco's 75% participating interest in the Joint Venture for ₱195 million. As at December 31, 2012 and 2011, the participating interests of ACRMC and SECO in the Joint Venture are 75% and 25%, respectively.

### Deferred Project Costs

Deferred project costs are expenses incurred by the Group on the following ongoing projects:

*SM 200.* SM 200 is a coal-fired power plant project with a 200MW capacity in Maasim, Sarangani. The SM 200 project is embedded within the franchise area of SOCOTECO2. In 2009, the Department of Energy (DOE) and the Department of Environment and Natural Resources approved the ECC application for the SM 200 project. The ECC is a requirement for the start of construction of the project. Construction of Phase 1 of SM 200 commenced in July 2012. Completion is expected in August 2015 while SM 200 Phase II will follow a year later. As at December 31, 2012 and 2011, costs incurred for this project amounted to ₱725 million and ₱604 million, respectively.

*ZAM 100.* ZAM 100 is a coal-fired power plant project with a 100MW capacity in San Ramon, Zamboanga City. ZAM 100 received its ECC approval on March 20, 2012. The plant will be embedded the franchise area of Zamboanga City Electric Cooperative, Inc. to take advantage of eliminating the transmission charges of National Grid Corporation of the Philippines (NGCP). As at December 31, 2012 and 2011, costs incurred for this project amounted to ₱131 million and ₱83 million, respectively.

*Mapalad.* Mapalad was formerly the 100MW Iligan Diesel Power Plant (IDPP) that was constructed in 1993 and operated under the NMPC until the turnover to NPC of NMPC-1 in 2003, and NMPC-2 in 2006. After the turnover, NPC failed to pay the local government real property taxes. City officials subsequently auctioned off the diesel plant; however, the process failed due to the absence of more than one qualified bidder. ACR submitted a price proposal after the city declared the Iligan plant would be disposed on a negotiated-sale basis. A deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. As at December 31, 2012 and 2011, costs incurred for this project amounted to ₱39 million and ₱18 million, respectively.

*Siguil.* Siguil hydro powerplant project is a 16.7 MW run-off river with three cascades along Siguil River in Sarangani Province. The project is composed of a non-overflow concrete gravity dam. Its hydrology validation study is on-going and the DOE registration requirements have been completed. As at December 31, 2012 and 2011, costs incurred for this project amounted to ₱13 million.

*Others.* Other project costs include deferred exploration costs incurred by ACRMC for the mineral deposits in the Manat Claims. Exploration costs incurred amounted to ₱22 million and ₱20 million as at December 31, 2012 and 2011, respectively. As at March 25, 2013, the Manat MPSA is still in the exploration phase of development.

Other projects also include the Guam Coal project with carrying value amounting to ₱3 million and ₱5 million as at December 31, 2012 and 2011, respectively. The Group recorded a provision for impairment loss for the Guam Coal project of ₱3 million in 2012 and 2011, recorded under "General and administrative expense" account in the consolidated statement of income (see Note 24). Accumulated provision for impairment loss amounted to ₱10 million and ₱8 million as at December 31, 2012 and 2011, respectively.

#### Deferred Oil Exploration Costs

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

	2012	2011
Onshore Mindoro - GSEC No. 81	₱43,137,619	₱43,137,619
Northwest Malampaya - GSEC No. 86	5,959,900	5,959,900
Sibutu Block - GSEC No. 87	5,045,019	5,045,019
Others	9,230,396	9,230,396
	63,372,934	63,372,934
Less provision for impairment loss	63,372,934	63,372,934
	₱-	₱-

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

#### Computer Software

In 2012, CHC and subsidiaries acquired SAP ERP Financials (SAP) for ₱14.9 million. As at December 31, 2012, SAP was not yet available for its intended use. Amortization of computer software will commence when it becomes available for use.

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

	2012	2011
Trade	₱190,298,564	₱187,540,461
Nontrade:		
Project advances	60,494,998	61,448,675
Payable to non-controlling shareholders of a dissolved subsidiary (see Note 1)	28,533,322	29,083,584
Commissions payable (see Notes 21 and 35f)	10,122,869	14,355,243
Output tax payable	50,972,955	25,116,685
Retention payable	2,387,866	3,496,530
Advances from customers	26,797,524	27,659,813
Accrued vacation and sick leave benefits	24,292,609	26,208,998
Accrued interest (see Notes 17 and 18)	21,294,760	4,479,488
Estimated liquidation expenses (see Note 1)	—	6,534,994
Other current liabilities	46,255,384	29,516,853
	<b>₱461,450,851</b>	<b>₱415,441,324</b>

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

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

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**17. Loan Payable**

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

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

Finance charge related to this loan payable amounted to ₱0.4 million in 2012, ₱2 million in 2011 and ₱4 million in 2010 (see Note 27).



## 18. Long-term Debt

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

	2012	2011
<b>Parent Company</b>		
U.S. dollar-denominated debt -		
Four-year fixed rate corporate note	₱293,511,643	₱—
Philippine peso-denominated debt:		
Seven-year floating rate accommodated and restructured debt	181,304,800	217,304,800
Five-year fixed rate restructured debt	70,699,000	82,824,000
Five-year fixed rate accommodated and restructured debt	30,822,779	55,481,002
Eighteen-month fixed rate accommodated and restructured debt	—	20,548,446
<b>CHC's Subsidiaries</b>		
<i>WMPC</i>		
Three and half-year U.S. dollar-denominated floating rate note	562,971,400	—
Seven-year U.S. dollar-denominated floating rate note	64,507,160	93,973,405
<i>SPPC</i>		
Seven-year U.S. dollar-denominated floating rate note	197,919,660	267,737,149
Three and half-year U.S. dollar-denominated floating rate note	102,625,000	—
<b>ALC and Subsidiary</b>		
<i>ALC</i>		
Five-year peso-denominated fixed rate restructured debt	114,484,035	140,304,035
<i>LUC</i>		
Peso-denominated installment payable	21,405,055	21,405,055
<b>MADE</b>		
Five-year peso-denominated fixed rate restructured debt	114,706,125	140,566,124
	1,754,956,657	1,040,144,016
Less unamortized transaction costs	73,180,108	4,376,027
	1,681,776,549	1,035,767,989
Less current portion	496,909,791	258,134,367
	₱1,184,866,758	₱777,633,622

Movement in the unamortized transaction costs is as follows:

	2012	2011
Balance at beginning of year	₱4,376,027	₱6,419,813
Additions	84,306,743	—
Amortization of transaction costs (see Note 27)	(15,502,662)	(2,043,786)
Balance at end of year	₱73,180,108	₱4,376,027

Parent Company

The loans of the Parent company consist of the following:

- a. *US\$65 million Loan Facility Agreement* – On May 24, 2012, ACR or the Parent Company entered into a US\$65 million Loan Facility Agreement with APHC to finance the construction of the Sarangani Project (see Note 1). The loan bears 6% interest payable semi-annually starting 6 months from the initial drawdown date up to maturity date of the loan. Following are the salient features of the loan:
  - *Maturity Date* – Principal is payable in full at maturity which is the earliest of (i) 4 years from date of initial drawdown; (ii) commercial operation date of Sarangani; or, (iii) the date of issuance of the takeover certificate to Sarangani for the project. As at December 31, 2012, the Parent Company assessed that the commercial operation date of Sarangani will be the earliest among the three dates. Commercial operation date of Sarangani is expected to commence in August 2015.
  - *Mandatory Prepayment* – Prior to maturity date, the Parent Company shall pay the loan, in full or in part (as applicable), within fifteen (15) days from the happening of any of the following: (i) a follow-on offering, payment or subscription transaction involving new common shares of ACR; (ii) initial public offering or trade sale of the investee companies of ACR, which shall include Sarangani or any investee that may in the future, be created or owned by ACR; or (iii) dividends are received by ACR from the investee companies mentioned in (ii), unless APHC may allow ACR to use dividends received by it to service its existing loan obligations, instead of a mandatory prepayment on the loans in this Agreement.
  - The loan has embedded derivatives as follows:
    - ▶ *Voluntary Prepayment Option*– the Parent Company, may at its option, prepay the loan in full or in part, together with any accrued interest thereon, subject to the following conditions: (i) the Parent Company shall give APHC written notice not less than 30 days prior to proposed prepayment date; (ii) any prepayment shall be made on an interest payment date; (iii) each partial prepayment shall be for a minimum amount of ₱100 million and in integral multiples thereof; (iv) any amount may not be reborrowed; and (v) any amount prepaid shall be free and clear of, and without deduction for or on account of taxes.
    - ▶ *Conversion and Exchange Options* – In lieu of cash settlement upon mandatory and voluntary prepayment, APHC has the option to convert and/or exchange the outstanding principal amount including any accrued interest, anytime beginning 12 months from initial drawdown date, to the Parent Company's common shares and/or Sarangani common shares. With respect to the conversion of the loan to Parent Company's common shares, the conversion price shall be determined using the 12-month volume weighted average price of ACR common shares immediately prior to the date of the Loan Facility Agreement and in which case shall give APHC of up to a maximum of 20% effective voting shares in Sarangani. Conversely, with respect to the exchange of loan to Sarangani common shares, the exchange price shall be based on the par value of Sarangani's common share and in which case shall give APHC of up to a maximum of 20% interest in Sarangani's issued and outstanding common shares at the date when the exchange option is exercised.

- The amount due under mandatory and voluntary prepayment shall be equivalent to such amount that will result to APHC receiving yield to redemption of 13.5% based on the principal amount of the loan to be prepaid.
- *Negative Covenants* – ACR is subject to certain negative covenants which require prior approval of APHC for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. In addition, ACR is also required to maintain certain financial ratios. As at December 31, 2012, ACR is in compliance with the loan covenants.

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

The embedded derivatives in the loan were assessed by the Parent Company as for bifurcation based on the provisions of PAS 39 and thus, were accounted for separately as single compound derivative. The Parent Company determines the value of the compound embedded derivatives using the binomial model which is a standard option pricing model. At inception and as at December 31, 2012, the Group recognized a derivative liability from the compound embedded derivatives amounting to ₱10 million and ₱22 million, respectively. Mark-to-market loss recognized in the 2012 consolidated statement of income amounted to ₱12 million. The derivative liability is presented as part of the “Current liabilities” in the consolidated balance sheet whereas the mark-to-market loss is presented as part of “Other income - net” in the consolidated statement of income.

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

In compliance with PAS 39, the loan was initially recognized at fair value. In 2012, accretion on the loan using effective interest rate amounted to ₱1 million was recognized to bring the loan at the amount at the expected settlement date (see Note 27).

As at December 31, 2012, loan from APHC amounted to ₱228 million, net of unamortized transaction costs of ₱66 million.

As at December 31, 2012 and 2011, the Parent Company is in compliance with the terms of its loan covenants.

- b. Bank loans of ₱181 million and ₱217 million as at December 31, 2012 and 2011, respectively, which were accommodated for and on behalf of an affiliated company and were restructured in 2007 are payable in twenty seven (27) quarterly amortizations up to 2014 with interest rate of 3% over 90-day T-bill rate subject to quarterly repricing. The long-term debt is secured by a pledge of the Parent Company’s 1.6 million shares of stock in CHC and all shares of stock in ACRMC.
- c. Short-term bank borrowings amounting to ₱145 million as at December 31, 2010, which bear annual interest using a base rate of 8% was approved for restructuring in December 2010.

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

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

In October 2011, the compromise settlement agreement and the deed of assignment have been notarized. Accordingly, the restructured loan amounting to ₱85 million has been reclassified to long-term debt. Outstanding balance of restructured loan amounted to ₱71 million and ₱83 million as at December 31, 2012 and 2011, respectively. The de-recognition of remaining principal balance and the related interest payable through dacion en pago resulted in the recognition of gain on settlement of loan amounting to ₱57 million in 2011 (see Note 28).

- d. Bank loans of ₱31 million and ₱56 million as at December 31, 2012 and 2011, respectively, which were accommodated for and on behalf of an affiliated Company and were restructured in 2008, are payable in twenty (20) quarterly amortizations up to 2014 with annual interest rate fixed at 8%.
- e. In 2009, loan amounting to ₱89 million, which was accommodated for and on behalf of an affiliated company, was restructured and partly settled, through dacion of mortgaged properties of ALC. The restructured balance of ₱49 million was payable in eighteen (18) monthly amortization starting July 31, 2009 with annual interest rate of 5%. This loan was fully settled in 2012. Balance of this loan amounted to ₱4 million as at December 31 2011.

In 2011, ACR assumed an accommodated MADE loan with an outstanding balance of ₱17 million as at December 31, 2011.

#### CHC's Subsidiaries

*WMPC.* In 2008, WMPC obtained a U.S. dollar-denominated loan amounting to US\$4 million from a local bank under the amended OLSA to finance the maturing obligations with the syndicate lender banks. The loan bears an annual interest rate equal to LIBOR plus 2% and is subject to quarterly repricing. These are payable on a quarterly basis up to August 14, 2015. Balance of this loan amounted to ₱65 million (US\$1.6 million) and ₱94 million (US\$2.1 million) as at December 31, 2012 and 2011, respectively.

WMPC is subject to certain negative covenants requiring prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. In addition, WMPC is also required to maintain certain financial ratios. As at December 31, 2012 and 2011, WMPC is in compliance with the loan covenants.

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

*SPPC.* On July 15, 2009, SPPC obtained a U.S. dollar-denominated loan amounting to US\$9 million from a local bank under the OLSA to finance its dividend payments. The loan bears an annual interest equal to LIBOR plus 1 year credit default swap and 2% per annum spread. The loan is payable on a quarterly basis up to July 15, 2016. Balance of this loan amounted to ₱198 million (US\$4.8 million) and ₱268 million (US\$6.1 million) as at December 31, 2012 and 2011, respectively.

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

Under the terms of the OLSAs, WMPC and SPPC are subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. In addition, WMPC and SPPC are also required to maintain certain financial ratios. As at December 31, 2012 and 2011, WMPC and SPPC are in compliance with the loan covenants.

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

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

WMPC and SPPC determined using the Binomial Model of valuation that the prepayment option is insignificant as at December 31, 2012 and 2011.

Under the agreements, SPPC and WMPC shall provide collateral security, which shall consist of mortgage on property, plant and equipment, including assignment of their rights arising from the project agreements with NPC. Property, plant and equipment with carrying value of ₱1,144 million and ₱1,613 million as at December 31, 2012 and 2011, respectively, were mortgaged as collateral (see Note 12).

#### ALC and Subsidiary

*ALC.* Loan, which is due in 2003 but extended while in the process of restructuring into a new long-term loan amounting to ₱184 million as at December 31, 2009, had undergone restructuring on November 2, 2010. The balance of the restructured loan amounted to ₱114 million and ₱140 million as at December 31, 2012 and 2011, respectively, and is due to be payable quarterly in five years. The restructuring of the loan does not warrant derecognition of the old financial liability and recognition of a new one since there is no substantial modification on the loan agreement.

This loan bears an annual interest rate of 5% in 2012 and 2011.

The loan is collateralized by mortgage trust indenture and real estate mortgage on the ALC's land and buildings and improvements with carrying amount of ₱126 million as at December 31, 2012 and 2011 (see Note 12).

*LUC.* On May 30, 2009, LUC incurred a long-term debt payable to National Transmission Corporation (Transco) amounting to ₱25 million as part of the purchase price of the 69kV transmission line. The liability is payable in 24 equal monthly installment of inclusive of 6% interest per annum based on diminishing balance of the outstanding liability. However, beginning October 1, 2009, LUC ceased to pay monthly installments due to the notice given by Transco. The non-payment is due to the court case filed by Municipality of Labrador, Pangasinan against the Transco. As at December 31, 2012 and 2011, the remaining principal balance of the installment payable is ₱21 million and is payable on demand.

### MADE

In 2009, MADE effected partial settlement of its loans and loans accommodated for and on behalf of affiliated companies amounting to ₱94 million with certain creditor banks through delivery of a portion of real estate properties. Loss on settlement of loans amounted to ₱3 million and was included under "Finance charges" account. The restructured balance of ₱51 million is payable in nineteen (19) monthly amortization starting December 31, 2010 with annual interest of 5%. The outstanding balance of ₱17 million as at December 31, 2011 has been transferred to ACR.

Principal amortizations of certain loans amounting to ₱281 million as at December 31, 2009 became due and demandable but have not been paid as at their due dates. In 2010, these ₱281 million loan were settled and restructured as follows:

- a. ₱97 million of which was fully settled at an amount below the principal balance, thus, a gain amounting to ₱35 million was recognized in the 2010 consolidated statement of income and presented as part of "Other income - net" (see Note 28).
- b. The ₱184 million was restructured to be payable quarterly in 5 years until 2015. Interest is fixed at 5% p. a. payable quarterly in arrears. The balance of the restructured loan amounted to ₱115 million and ₱141 million as at December 31, 2012 and 2011, respectively. The loan is collateralized by mortgage agreements on real estate properties of ALC.

Repayments of long-term debt outstanding based on nominal amount as at December 31, 2012 are scheduled as follows:

	Amortization Schedule
2013	₱500,542,798
2014	480,428,876
2015	713,876,043
2016 and thereafter	60,108,940
	<u>₱1,754,956,657</u>

Interest charged to operations amounted to ₱63 million, ₱21 million and ₱41 million for the years ended December 31, 2012, 2011 and 2010, respectively (see Note 27).

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## **19. Customers' Deposits and Deferred Lease Income**

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

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

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

	2012	2011
Nominal value:		
Balance at beginning of year	₱57,174,578	₱54,057,778
Additions	14,529,818	3,116,800
Refunds	(1,100,000)	—
Balance at end of year	70,604,396	57,174,578
Unamortized discount:		
Balance at beginning of year	6,751,055	7,479,886
Additional discount recognized as deferred lease income	6,104,744	1,873,343
Accretion (see Note 27)	(245,976)	(2,602,174)
Balance at end of year	12,609,823	6,751,055
Carrying value	₱57,994,573	₱50,423,523

The movement of deferred lease income is as follows:

	2012	2011
Balance at beginning of year	₱7,059,717	₱6,223,187
Additions	6,104,744	1,873,343
Operating lease income based on straight-line amortization	(1,567,108)	(1,036,813)
Balance at end of year	₱11,597,353	₱7,059,717

## 20. Asset Retirement Obligation

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

Movement in asset retirement obligation follows:

	2012	2011
Balance at beginning of year	₱62,225,406	₱32,004,919
Effects of change in estimate and discount rate (see Note 12)	3,238,339	27,605,446
Accretion expense for the year (see Note 27)	4,094,618	2,615,041
Balance at end of year	₱69,558,363	₱62,225,406

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

The Company assesses the best estimate of cash flows required to settle the obligation annually every December 31st. The change in estimate resulted to increase in asset retirement obligation by ₱3 million and ₱28 million in 2012 and 2011, respectively. Further, the change in estimates in

2010 resulted in reduction of the related asset to nil and in recognition of ₱14 million as income under "Other Income - net" account. This income represents the excess of the reduction in asset retirement obligation over the carrying value of the related asset (see Note 28).

## 21. Related Party Transactions

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

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

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

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

Related Party		Advances	Purchases	Due from related parties (see Note 8)	Term	Conditions
Major stockholders	2012	₱189,859,037	₱—	₱1,561,634,820	30 days, noninterest-bearing	Partly secured, no impairment
	2011	417,707,896	1,226,174,500	1,585,167,282	30 days, noninterest-bearing	Partly secured, no impairment
	2010	418,126,243	1,315,533,080	2,378,928,997	30 days, noninterest-bearing	Partly secured, no impairment
Subsidiaries of major stockholders	2012	36,163,212	—	26,626,478	30 days, noninterest-bearing	Unsecured, no impairment
	2011	—	—	103,201	30 days, noninterest-bearing	Unsecured, no impairment
	2010	—	—	7,424,119	30 days, noninterest-bearing	Unsecured, no impairment
Affiliates	2012	51,789,517	—	421,826,247	30 days, noninterest-bearing	Unsecured, no impairment
	2011	15,150,376	—	381,265,938	30 days, noninterest-bearing	Unsecured, no impairment
	2010	2,729,083	—	371,487,963	30 days, noninterest-bearing	Unsecured, no impairment
Total	2012	₱277,811,766	₱—	₱2,010,087,545		
	2011	432,858,272	1,226,174,500	1,966,536,421		
	2010	420,855,326	1,315,533,080	2,757,841,079		



The outstanding advances to major stockholders include accommodated loans entered into by the Group in favor of the stockholders, which amounted to ₱327 million and ₱433 million as at December 31, 2012 and 2011, respectively.

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

On December 23, 2010, the Parent Company purchased 29,149,000 Indophil shares held by Alcorp for the total consideration of ₱1.3 billion (see Note 11). The consideration amounting to ₱1.3 billion was applied against the Parent Company's advances to Alcorp.

In 2010, LLI and ALC settled their advances from a stockholder of a Parent amounting to ₱151 million and ₱191 million, respectively, by delivering their property with carrying value of ₱309 million. The settlement resulted in the recognition of an income amounting to ₱33 million in 2010 (see Note 28).

LLI provided a guarantee to a bank in favor of Lima Logistics Services, Inc., previously a wholly owned subsidiary of LLC, for an existing short-term credit facility of ₱15 million. The liability of LLI under the guarantee was limited to the lower of (i) ₱5 million plus interest and other charges accrued thereon under the credit facility or (ii) the sum equivalent to 35% of the total outstanding principal amount plus interest and other charges accrued thereon under the credit facility. In 2012, the loan was fully settled without any charges to LLI. Accordingly, LLI had been cleared from its obligation as guarantor.

#### Compensation of Key Management Personnel

	2012	2011	2010
Salaries and wages	₱43,836,816	₱50,958,763	₱46,420,762
Retirement costs	1,966,864	4,987,515	6,164,905
Other long-term benefits	753,648	507,900	972,000
	₱46,557,328	₱52,658,055	₱53,557,667

## 22. Equity

### Capital Stock

	2012		2011	
	No. of shares	Amount	No. of shares	Amount
<b>Authorized</b>				
Common stock - ₱1 par value:	11,945,000,000	₱11,945,000,000	11,945,000,000	₱11,945,000,000
Preferred stock - ₱0.01 par value	5,500,000,000	55,000,000	5,500,000,000	55,000,000
		₱12,000,000,000		₱12,000,000,000
<b>Issued and Outstanding -</b>				
Common shares	6,291,500,000	₱6,291,500,000	6,291,500,000	₱6,291,500,000

Capital Stock

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

The redeemable preferred shares have the following features:

- a. Redeemable preferred shares may only be issued or transferred to Filipino citizens or corporations or associations at least 60% of capital of such corporations or associations is owned by Filipino citizens.
- b. Holders of redeemable preferred shares are entitled to receive, out of the unrestricted retained earnings of ACR, cumulative dividends at the rate of 8% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares.
- c. ACR may, by resolution of the BOD, redeem the preferred shares at par value. ACR will redeem the preferred shares at par value (i) when the foreign equity limits to which ACR is subject to shall have been removed; and (ii) ACR is not engaged in any other activity likewise reserved exclusively to Filipino citizens, or corporations or associations at least sixty percent (60%) of whose capital is owned by Filipino citizens that would otherwise require ACR to maintain the ownership of the preferred shares by such Filipino citizens. The preferred shares when redeemed will not be retired, and may be reissued upon resolution of the BOD.
- d. In the event of dissolution or liquidation, holders of redeemable preferred shares are entitled to be paid in full, or pro-rata insofar as the assets and properties of ACR will permit, the par value of each preferred share before any distribution shall be made to the holders of common shares, and are not entitled to any other distribution.

There was no issuance of redeemable preferred shares as at December 31, 2012 and 2011.

On February 4, 2013, Alcorp subscribed 5,500,000,000 preferred shares with par value of ₱0.01 per share, from unissued authorized preferred shares of the Company. On the same date, Alcorp paid ₱13.8 million for 25% of subscription price of ₱55.0 million.

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

Date of SEC Approval	Authorized Shares	No. of Shares Issued	Issue/Offer Price
1993	12,000,000,000	6,291,500,000	₱1

As at December 31, 2012, the Parent Company has 495 stockholders.

### Retained Earnings

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

Project Name	Nature/Project Description	Amount (In millions)	Timeline (Year)
SM200 1 & 2	Phase 1 of the 200 MW coal-fired power plant in Maasim Sarangani	₱400	2015
ZAM100	Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City	150	2016
IDPP 1 & 2	Rehabilitation of 108 MW diesel plant in Iligan city	200	2013
Siguil	Hydro-electric power in Maasim, Sarangani	35	2017
Bago	Hydro-electric power in Negros Occidental	15	2019
SMI300	400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato	50	2019
		<b>₱850</b>	

The retained earnings are restricted from being declared as dividend to the extent of the appropriation for equity contribution to the foregoing projects amounting to ₱850 million.

The dates of declaration, record and payment of cash dividend amounting to ₱0.010 per share equivalent to ₱63 million in 2012 and 2010 and ₱0.011 per share equivalent to ₱69 million in 2011 payable to all stockholders are as follows:

Year	Date of Declaration	Date of Record	Date of Payment
2012	May 4, 2012	May 18, 2012	June 14, 2012
2011	May 20, 2011	June 6, 2011	June 13, 2011
2010	May 26, 2010	April 20, 2010	May 17, 2010

The share of non-controlling interests on the dividends declared by subsidiaries amounted to ₱716 million, ₱548 million and ₱570 million in 2012, 2011 and 2010, respectively.

### Other Reserves

Other reserves consist of the following:

	2012		
	Actuarial Gains (Losses)	Unrealized Gains on AFS Financial Assets	Total
Balance at January 1, 2012	₱4,941,568	₱17,475,890	₱22,417,458
Actuarial losses, net of tax	(8,757,849)	—	(8,757,849)
Gain on fair valuation of AFS financial asset, net of tax	—	18,019,708	18,019,708
Balance at December 31, 2012	(₱3,816,281)	₱35,495,598	₱31,679,317

	2011		
	Actuarial Gains (Losses)	Unrealized Gains on AFS Financial Assets	Total
Balance at January 1, 2011	(P3,892,053)	P13,662,008	P9,769,955
Actuarial gains, net of tax	8,833,621	—	8,833,621
Gain on fair valuation of AFS financial asset, net of tax	—	3,813,882	3,813,882
Balance at December 31, 2011	P4,941,568	P17,475,890	P22,417,458

### 23. Cost of Services

	2012	2011	2010
Depletion, depreciation and amortization (see Note 26)	P605,446,992	P597,429,052	P608,987,823
Purchased power and utilities (see Note 35h)	555,047,265	487,003,222	372,984,934
Spare parts	169,476,985	175,644,805	132,920,010
Personnel costs (see Notes 25 and 29)	60,651,405	63,630,824	58,016,423
Insurance expense	46,366,771	46,842,623	36,025,610
Taxes and licenses	23,897,483	15,874,021	16,732,016
Repairs and maintenance	21,646,718	21,952,916	19,262,223
Contracted services (see Notes 35b and 35d)	15,615,373	13,481,982	13,637,881
Property administration	2,426,478	2,501,770	1,656,600
Utilities	766,254	963,431	1,129,583
Others	23,166,043	22,333,441	15,012,041
	P1,524,507,767	P1,447,658,087	P1,276,365,144

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

### 24. General and Administrative Expenses

	2012	2011	2010
Personnel costs (see Notes 25 and 29)	P108,488,982	P120,811,082	P113,050,312
Utilities	69,204,095	67,895,108	67,869,596
Management fees	53,568,600	—	—
Outside services	48,449,317	46,660,765	40,848,660
Taxes and licenses	37,702,802	31,519,482	23,071,505
Provisions for impairment on:			
Trade and other receivables (see Note 8)	20,000,000	539,296	29,899,268
Short-term cash investments (see Note 7)	3,968,330	—	—
Deferred project costs (see Note 15)	2,849,457	2,886,458	2,837,124
Depreciation and amortization (see Note 26)	17,395,840	12,077,596	14,572,735

(Forward)

	2012	2011	2010
Transportation and travel	₱16,792,810	₱15,450,109	₱14,013,744
Directors and executive fees and bonuses	6,571,947	5,110,037	5,164,588
Telephone, telegraph and postage	4,345,382	3,235,852	2,805,785
Representation	3,404,420	4,017,405	2,877,293
Commissions	3,395,840	2,407,853	1,942,209
Supplies	1,720,282	1,730,081	1,810,987
Insurance	1,044,676	2,545,584	2,033,673
Gas and oil	162,737	111,622	213,562
Bad debts written-off (see Note 8)	—	2,318,787	5,576,455
Others	20,427,142	24,176,437	13,256,472
	<b>₱419,492,659</b>	<b>₱343,493,554</b>	<b>₱341,843,968</b>

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

## 25. Personnel Costs

	2012	2011	2010
Salaries, wages and bonuses	₱144,959,661	₱150,742,272	₱140,963,279
Retirement costs (see Note 29)	6,627,551	11,054,155	8,792,194
Other employee benefits	17,553,175	22,645,479	21,311,262
	<b>₱169,140,387</b>	<b>₱184,441,906</b>	<b>₱171,066,735</b>

	2012	2011	2010
Costs of goods sold and services (see Note 23)	₱60,651,405	₱63,630,824	₱58,016,423
General and administrative expenses (see Note 24)	108,488,982	120,811,082	113,050,312
	<b>₱169,140,387</b>	<b>₱184,441,906</b>	<b>₱171,066,735</b>

## 26. Depletion, Depreciation and Amortization

	2012	2011	2010
Costs of goods sold and services (see Note 23)	₱605,446,992	₱597,429,052	₱608,987,823
General and administrative expenses (see Note 24)	17,395,840	12,077,596	14,572,735
	<b>₱622,842,832</b>	<b>₱609,506,648</b>	<b>₱623,560,558</b>

	2012	2011	2010
Property, plant and equipment (see Note 12)	₱618,471,032	₱609,506,648	₱623,560,558
Investment in real estate (see Note 10)	4,371,800	—	—
	<b>₱622,842,832</b>	<b>₱609,506,648</b>	<b>₱623,560,558</b>

## 27. Finance Charges

	2012	2011	2010
Interest on:			
Long-term debt (see Note 18)	₱63,334,676	₱20,597,179	₱41,238,555
Loan payable (see Note 17)	365,167	2,188,699	3,399,091
Accretion of discount on:			
Asset retirement obligation (see Note 20)	4,094,618	2,615,041	4,392,101
Long-term debt (see Note 18)	1,330,420	—	—
Customers' deposit (see Note 19)	245,976	2,602,174	8,130,545
Amortization of transaction costs (see Note 18)	15,502,662	2,043,786	2,909,462
	₱84,873,519	₱30,046,879	₱60,069,754

## 28. Other Income - net

	2012	2011	2010
Development fee (see Note 1)	₱236,095,000	₱—	₱—
Input VAT income	85,133,033	84,848,140	77,396,714
Reversal of allowance for impairment loss (see Note 10)	72,066,280	—	—
Equity in net earnings (losses) of associates (see Note 11)	(22,850,988)	5,153,081	12,273,175
Recovery of impairment losses on real estate inventories due to sale (see Note 10)	17,108,236	6,744,646	—
Foreign exchange gain (loss) - net	13,970,606	(8,543,728)	13,394,522
Mark-to-market loss on derivative liability (see Notes 18 and 34)	(11,632,044)	—	—
Income from insurance claim (see Notes 12 and 36)	4,415,689	200,808,425	213,358,722
Gain on sale of property, plant and equipment	1,023,156	1,037,601	368,319
Income from reversal of estimated liquidation expenses (see Note 1)	956,400	17,606,990	—
Dividend income	567,070	512,388	286,650
Gain on recovery of bad debts (see Note 8)	119,999	16,500	—
Gain on dacion en pago (see Notes 10, 18 and 21)	—	56,890,005	33,437,402
Gain on debt buy-back (see Note 18)	—	—	35,200,034
Income from decrease in asset retirement obligation (see Note 20)	—	—	14,486,386
Impairment loss on property, plant and equipment (see Note 12)	—	—	(1,300,000)
Others	9,542,656	16,730,333	7,253,393
	₱406,515,093	₱381,804,381	₱406,155,317

## 29. Retirement Plans

The Parent Company, ALC, LLI, LUC and LWC have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and AMPC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. The Group's latest actuarial valuation report is dated December 31, 2012.

### SPPC, WMPC and APMC's Retirement Plans

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

	2012	2011	2010
Current service cost	₱5,646,198	₱9,692,078	₱7,173,560
Expected return on plan assets	(9,063,491)	(8,914,307)	(3,119,665)
Interest cost	3,670,210	6,764,551	5,544,051
Pension costs recognized in consolidated statement of income (see Note 25)	252,917	7,542,322	9,597,946
Actuarial loss (gain) taken to statement of comprehensive income	3,607,373	(42,996,128)	3,691,900
	₱3,860,290	(₱35,453,806)	₱13,289,846

Movements in the present value of defined obligation (PVO) are as follows:

	2012	2011
Balance at beginning of year	₱59,027,554	₱84,067,898
Current service cost	5,646,198	9,692,078
Interest cost	3,670,210	6,764,551
Actuarial loss (gain) due to PVO	12,231,216	(41,496,973)
Benefits paid	(850,988)	—
Balance at end of year	₱79,724,190	₱59,027,554

Movements in the fair value of plan assets are as follows:

	2012	2011
Balance at beginning of year	₱129,478,670	₱111,428,837
Expected return on plan assets	9,063,491	8,914,307
Contributions by employer	457,519	7,636,371
Actuarial gain	8,623,843	1,499,155
Benefits paid	(850,988)	—
Balance at end of year	₱146,772,535	₱129,478,670

Actual return on plan assets	₱17,687,334	₱10,413,462
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Movements in the retirement asset are as follows:

	2012	2011
Balance at beginning of year	₱68,935,253	₱27,360,939
Contributions by employer	457,519	7,636,371
Retirement income (costs)	(3,860,290)	35,453,806
Limit on plan asset recognized in statement of comprehensive income	(4,978,395)	(1,515,863)
Balance at end of year	₱60,554,087	₱68,935,253

Retirement asset recognized in the consolidated balance sheets consist of:

	2012	2011
PVO	₱79,724,190	₱59,027,554
Fair value of plan assets	146,772,535	129,478,670
Funded status	67,048,345	70,451,116
Limit on retirement asset	(6,494,258)	(1,515,863)
Retirement asset	₱60,554,087	₱68,935,253

The major categories of plan assets of SPPC, WMPC and APMC as a percentage of the fair value of plan assets are as follows:

	2012	2011
Deposits in banks	98.22%	92.00%
Investment in bonds	0.49%	6.85%
Others	1.29%	1.15%
	100.00%	100.00%

In 2009, SPPC, WMPC and APMC started funding its retirement benefits and expect a total contribution of ₱0.4 million for the year 2012.

#### ACR, ALC, LLI, LUC and LWC's Retirement Plans

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

	2012	2011	2010
Current service cost	₱4,081,067	₱3,246,902	₱2,630,803
Interest cost	1,823,147	1,540,718	1,528,480
Effect of settlement/curtailment	—	(1,690,418)	(5,524,798)
Past service cost	470,420	414,631	559,763
Retirement costs (income) recognized in consolidated statements of income (see Note 25)	6,374,634	3,511,833	(805,752)
Actuarial loss (gain) and taken to statement of comprehensive income	8,544,242	5,491,544	(245,325)
	₱14,918,876	₱9,003,377	(₱1,051,077)

Movements in the PVO are as follows:

	2012	2011
Balance at beginning of year	₱24,366,672	₱15,719,988
Current service cost	4,081,067	3,246,902
Interest cost	1,823,147	1,540,718
Actuarial loss due to PVO	8,544,242	5,491,544
Effect of settlement/curtailment	—	(1,457,910)
Benefits paid	—	(174,570)
Balance at end of year	₱38,815,128	₱24,366,672



Movement in the retirement payable is as follows:

	2012	2011
Balance at beginning of year	₱23,319,673	₱14,490,866
Retirement costs	14,918,876	9,003,377
Benefits paid	—	(174,570)
Balance at end of year	₱38,238,549	₱23,319,673

Retirement payable recognized in the consolidated balance sheets consists of:

	2012	2011
PVO	₱38,815,128	₱24,366,672
Unrecognized past service cost	576,579	1,046,999
Retirement payable	₱38,238,549	₱23,319,673

#### Actuarial Assumptions

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

	2012	2011
Discount rate	6.14%–6.69%	6.75%–8.08%
Future salary increase	12.00%	10.00%

The discount rate is derived by discounting all expected benefit payments using various rates that correspond to the timing of benefit payments.

#### PVO and Experience Adjustments

The PVO and experience adjustments on plan liabilities as at December 31, 2012, 2011, 2010, 2009 and 2008 are as follows:

	PVO	Experience Adjustments
2012	₱118,539,318	(₱2,464,579)
2011	83,394,226	2,399,888
2010	99,787,886	21,137,435
2009	76,734,313	9,605,818
2008	40,891,142	(16,566,767)

### **30. Income Tax**

The major components of income tax expense for the years ended December 31, 2012 and 2011 are as follows:

Consolidated statement of income:

	2012	2011
Current income tax charge	₱247,231,263	₱258,203,513
Deferred income tax relating to origination and reversal of temporary differences	9,683,590	(23,349,796)
	₱256,914,853	₱234,853,717

Consolidated statement of comprehensive income:

	2012	2011
Deferred tax related to items charged or credited directly to equity during the year -		
Benefit from (provision for) actuarial gains and losses	<b>₱704,767</b>	<b>(₱5,639,520)</b>

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

	2012	2011	2010
Statutory income tax rates	30.0%	30.0%	30.0%
Increase (decrease) in income tax rate resulting from:			
Write-off of NOLCO and MCIT	1.5	2.1	2.7
Unrecognized deferred tax assets	(3.3)	(0.9)	(0.9)
Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays, interest income already subjected to final tax and others	(9.0)	(15.0)	(14.5)
Effective income tax rates	<b>19.2%</b>	<b>16.2%</b>	<b>17.3%</b>

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

	2012	2011
<b>Net Deferred Tax Assets</b>		
Accrued vacation and sick leaves	<b>₱2,870,914</b>	<b>₱3,198,610</b>
Retirement plan asset	<b>(3,879,225)</b>	<b>(2,535,618)</b>
Impairment losses	<b>3,038,193</b>	<b>2,433,515</b>
Difference between accounting and tax depreciation	<b>1,747,088</b>	<b>-</b>
Allowance for doubtful accounts	<b>1,518,891</b>	<b>1,518,881</b>
Unamortized past service cost	<b>1,120,870</b>	<b>1,384,730</b>
Unrealized foreign exchange losses (gains) - net	<b>(595,266)</b>	<b>539,276</b>
Retirement payable	<b>294,273</b>	<b>248,014</b>
Actuarial gains recognized in other comprehensive income	<b>-</b>	<b>(1,197,665)</b>
Translation of nonmonetary assets	<b>-</b>	<b>610,779</b>
MCIT	<b>-</b>	<b>123,278</b>
	<b>6,115,738</b>	<b>6,323,800</b>
<b>Net Deferred Tax Liabilities</b>		
Fair value adjustment on real estate inventories, net of impairment	<b>(162,163,578)</b>	<b>(149,214,327)</b>
Capitalized interest	<b>(149,272,487)</b>	<b>(149,807,158)</b>
Translation of nonmonetary assets	<b>(67,506,807)</b>	<b>(117,019,508)</b>
Difference between financial and tax depreciation	<b>64,846,890</b>	<b>79,490,381</b>
Equity in undistributed net earnings of a foreign subsidiary	<b>(24,773,593)</b>	<b>(49,772,807)</b>
Unamortized capitalized major repairs and maintenance costs	<b>(26,442,152)</b>	<b>(14,556,020)</b>
Difference between tax and financial amortization of transaction costs	<b>(19,774,955)</b>	<b>5,384,823</b>

(Forward)

	2012	2011
Unrealized foreign exchange gains	(P15,549,149)	(P3,747,697)
Retirement plan asset	(4,612,050)	(2,928,074)
Capitalized asset related to decommissioning liability	(4,119,080)	(4,969,001)
Additional depreciation following the original useful life	(2,309,327)	787,325
Unamortized past service cost	1,970,605	2,431,717
Accrued vacation and sick leaves	1,528,661	1,535,847
Actuarial losses (gains) recognized in equity	1,210,144	(1,186,238)
Accrued retirement costs	171,133	117,000
	(406,795,745)	(403,453,737)
	(P400,680,007)	(P397,129,937)

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

	2012	2011
Deferred tax assets - net	P6,115,738	P6,323,800
Deferred tax liabilities - net	(406,795,745)	(403,453,737)
	(P400,680,007)	(P397,129,937)

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

	2012	2011
NOLCO	P133,864,017	P165,370,296
Impairment losses on:		
Property, plant and equipment (see Note 12)	154,190,500	154,190,500
Real estate properties (see Note 10)	33,163,091	119,440,691
Inventories	1,669,870	1,669,870
Allowance for doubtful accounts (see Note 8)	31,730,458	78,772,688
MCIT	6,544,206	3,254,544
Unrealized foreign exchange losses	6,183,085	5,449,562
Unamortized deferred charges	—	3,269,971
Others	9,838,930	5,788,790
	P377,184,157	P537,206,912

The unrecognized deferred tax asset from the above temporary differences and carryforward benefits of NOLCO and MCIT amounted to P118 million and P163 million as at December 31, 2012 and 2011, respectively.

Movements of NOLCO and MCIT follow:

	2012		2011	
	NOLCO	MCIT	NOLCO	MCIT
Balance at beginning of year	P165,370,296	P3,254,544	P202,426,556	P3,875,086
Additions during the year	66,325,070	5,477,920	59,028,881	1,050,741
Utilization and expiration during the year	(97,831,349)	(2,188,258)	(96,085,141)	(1,671,283)
Balance at end of year	P133,864,017	P6,544,206	P165,370,296	P3,254,544

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

Years Incurred	Expiry Dates	NOLCO	MCIT
December 31, 2010	December 31, 2013	₱32,287,427	₱15,545
December 31, 2011	December 31, 2014	35,251,520	1,050,741
December 31, 2012	December 31, 2015	66,325,070	5,477,920
		₱133,864,017	₱6,544,206

### 31. Earnings Per Share Attributable to Equity Holders of the Parent Company

#### Earnings Per Share

	2012	2011	2010
Net income attributable to equity holders of the Parent Company	₱508,645,374	₱455,889,039	₱377,861,510
Divided by the average number of shares outstanding for the year	6,291,500,000	6,291,500,000	6,291,500,000
Basic/Diluted EPS	₱0.081	₱0.072	₱0.060

### 32. Lease Commitments

#### Operating Lease Payments

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

As at December 31, 2012, the future minimum rental payable under an operating lease contract follows:

Within one year	₱1,215,506
After one year but not more than five years	3,557,616
	₱4,773,122

In 2012, 2011 and 2010, rent expense under this lease contract amounted to ₱1 million.

#### Operating Lease Receipts

LLI entered into lease contracts with various third-party lessees for the office spaces they owned. The lease term ranges from one to three years. The lease contracts were accounted for on a straight-line method over the term of the lease contract. Total rental income from these lease agreements amounted to ₱14 million each year in 2012 and 2011 and ₱13 million in 2010.

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

Within one year	₱1,722,398
After one year but not more than five years	5,492,526
	₱7,214,924

### 33. Financial Risk Management Objectives and Policies

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

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

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

#### Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or a customer contract, leading to a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

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

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

The table below shows the gross maximum exposure to credit risk of the Group as at December 31, 2012 and 2011, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

	2012	2011
<b>Loans and receivables</b>		
Cash and cash equivalents*	₱273,643,293	₱449,692,774
Short-term cash investments	1,068,264,481	776,046,934
Trade and other receivables		
Trade receivables		
Power	441,781,947	492,713,441
Real estate**	360,707,062	387,687,546
Due from related parties	2,010,087,545	1,966,536,421
Accrued interest	1,393,058	12,998,327
Other receivables	124,084,197	95,141,802
Refundable deposits***	7,468,728	7,468,728
	<b>₱4,287,430,311</b>	<b>₱4,188,285,973</b>

\*Excludes cash on hand

\*\*Includes noncurrent portion of installment receivables

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

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

		2012				
	Neither Past Due nor Impaired	Past Due but not Impaired				
		1-6 Months	Over 6 Months	Subtotal	Impaired	Total
		₱—	₱—	₱—	₱—	₱277,436,876
Cash and cash equivalents	₱277,436,876					
Short-term cash investments	1,068,264,481	—	—	—	3,968,330	1,072,232,811
Trade and other receivables:						
Trade receivables						
Power	190,034,489	177,180,051	74,567,407	251,747,458	28,344,943	470,126,890
Real estate*	151,734,279	6,787,258	202,185,525	208,972,783	31,561,222	392,268,284
Product distribution and others	—	—	—	—	31,730,458	31,730,458
Due from related parties	688,980,384	137,449,325	1,183,657,836	1,321,107,161	—	2,010,087,545
Accrued interest	1,393,058	—	—	—	—	1,393,058
Others	28,501,559	15,405,055	80,177,583	95,582,638	6,664,812	130,749,009
Refundable deposits	7,468,728	—	—	—	—	7,468,728
	₱2,413,813,854	₱336,821,689	₱1,540,588,351	₱1,877,410,040	₱102,269,765	₱4,393,493,659

\* Includes noncurrent portion of installment receivables

		2011				
	Neither Past Due nor Impaired	Past Due but not Impaired				
		1-6 Months	Over 6 Months	Subtotal	Impaired	Total
Cash and cash equivalents	₱453,177,125	₱-	₱-	₱-	₱-	₱453,177,125
Short-term cash investments	776,046,934	-	-	-	-	776,046,934
Trade and other receivables:						
Trade receivables						
Power	219,130,228	187,917,267	85,665,946	273,583,213	29,987,875	522,701,316
Real estate*	123,130,314	11,042,400	253,514,832	264,557,232	11,561,222	399,248,768
Product distribution and others	-	-	-	-	31,730,458	31,730,458
Due from related parties	-	87,359,411	1,879,177,010	1,966,536,421	-	1,966,536,421
Accrued interest	12,998,327	-	-	-	-	12,998,327
Others	18,947,315	4,194,748	71,999,739	76,194,487	40,874,862	136,016,664
Refundable deposits	7,468,728	-	-	-	-	7,468,728
	₱1,610,898,971	₱290,513,826	₱2,290,357,527	₱2,580,871,353	₱114,154,417	₱4,305,924,741

\* Includes noncurrent portion of installment receivables

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

	2012			Total
	Grade A	Grade B	Grade C	
Cash and cash equivalents	₱277,436,876	₱-	₱-	₱277,436,876
Short-term cash investments	1,068,264,481	-	-	1,068,264,481
Trade and other receivables:				
Trade:				
Power	190,034,489	-	-	190,034,489
Real estate*	151,734,279	-	-	151,734,279
Due from related parties	-	688,980,384	-	688,980,384
Accrued interest	1,393,058	-	-	1,393,058
Other receivables	28,501,559	-	-	28,501,559
Refundable deposits**	-	-	7,468,728	7,468,728
	<b>₱1,717,364,742</b>	<b>₱688,980,384</b>	<b>₱7,468,728</b>	<b>₱2,413,813,854</b>

\*Includes noncurrent portion of installment receivables

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

	2011			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	P453,177,125	P—	P—	P453,177,125
Short-term cash investments	776,046,934	—	—	776,046,934
Trade and other receivables:				
Trade:				
Power	219,130,228	—	—	219,130,228
Real estate*	123,130,314	—	—	123,130,314
Accrued interest	12,998,327	—	—	12,998,327
Other receivables	18,947,315	—	—	18,947,315
Refundable deposits**	—	—	7,468,728	7,468,728
	P1,603,430,243	P—	P7,468,728	P1,610,898,971

\*Includes noncurrent portion of installment receivables

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

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

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

### Liquidity Risk

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

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

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

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

	2011				
	On Demand	< 1 Year	1-3 Years	> 3 Years	Total
Cash and cash equivalents	P453,177,125	P—	P—	P—	P453,177,125
Short-term cash investments*	—	803,053,367	—	—	803,053,367
Trade receivables	—	870,349,774	10,051,213	—	880,400,987
AFS financial assets	46,374,762	—	—	—	46,374,762
	P499,551,887	P1,673,403,141	P10,051,213	P—	P2,183,006,241

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

	2012				Total
	On Demand	< 1 Year	1-3 Years	> 3 Years	
Accounts payable and other current liabilities*	₱213,215,336	₱81,553,765	₱-	₱-	₱294,769,101
Long-term debt**	-	507,877,720	792,983,838	512,875,923	1,813,737,481
Customers' deposits**	-	-	35,025,142	35,579,254	70,604,396
Payable to non-controlling shareholders of a dissolved subsidiary	-	28,533,322	-	-	28,533,321
	₱213,215,336	₱617,964,807	₱828,008,980	₱548,455,177	₱2,207,644,299

\* Excluding statutory payables and other payable to government agencies

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

	2011				Total
	On Demand	< 1 Year	1-3 Years	> 3 Years	
Accounts payable and other current liabilities*	₱164,494,192	₱131,888,825	₱-	₱-	₱296,383,017
Loans payable**	-	10,522,022	-	-	10,522,022
Long-term debt**	-	279,352,215	599,708,361	257,497,417	1,136,557,993
Customers' deposits**	-	-	35,025,142	22,149,435	57,174,577
Payable to non-controlling shareholders of a dissolved subsidiary	-	29,083,584	-	-	29,083,584
	₱164,494,192	₱450,846,646	₱634,733,503	₱279,646,852	₱1,529,721,193

\* Excluding statutory payables and other payable to government agencies

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

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fixed rate financial instruments are subject to fair value interest rate risk while floating rate financial instruments are subject to cash flow interest rate risk. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's interest-bearing loan obligations with floating interest rate as it can cause a change in the amount of interest payments. The Group's policy is to manage its interest cost using a mix of fixed and variable debt rates. The Group's ratio of fixed to floating rate debt stood at 34:66 and 45:55 as at December 31, 2012 and 2011, respectively.

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

2012						
	Interest Terms (p.a.)	Rate Fixing Period	<1 Year	1-3 Years	>3 Years	Total
Long-term debt						
U.S. dollar-denominated borrowing	LIBOR +2.25%	Quarterly	₱291,259,520	₱576,654,760	₱60,108,940	₱928,023,220
Peso-denominated borrowings	90 T-bill +3%	Quarterly	84,000,000	97,304,800	-	181,304,800
2011						
	Interest Terms (p.a.)	Rate Fixing Period	<1 Year	1-3 Years	>3 Years	Total
Long-term debt						
U.S. dollar-denominated borrowing	LIBOR +2.25%	Quarterly	₱79,717,636	₱136,379,203	₱141,237,688	₱357,334,527
Peso-denominated borrowings	90 T-bill +3%	Quarterly	48,000,000	169,304,800	-	217,304,800

The table below demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's consolidated income before income tax, through the impact of floating rate financial liabilities. Fixed rate debts, although subject to fair value interest rate risk, are not included in the sensitivity analysis as these are carried at amortized costs.



The assumed movement in basis points for interest rate sensitivity analysis was based on forecasted interest rate change using historical data during the year being reported. The methods and assumptions used in the analysis remained unchanged over the reporting periods being presented. There is no other impact on the Group's equity other than those already affecting the consolidated statement of income.

	2012		2011	
	Increase in Basis Points	Decrease in Basis Points	Increase in Basis Points	Decrease in Basis Points
Change in basis points	+100	-100	+100	-100
Increase (decrease) on income before income tax	(P11,093,280)	P11,093,280	(P5,746,393)	P5,746,393

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

	USD Swap		PDST-R2	
	Increase	Decrease	Increase	Decrease
Percentage change	+46.44%	-46.44%	+29.85%	-29.85%
Increase (decrease) on income before income tax	(P1,225,575)	P1,241,455	(P552,221)	P233,615

#### Equity Price Risk

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

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

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

	2012		2011	
	Increase in Equity Price	Decrease in Equity Price	Increase in Equity Price	Decrease in Equity Price
Change in equity price	+4%	-4%	+4%	-4%
Increase (decrease) on equity	P61,372,397	(P61,372,397)	P480,396	(P480,396)

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

is the sensitivity of the return on ACR share prices to the return of the PSEI. The table below summarizes the impact of changes in current ACR share price on the consolidated income before income tax.

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

#### Foreign Currency Risk

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

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱43.84 to US\$1.0 and ₱41.05 to US\$1.0 for December 31, 2012 and 2011, respectively.

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

	2012		2011	
	In U.S. Dollar	In Philippine Peso	In U.S. Dollar	In Philippine Peso
Financial assets -				
Cash and cash equivalents	\$1,782,641	₱73,176,921	\$959,246	₱42,053,345
Financial liabilities -				
Long-term debt	(28,704,720)	(1,178,328,738)	(8,150,879)	(357,334,535)
	(\$26,922,079)	(₱1,105,151,817)	(\$7,191,633)	(₱315,281,190)

The following table demonstrates the sensitivity to a reasonably possible change in the U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's consolidated equity as at December 31, 2012 and 2011, respectively. The reasonably possible change in exchange rate was based on forecasted exchange rate change using historical data within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented. The impact on the Group's consolidated equity already excludes the impact on transactions affecting the consolidated income before income tax.

	2012		2011	
	Philippine Peso		Philippine Peso	
	Increase	Decrease	Increase	Decrease
Change in foreign exchange rate	+1.0	-1.0	+2.02	-2.02
Increase (decrease) on income before income tax	(₱26,922,079)	₱26,922,079	(₱14,527,099)	₱14,527,099

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

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

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

#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its businesses and maximize shareholder's value.

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

The Group's current ratio and debt-to-equity ratio as at December 31, 2012 and 2011 follow:

#### Current Ratio

	2012	2011
Current assets	₱5,481,953,525	₱5,243,848,803
Current liabilities	1,049,388,657	748,090,893
	<b>5.2:1</b>	7.0:1

#### Debt-to-Equity Ratio

	2012	2011
Long-term debt (net of unamortized transaction costs)	₱1,681,776,549	₱1,035,767,989
Loans payable	-	10,156,855
Total debt	1,681,776,549	1,045,924,844
Equity	9,070,848,287	8,776,590,942
Other reserves	(31,679,317)	(22,417,458)
Cumulative translation adjustment	(1,093,631,739)	(1,254,366,627)
Adjusted equity	₱7,945,537,231	₱7,499,806,857
	<b>0.21:1</b>	0.14:1

### 34. Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As at December 31, 2012 and 2011, the Group held the following financial instruments carried at fair value:

	December 31, 2012	Level 1	Level 2	Level 3
<b>Financial Asset</b>				
Available-for-sale (AFS)	P64,394,470	P64,394,470	P—	P—
<b>Financial Liability</b>				
Derivative liability	P21,545,856	P—	P—	P21,545,856
	December 31, 2011	Level 1	Level 2	Level 3
<b>Financial Asset</b>				
Available-for-sale (AFS)	P46,374,762	P46,374,762	P—	P—

During the years ended December 31, 2012 and 2011, there were no transfers between level 1 and 2 fair value measurements, and no transfers into and out of level 3 measurements.

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

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

	2012
Initial value of the options	P9,913,812
Net change in fair value	11,632,044
Derivative liability at end of year	P21,545,856

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

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

*Credit spread*

	Increase (Decrease) in Credit Spread	Effect on Income before Income Tax
<b>2012</b>	100 bps (100 bps)	(P6,061,134) 6,331,010

*Underlying unquoted share price*

	Increase (Decrease) in Underlying Share Price	Effect on Income before Income Tax
<b>2012</b>	1% (1%)	(P681,346) P351,542

*Volatility of the underlying unquoted share*

	Increase (Decrease) in Volatility of the Underlying Unquoted Share	Effect on Income before Income Tax
<b>2012</b>	100 bps	(P423,882)
	(100 bps)	407,893

Set out below is a comparison by category of carrying values and fair values of the Group's financial instruments as at December 31, 2012 and 2011:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
Loans and Receivables:				
Cash and cash equivalents	P277,436,876	P277,436,876	P453,177,125	P453,177,125
Short-term cash investments	1,068,264,481	1,068,264,481	776,046,934	776,046,934
Trade and other receivables:				
Trade:				
Power	441,781,947	441,781,947	492,713,441	492,713,441
Real estate*	360,707,062	376,397,242	387,687,546	388,781,087
Due from related parties	2,010,087,545	2,010,087,545	1,966,536,421	1,966,536,421
Accrued interest	1,393,058	1,393,058	12,998,327	12,998,327
Others	124,084,197	124,084,197	95,141,802	95,141,802
	2,938,053,809	2,953,743,989	2,955,077,537	2,956,171,078
Refundable deposits	7,468,728	7,468,728	7,468,728	7,468,728
	4,291,223,894	4,306,914,074	4,191,770,324	4,192,863,865
AFS Financial Assets	64,394,470	64,394,470	46,374,762	46,374,762
	P4,355,618,364	P4,371,308,544	P4,238,145,086	P4,239,238,627

\* Includes noncurrent portion of installment receivables

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities</b>				
Financial liability at FVPL -				
Derivative liability	P21,545,856	P21,545,856	P-	P-
Other Financial Liabilities:				
Accounts payable and other current liabilities:				
Trade	190,298,564	190,298,564	187,540,461	187,540,461
Accrued interest	21,294,760	21,294,760	4,479,488	4,479,488
Nontrade	10,122,869	10,122,869	14,355,243	14,355,243
Advances from customers	26,797,524	26,797,524	27,659,813	27,659,813
Other current liabilities*	46,255,384	46,255,384	47,912,016	47,912,016
	294,769,101	294,769,101	281,947,021	281,947,021
Loans payable	-	-	10,156,855	10,522,022
Customers' deposits	57,994,573	37,580,865	50,423,523	44,591,024
Long-term debt:				
Floating rate	1,102,064,428	1,102,064,428	574,639,327	574,639,327
Fixed rate	579,712,121	584,844,260	461,128,662	468,670,139
Payable to non-controlling shareholders of a dissolved subsidiary**	28,533,322	28,533,322	29,083,584	29,083,584
	2,063,073,545	2,047,791,976	1,407,378,972	1,409,453,117
	P2,084,619,401	P2,069,337,832	P1,407,378,972	P1,409,453,117

\* Excludes liabilities to government

\*\* Included under "Accounts payable and other current liabilities" and "Other noncurrent liabilities" account in the 2012 and 2011 balance sheets, respectively.

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

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

*Refundable Deposits.* The timing of cash flows is not reasonably and reliably estimated, thus, carried at cost.

*Noncurrent Portion of Installment Receivables.* The fair values of these financial instruments are determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments. The discount rates used ranged from 4.00% to 6.68% and 4.50% to 5.25% as at December 31, 2012 and 2011, respectively.

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

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

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

*Customers' Deposits.* The fair value of customers' deposits is determined by discounting the estimated future cash flows using the discount rates ranging from 6.00% to 7.55% in 2012 and 6.07% to 7.95% in 2011.

*Long-term Debt.* The fair value of long-term debt with variable interest rates approximates its carrying amounts due to quarterly repricing of interest. The fair value of long-term debt with fixed interest rate is determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments. For the year ended December 31, 2012, rates used ranged from 1.32% to 5.08% and for the year ended 2011, rates used ranged from 1.31% to 5.08%.

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

	2012	2011	2010
<b>Loans and Receivables</b>			
Interest income from short-term cash investments and others (see Note 7)	<b>P49,715,083</b>	P69,138,738	P52,333,963
Provision for doubtful accounts (see Notes 8 and 24)	<b>(23,968,330)</b>	(539,296)	(29,899,268)
Bad debts written-off (see Notes 8 and 24)	<b>—</b>	(2,318,787)	(5,576,455)
	<b>25,746,753</b>	66,280,655	16,858,240
<b>AFS Financial Assets</b>			
Gain on fair valuation of AFS taken to statement comprehensive income (see Note 13)	<b>18,019,708</b>	3,813,882	783,432
	<b>18,019,708</b>	3,813,882	783,432

	2012	2011	2010
<b>Other Financial Liabilities</b>			
Interest on loan and long-term debt (see Notes 17, 18 and 27)	(P63,699,843)	(P22,785,878)	(P44,637,646)
Amortization of transaction costs (see Notes 18 and 27)	(15,502,662)	(2,043,786)	(2,909,462)
Accretion of customers' deposit (see Notes 19 and 27)	(245,976)	(2,602,174)	(8,130,545)
Amortization of discount (see Notes 18 and 27)	(1,330,420)	—	—
	(80,778,901)	(27,431,838)	(55,677,653)
	(P37,012,440)	P42,662,699	(P38,035,981)

### 35. Significant Agreements and Commitments

#### a. Energy Conversion Agreements (ECAs)

SPPC and WMPC, each under separate ECAs with NPC, have constructed a 50-megawatt and a 100-megawatt bunker C-fired diesel generator power plants in General Santos City and Sangali, Zamboanga City, respectively, under a Build-Operate-Own scheme. NPC supplies all fuel necessary to generate electricity, with all electricity generated purchased by NPC at a price calculated based on the formula provided in the ECAs. SPPC and WMPC shall, directly or indirectly, own the power plants and shall operate and manage the power plants and provide all power generated to NPC for a period of 18 years up to 2016 and 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC.

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

The ECAs qualify as operating leases as SPPC and WMPC sell all their outputs to NPC. Future minimum receivable from fixed capacity and infrastructure fees as at December 31, 2012 are as follows:

	<i>In U.S. dollars (in millions)</i>
Within one year	27.9
After one year but not more than five years	59.2

Energy fees earned on the ECAs amounted to P2,069 million (\$49 million) in 2012, P2,060 million (\$47 million) in 2011 and P2,034 million (\$45 million) in 2010.

#### b. Operations and Maintenance Service Agreements

AIL provides operations and maintenance services under an Advisory Service Agreement (ASA) to PT Makassar Power (PTMP), an IPP based in Indonesia. Under the ASA, AIL provides technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for a monthly fee of \$35,000 effective May 1, 2008 to April 2010,

\$38,800 effective May 2010 to July 2011, \$44,600 from August 2011 to April 2012, and \$46,600 from May 2012 to December 2012. As at December 31, 2012, AIL continues to provide technical advisory services under the same terms of the ASA.

Total billings to PTMP amounted to ₱23 million (\$0.55 million) in 2012, ₱21 million (\$0.49 million) in 2011 and ₱20 million (\$0.45 million) in 2010.

c. Agreement on Assignment of Participating Interest in SC 14

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

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

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

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

d. Consultancy and Management Agreement

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

e. Joint Venture Agreements

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sale of real estate" and "Costs of real estate sold" accounts, respectively, in the consolidated statement of income. ALC's share in the unsold lots and golf shares is included under "Real estate inventories" account in the consolidated balance sheet. The Group recorded sales from Eagle Ridge amounting to ₱2 million in 2012, and ₱9 million in 2011 and 2010.

In 2006, ALC entered a joint venture agreement with SRDI, the developer, for the development of ALC's parcels of land in Batangas into residential house and lots called Campo Verde Subdivision. The entire development costs shall be shouldered by the developer. In return for their respective contributions to the project, the parties have agreed to assign number of units of residential house and lots proportionate to their respective contributions computed as specified in the MOA. SRDI shall be assigned as the exclusive marketing agent and shall receive 10% of the total contract price, net of VAT and discounts, as marketing fee. ALC's share in the proceeds and in the cost of the lots sold is shown as part



of “Sale of real estate” and “Costs of real estate sold” accounts, respectively, in the consolidated statements of income. ALC’s share in the unsold lots is included under “Real estate inventories” account in the consolidated balance sheets. The Group reported sales from Campo Verde subdivision amounting to ₱29 million in 2012, and ₱12 million in 2011 and 2011.

In 1997, LLI entered into a joint venture with LCI for the start of the housing project called “Summerhills Subdivision” in the LTC, in Lipa City and Malvar Batangas. The costs of the housing project being developed in a portion of LLI’s undeveloped lots are being shouldered by LCI which will receive 50% of the total sales proceeds. The remaining 50% shall be for LLI. The Group reported sales from Summer Hills subdivision amounting to ₱2 million, ₱3 million and ₱9 million in 2012, 2011 and 2010, respectively.

f. Marketing Agreements

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

LLI also has a Marketing Agency Agreement with Marubeni Philippines Corporation and Alsons Properties Corporation (API) for both to promote and market LLI’s industrial projects. LLI will pay a fee ranging from a minimum of one half percent (0.5%) to a maximum of six percent (6%) of the contracted sales price. The fee shall be due and payable upon receipt by LLI of 90% of the contracted sales price.

g. Agreement with NPC and Therma Luzon, Inc. (TLI)

LLI entered into a Transmission Contract for the Supply of Electricity (the Contract) with NPC for a 4-year period from October 26, 2001 to June 25, 2005 with initial contract demand and contract energy of 3,000 KWH and 1,500,000 KWH, respectively. NPC shall supply electric power and provide sub-transmission service to LLI subject to the Rules on Transmission of Electricity. LLI has the right to transfer or assign its ownership and operation of the substation and distribution network to LUC. In 2006, the Contract was renewed for one year and further renewed in December 2007 for another two years until January 2010.

On January 18, 2010, LUC and TLI, an Aboitiz Company, entered into a three-year Power Supply Agreement from January 26, 2010 to January 25, 2013. Power will be sourced mainly from the 700-megawatt Pagbilao Therma Power Plant while back-up supply will come from Tiwi-Makban Geothermal Power Plants. On January 18, 2013, LUC and TLI extended the Power Supply Agreement for additional seven years beginning January 26, 2013 up to January 25, 2020.

LUC has a claim from NPC for advances amounting to ₱3 million as at December 31, 2012 and 2011 representing reimbursement due to the installation of transmission line from NPC to substations in Lipa, Batangas. Under the Contract, NPC also withheld as security deposit equivalent to the average estimated two months power bill amounting to ₱7 million (presented in the “Other noncurrent assets” account in the consolidated balance sheet) as at December 31, 2012 and 2011 (see Note 15). The security deposit shall be correspondingly adjusted for every subsequent change in contract demand or contract energy, payable or refundable at the time of such change.

h. Transmission Service Agreement

On January 15, 2009, LUC entered into contract with National Grid Corporation of the Philippines whereas the latter will provide the necessary transmission services to the LUC and LUC shall pay the applicable charges for such services, in accordance with the Open Access Transmission Service Rules and the Schedules, provided that it shall remain liable for any unpaid amount charges despite the termination of this agreement. This agreement shall continue to be in full force and effect until December 25, 2013. In 2012 and 2011, the LUC incurred transmission charges amounting to ₱91 million and ₱89 million, respectively, and is included in purchased power cost under "Cost of Services" in the consolidated statement of income (see Note 23).

i. Transmission Service Agreement Batangas Electric Cooperative II (BATELEC II)

In July 2010, the LUC entered into a tripartite agreement with BATELEC II and Nestle Philippines, Inc. (Nestle) for the latter's supply of energy. In July 2011, 1-year after the date of agreement, LUC and BATELEC II energized the sub-transmission line, as agreed by all parties. BATELEC II, being the owner of franchised area covering the Nestle's factory, will supply energy to Nestle through LUC's 69kV sub-transmission line. In consideration for the wheeling of energy from the power grid, LUC and BATELEC II charges Nestle an Energy Regulatory Commission approved wheeling fee of ₱0.4850 per kWh. LUC collects the entire amount, and then remits the share of BATELEC II amounting to ₱0.21 per kWh. In 2012 and 2011, LUC recognized wheeling fee amounting to ₱6 million and ₱2 million, respectively.

j. Water Supply Agreement

On May 3, 2007, LWC entered into an agreement with Metro Lipa Water District (MLWD), the authorized entity to distribute water in Lipa City and Malvar, Batangas. Under the agreement, LWC will assist and support MLWD to improve the quality and availability of water resources to the people of Lipa City and Malvar, Batangas. Service income arising from this agreement amounted to ₱8 million in 2012, ₱6 million in 2011, and ₱5 million in 2010.

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### 36. Contingencies

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

LUC had a contingent liability for claims by NPC. On January 6, 2006, the court rendered a decision in favor of LUC. On January 23, 2006, NPC filed a Notice of Appeal which has been dismissed by the Court of Appeals (CA) on December 28, 2007. On February 1, 2008, LUC received NPC's Motion for Reconsideration which has been denied by the CA on September 9, 2008. On October 31, 2008, LUC received NPC's Petition Review for Certioram filed before the Supreme Court (SC). On December 17, 2010, NPC filed a Motion for Reconsideration. On February 28, 2011, the Supreme Court denied NPC's Motion For Reconsideration with finality. LUC received an entry of judgment issued by the Clerk of Court of the Supreme Court certifying that the resolution of the Supreme Court dated October 11, 2010 denying NPC's Motion for Reconsideration has become final and executory on April 19, 2011, and has already been recorded in the book of entries of judgments. Thus, management and its legal counsel consider this case as terminated.

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

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### 37. Other Matters

- a. Registration with the Board of Investments (BOI) and the Philippine Economic Zone Authority (PEZA)

WMPC and SPPC are registered with the BOI under the Omnibus Investments Code of 1987 [as amended by Republic Act (RA) No. 7369] as new operators of power generating plants on pioneer status. LLI is registered as an Ecozone Developer/Operator with PEZA, a government corporation created and operating under RA No. 7916. LWC and LUC are registered as an Ecozone Utilities Enterprise also with PEZA.

Under the terms and conditions of the registration, WMPC, SPPC, LLI, LWC and LUC are entitled to certain tax and nontax incentives. The tax incentives include an income tax holiday for six years up to 2003 for WMPC and SPPC, and up to 2002 for LLI.

- b. Electric Power Industry Reform Act (EPIRA)

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

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

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

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

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

c. Clean Air Act

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

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

The principal noncash financing and investing transactions in 2011 pertain to the settlement of long-term debt through dacion en pago arrangement and acquisition of investment through offsetting of advances, respectively (see Notes 10 and 18). Details of these transactions are shown below:

<b>Financing Activity</b>	
Liabilities settled and restructured	(P206,380,576)
Cost of dacioned property	149,490,571
Gain on dacion	(56,890,005)
<b>Investing Activity</b>	
Acquisition of investment through offsetting of advances to an affiliate	(1,226,174,500)



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

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 25, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Belinda T. Beng Hui  
Partner

CPA Certificate No. 88823  
SEC Accreditation No. 0923-AR-1 (Group A),  
March 25, 2013, valid until March 24, 2016  
Tax Identification No. 153-978-243  
BIR Accreditation No. 08-001998-78-2012,  
June 19, 2012, valid until June 18, 2015  
PTR No. 3669663, January 2, 2013, Makati City

March 25, 2013

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

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**SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE  
STANDARDS AND INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2012		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Framework for the Preparation and Presentation of Financial Statements</b> Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>		✓		
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments			✓
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets			✓
	Amendments to PFRS 7: Disclosures -- Offsetting Financial Assets and Financial Liabilities	Not Early Adopted		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not Early Adopted		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	Not Early Adopted		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not Early Adopted		
PFRS 10	Consolidated Financial Statements	Not Early Adopted		
PFRS 11	Joint Arrangements	Not Early Adopted		
PFRS 12	Disclosure of Interests in Other Entities	Not Early Adopted		
PFRS 13	Fair Value Measurement	Not Early Adopted		
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Not Early Adopted		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
PAS 16	Property, Plant and Equipment	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Amended)	Employee Benefits	Not Early Adopted		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Consolidated and Separate Financial Statements	✓		
PAS 27 (Amended)	Separate Financial Statements	Not Early Adopted		
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Not Early Adopted		
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Not Early Adopted		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 8	Scope of PFRS 2			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 11	PFRS 2- Group and Treasury Share Transactions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012		Adopted	Not Adopted	Not Applicable
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not Early Adopted		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

Note: Standards and interpretations tagged as “Not applicable” are those standards which were adopted but the Group has no significant covered transaction as at and for the years ended December 31, 2012, 2011 and 2010.

**Alsons Consolidated Resources, Inc.**  
Schedule of Financial Ratios  
As of December 31, 2012

Ratio	Formula	2012	2011
Liquidity Ratios	$\frac{\text{Cash and Cash Equivalents} + \text{Short-term Cash Investments}}{\text{Current Liabilities}}$	1.28	1.64
Solvency Ratio	$\frac{\text{After-Tax Net Profit} + (\text{Depreciation and Amortization}) + \text{Bad Debts}}{\text{Current Liabilities} + \text{Noncurrent Liabilities}}$	0.60	0.88
Debt-to-Equity Ratio	$\frac{\text{Total Assets}}{\text{Equity Attributable to Owners of the Parent}}$	1.55	1.59
Interest Rate Coverage Ratio	$\frac{\text{EBITDA}}{\text{Interest Expense}}$	23.49	67.28
Return on Equity	$\frac{\text{Net Income Attributable to Equity Holders of the Parent}}{\text{Equity Attributable to Owners of the Parent}}$	0.06	0.05
Return on Assets	$\frac{\text{Net Income}}{\text{Total Assets}}$	0.08	0.09

**ALSONS CONSOLIDATED RESOURCES, INC.**  
 2286 Pasong Tamo Extension, Makati City  
 Schedule of Retained Earning Available for Dividend Declaration  
 December 31,2012

*(Figures based on  
 Parent Company  
 Audited Financial  
 Statements)*

Unappropriated retained earnings, beg		Php1,535,403,859
Adjustments:		-
Unappropriated retained earnings, as adjusted, beginning		1,535,403,859
Net income during the year	567,244,737	
Less: Non-actual income/unrealized income, net of tax		
Unrealized foreign exchange gain,excluding those attributable to cash and cash equivalents	(7,429,237)	
Net income actually earned during the period		559,815,500
Less:		
Dividend declared during the year		(62,915,000)
Appropriation during the year		(850,000,000)
Unappropriated retained earnings, as adjusted, end		Php1,182,304,359

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

## **Interim Financial Statements First Quarter Ended March 31, 2013 and 2012**

Management will present the consolidated financial performance of the company for first quarter ended March 31, 2013 and 2012 to the stockholders after the Board of Directors approved the same before the scheduled actual stockholders meeting. The same is not yet available as of April 15, 2013, the last day of sending notice of meeting, Definitive information statements and the Management Report pursuant to SRC Rules, as amended.

# ALSONS DEVELOPMENT AND INVESTMENT CORP.

