

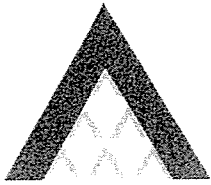
Annex “B”

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

**Consolidated Financial Statements
December 31, 2016 and 2015
And Years Ended December 31, 2016, 2015 and 2014**

And

Independent Auditors report



Alsons Consolidated Resources, Inc.
(Listed in the Philippine Stock Exchange Trading Symbol "ACR")
2nd Floor, Alsons Building
2286 Chino Roces Ext., (formerly P. Tamo Ext.), Makati City
1231 Metro Manila Philippines
Tel. Nos.: (632) 982-3000 Fax Nos.: (632) 982-3077
Website: www.acr.com.ph

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

SECURITIES AND EXCHANGE COMMISSION,
SEC Building, EDSA, Greenhills, Mandaluyong City


The management of Alsons Consolidated Resources, Inc., is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2016 and 2015, in accordance with the prescribed financial reporting framework indicated therein, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.


The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited 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 audit.


TOMAS I. ALCANTARA
Chairman and President


TIRSO G. SANTILLAN, JR.
Executive Vice-President

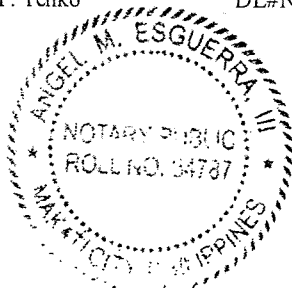

ROBERT F. YENCKO
Chief Financial Officer

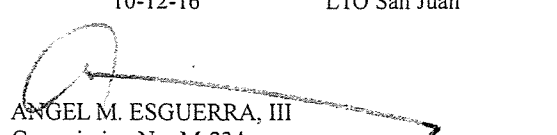
APR 07 2017

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

| <u>Name</u> | <u>Identification No.</u> | <u>Date</u> | <u>Place of Issue</u> |
|-------------------------|---------------------------|-------------|-----------------------|
| Tomas I. Alcantara | PP#EB8610644 | 07-09-13 | DFA Manila |
| Tirso G. Santillan, Jr. | DL#N17-72-000977 | 02-13-15 | LTO Q.C. |
| Robert F. Yencko | DL#N01-16-031117 | 10-12-16 | LTO San Juan |

Doc No. 257
Page No. 52
Book No. 11
Series of 2017




ANGEL M. ESQUERRA, III
Commission No. M-234
Notary Public for Makati City, Until December 31, 2017
Roll No. 34787; 06/01/87
IBP Lifetime No. 00259; 06/01/95; Pasay Chapter
PTR OR No. 5943493; 01/23/17; Makati City
Alsons Bldg., 2286 Chino Roces Ave., Makati City

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Alsons Consolidated Resources, Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



Recoverability of Goodwill

Under PFRSs, the Group is required to review the goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at December 31, 2016, the Group's goodwill that is attributable to the Group's two power generation cash-generating units (CGUs) amounted to ₱807 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant management judgment about future market conditions and estimation based on assumptions, specifically tariff rates, contracted and dispatchable capacity and discount rate. The Group's disclosures about goodwill are included in Note 14 to the consolidated financial statements.

Audit Response

We obtained an understanding of the Group's impairment assessment process and the related controls. We involved our internal specialist in evaluating the methodology and the assumptions used which include tariff rates, contracted and dispatchable capacity and discount rate. We compared the key assumptions used, such as contracted and dispatchable capacity against the historical performance of the CGUs, market outlook and other relevant external data. For tariff rates, we compared the rates used against the rates in the power sales agreements. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

Management is responsible for the other information. The other information comprises the SEC Form 17-A for the year ended December 31, 2016 but does not include the consolidated financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2016, which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, 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.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Martin C. Guantes.

SYCIP GORRES VELAYO & CO.


Martin C. Guantes

Partner

CPA Certificate No. 88494

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

Tax Identification No. 152-884-272

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

PTR No. 5908704, January 3, 2017, Makati City

March 29, 2017



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|------------------------|------------------------|
| | 2016 | 2015 |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents (Notes 7, 31 and 32) | ₱2,050,586,516 | ₱3,939,847,554 |
| Short-term cash investments (Notes 7, 31 and 32) | 58,172,400 | 172,944,935 |
| Trade and other receivables (Notes 8, 20, 31 and 32) | 2,089,455,903 | 1,763,100,597 |
| Real estate inventories (Notes 10 and 18) | 646,886,864 | 636,575,584 |
| Spare parts and supplies - at cost (Note 9) | 651,649,055 | 496,350,993 |
| Prepaid expenses and other current assets (Notes 15 and 18) | 587,051,018 | 894,177,645 |
| Total Current Assets | 6,083,801,756 | 7,902,997,308 |
| Noncurrent Assets | | |
| Noncurrent portion of installment receivables (Notes 8, 31 and 32) | 6,557,239 | 6,758,473 |
| Investments in real estate (Notes 10 and 18) | 176,276,075 | 1,463,639,767 |
| Investments in associates (Note 11) | 2,175,644,762 | 1,275,633,260 |
| Property, plant and equipment (Notes 12, 18 and 19) | 18,708,877,299 | 15,676,131,842 |
| Available-for-sale (AFS) financial assets (Notes 13 and 32) | 2,343,630,303 | 2,345,573,271 |
| Goodwill (Note 14) | 806,687,320 | 1,052,063,536 |
| Net retirement assets (Note 28) | 29,607,129 | 28,746,272 |
| Deferred income tax assets - net (Note 29) | 30,321,457 | 13,690,764 |
| Other noncurrent assets | 448,322,409 | 401,189,408 |
| Total Noncurrent Assets | 24,725,923,993 | 22,263,426,593 |
| TOTAL ASSETS | ₱30,809,725,749 | ₱30,166,423,901 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities | | |
| Accounts payable and other current liabilities (Notes 16, 31 and 32) | ₱1,572,066,165 | ₱1,348,533,548 |
| Loans payable (Notes 17, 31 and 32) | 667,030,719 | 300,000,017 |
| Income tax payable | 58,789,821 | 64,901,390 |
| Current portion of long-term debt (Notes 18, 31 and 32) | 612,245,238 | 311,720,556 |
| Total Current Liabilities | 2,910,131,943 | 2,025,155,511 |
| Noncurrent Liabilities | | |
| Long-term debt - net of current portion (Notes 18, 31 and 32) | 16,278,965,915 | 16,868,288,633 |
| Deferred income tax liabilities - net (Note 29) | 700,463,748 | 596,994,524 |
| Retirement benefits liabilities (Note 28) | 32,051,884 | 6,488,611 |
| Decommissioning liability (Notes 12 and 19) | 176,117,468 | 69,380,652 |
| Total Noncurrent Liabilities | 17,187,599,015 | 17,541,152,420 |
| Total Liabilities | 20,097,730,958 | 19,566,307,931 |

(Forward)



| | December 31 | |
|--|------------------------|------------------------|
| | 2016 | 2015 |
| Equity (Note 21) | | |
| Capital stock | ₱6,322,483,333 | ₱6,318,083,333 |
| Other equity reserves | 1,774,513,933 | 1,767,643,490 |
| Retained earnings: | | |
| Unappropriated | 1,013,611,249 | 797,647,185 |
| Appropriated | 1,300,000,000 | 1,300,000,000 |
| Attributable to equity holders of the Parent Company | 10,410,608,515 | 10,183,374,008 |
| Non-controlling interests (Notes 1 and 21) | 301,386,276 | 416,741,962 |
| Total Equity | 10,711,994,791 | 10,600,115,970 |
| TOTAL LIABILITIES AND EQUITY | ₱30,809,725,749 | ₱30,166,423,901 |

See accompanying Notes to Consolidated Financial Statements.



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

| | Years Ended December 31 | | |
|---|--------------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| SALES OF SERVICES: | | | |
| Energy fees (Note 33) | ₱7,077,431,332 | ₱4,977,252,644 | ₱5,134,628,826 |
| Management fees (Note 33) | 7,610,515 | 25,443,600 | 24,825,460 |
| Rental income (Note 30) | 12,139,877 | 10,724,872 | 8,643,774 |
| | 7,097,181,724 | 5,013,421,116 | 5,168,098,060 |
| REAL ESTATE SALES (Note 33) | 9,616,156 | 8,275,233 | 11,973,028 |
| TOTAL REVENUE | 7,106,797,880 | 5,021,696,349 | 5,180,071,088 |
| COSTS AND EXPENSES | | | |
| Cost of services (Note 22) | (4,679,482,911) | (3,065,882,264) | (3,536,933,374) |
| Cost of real estate sold (Note 10) | (4,982,828) | (6,150,862) | (11,396,417) |
| General and administrative expenses (Note 23) | (530,807,093) | (434,114,967) | (467,312,254) |
| OTHER INCOME (CHARGES) | | | |
| Finance charges (Note 26) | (865,152,744) | (324,360,188) | (206,568,748) |
| Interest income (Notes 7 and 18) | 41,961,539 | 24,034,525 | 22,224,257 |
| Other income (charges) - net (Note 27) | (155,059,373) | (83,857,875) | 109,302,563 |
| | (6,193,523,410) | (3,890,331,631) | (4,090,683,973) |
| INCOME BEFORE INCOME TAX | 913,274,470 | 1,131,364,718 | 1,089,387,115 |
| PROVISION FOR INCOME TAX (Note 29) | | | |
| Current | 206,066,372 | 272,708,907 | 345,191,757 |
| Deferred | 71,420,419 | 167,719,203 | 17,052,091 |
| | 277,486,791 | 440,428,110 | 362,243,848 |
| NET INCOME | ₱635,787,679 | ₱690,936,608 | ₱727,143,267 |
| Attributable to: | | | |
| Equity holders of the Parent Company | ₱316,595,386 | ₱188,141,930 | ₱359,040,865 |
| Non-controlling interests | 319,192,293 | 502,794,678 | 368,102,402 |
| | ₱635,787,679 | ₱690,936,608 | ₱727,143,267 |
| Basic/diluted earnings per share attributable to equity holders of the Parent Company (Note 21) | ₱0.050 | ₱0.029 | ₱0.056 |

See accompanying Notes to Consolidated Financial Statements.



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

| | Years Ended December 31 | | |
|---|-------------------------|---------------------|----------------------|
| | 2016 | 2015 | 2014 |
| NET INCOME | ₱635,787,679 | ₱690,936,608 | ₱727,143,267 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Actuarial gains (losses) and effect of changes in asset ceiling (Note 28) | 8,460,230 | (4,754,694) | 6,796,218 |
| Tax effect (Note 29) | 825,575 | 2,009,180 | (448,297) |
| | 9,285,805 | (2,745,514) | 6,347,921 |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | |
| Unrealized gains (losses) on fair valuation of AFS financial assets (Note 13) | (1,942,968) | 7,263,540 | (86,998,124) |
| Translation adjustments | 12,232,870 | 147,110,294 | (54,755,323) |
| | 10,289,902 | 154,737,834 | (141,753,447) |
| TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX | 19,575,707 | 151,992,320 | (135,405,526) |
| TOTAL COMPREHENSIVE INCOME | ₱655,363,386 | ₱842,928,928 | ₱591,737,741 |
| Attributable to: | | | |
| Equity holders of the Parent Company | ₱327,898,507 | ₱340,874,763 | ₱222,381,500 |
| Non-controlling interests | 327,464,879 | 502,054,165 | 369,356,241 |
| | ₱655,363,386 | ₱842,928,928 | ₱591,737,741 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

Attributable to Equity Holders of the Parent Company

Other Equity Reserves

| | Capital Stock (Note 21) | Remeasurement Gains (Losses) on Defined Benefit Plan (Notes 21 and 29) | Unrealized Gains (Losses) on AFS Financial Assets (Notes 13 and 21) | Cumulative Translation Adjustments | Equity Reserves - Acquisition of Non- controlling Interest (Note 21) | Retained Earnings (Notes 16 and 21) | | Non-controlling Interests (Note 1) | Total |
|--|----------------------------|---|---|--|---|-------------------------------------|-----------------------|--|------------------------|
| | | | | | | Unappropriated | Appropriated | | |
| BALANCES AS AT DECEMBER 31, 2013 | ₱6,309,283,333 | ₱1,558,367 | ₱28,754,589 | ₱1,575,034,794 | ₱145,480,697 | ₱1,084,786,946 | ₱850,000,000 | ₱376,545,992 | ₱10,371,444,718 |
| Net income | - | - | - | - | - | 359,040,865 | - | 368,102,402 | 727,143,267 |
| Other comprehensive income (loss) | - | 3,929,480 | (86,998,124) | (54,755,323) | - | 1,164,602 | - | 1,253,839 | (135,405,526) |
| Total comprehensive income (loss) | - | 3,929,480 | (86,998,124) | (54,755,323) | - | 360,205,467 | - | 369,356,241 | 591,737,741 |
| Collection of subscriptions receivable | - | - | - | - | - | - | - | - | 4,400,000 |
| Redemption of preferred shares (Note 1) | - | - | - | - | - | - | - | - | - |
| Appropriation of retained earnings | - | - | - | - | - | - | - | - | - |
| Cash dividends declaration (Note 21) | - | - | - | - | - | (850,000,000) | 850,000,000 | - | - |
| BALANCES AS AT DECEMBER 31, 2014 | 6,313,683,333 | 5,487,847 | (58,243,535) | 1,520,279,471 | 145,480,697 | 489,928,413 | 1,700,000,000 | 291,754,035 | 10,408,370,261 |
| Net income | - | 265,176 | 7,263,540 | 147,110,294 | - | 188,141,930 | - | 502,794,678 | 690,936,608 |
| Other comprehensive income (loss) | - | - | - | - | - | (1,906,177) | - | (740,513) | 151,992,320 |
| Total comprehensive income | - | 265,176 | 7,263,540 | 147,110,294 | - | 186,235,753 | - | 502,054,165 | 842,928,928 |
| Collection of subscriptions receivable | - | - | - | - | - | - | - | - | 4,400,000 |
| Investment in a subsidiary (Note 1) | - | - | - | - | - | - | - | - | 21,600 |
| Disposal of subsidiaries without loss of control (Note 1) | - | - | - | - | - | - | - | - | - |
| Disposal of a subsidiary through property dividend (Note 1) | - | - | - | - | - | - | - | 12,563,402 | 12,563,402 |
| Cash dividends declaration (Note 21) | - | - | - | - | - | (208,056,231) | - | - | (208,056,231) |
| Reversal of appropriation | - | - | - | - | - | (70,460,750) | - | (389,651,240) | (460,111,990) |
| BALANCES AS AT DECEMBER 31, 2015 | 6,318,083,333 | 5,753,023 | (50,979,995) | 1,667,389,765 | 145,480,697 | 797,647,185 | 1,300,000,000 | 416,741,962 | 10,600,115,970 |
| Net income | - | - | - | - | - | 316,595,386 | - | 319,192,293 | 635,787,679 |
| Other comprehensive income (loss) | - | (996,789) | (1,942,968) | 9,810,200 | - | 4,432,678 | - | 8,272,586 | 19,575,707 |
| Total comprehensive income (loss) | - | (996,789) | (1,942,968) | 9,810,200 | - | 321,028,064 | - | 327,464,879 | 655,363,386 |
| Collection of subscriptions receivable | - | - | - | - | - | - | - | - | 4,400,000 |
| Cash dividends declaration (Note 21) | - | - | - | - | - | (105,064,000) | - | - | (105,064,000) |
| BALANCES AS AT DECEMBER 31, 2016 | ₱6,322,483,333 | ₱4,756,234 | (₱52,922,963) | ₱1,677,199,965 | ₱145,480,697 | ₱1,013,611,249 | ₱1,300,000,000 | ₱301,386,276 | ₱10,711,994,791 |

See accompanying Notes to Consolidated Financial Statements.



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

| | Years Ended December 31 | | |
|--|-------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Income before tax | ₱913,274,470 | ₱1,131,364,718 | ₱1,089,387,115 |
| Adjustments for: | | | |
| Finance charges (Notes 26 and 30) | 865,152,744 | 324,360,188 | 206,568,748 |
| Depreciation and amortization (Note 25) | 712,151,736 | 348,954,644 | 814,375,986 |
| Impairment loss on goodwill (Note 14) | 245,376,216 | — | — |
| Income from insurance claim (Notes 8 and 27) | (69,699,527) | — | — |
| Interest income (Notes 7 and 30) | (41,961,539) | (24,034,525) | (22,224,257) |
| Unrealized foreign exchange loss (gain) - net (Note 27) | 17,639,653 | 143,965,908 | (41,876,979) |
| Movements in net retirement assets and retirement benefits liabilities (Notes 24 and 28) | 33,162,646 | 13,088,469 | 9,096,929 |
| Income from decrease in decommissioning liability (Note 27) | (4,842,058) | (5,933,564) | (11,315,962) |
| Loss on sale of property, plant and equipment and investments in real estate (Note 27) | 2,960,574 | 35,649,469 | 360,839 |
| Mark-to-market (gain) on derivative liability (Notes 27 and 33) | — | (27,595,736) | (10,328,044) |
| Recovery of impairment loss on real estate inventories due to sale (Note 10) | — | (1,112,121) | (3,946,795) |
| Equity in net losses of an associate (Notes 11 and 27) | — | — | 1,279,357 |
| Operating income before working capital changes | 2,673,214,915 | 1,938,707,450 | 2,031,376,937 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (200,943,196) | 169,064,975 | (97,390,460) |
| Real estate inventories | 4,590,166 | 6,877,373 | 11,022,254 |
| Spare parts and supplies | (155,298,062) | (254,786,969) | (37,215,015) |
| Prepaid expenses and other current assets | 352,502,110 | (20,589,716) | (90,436,532) |
| Increase (decrease) in accounts payable and other current liabilities | 6,353,118 | (118,271,723) | 484,196,996 |
| Cash flows generated from operations | 2,680,419,051 | 1,721,001,390 | 2,301,554,180 |
| Income taxes paid including creditable withholding taxes | (298,528,042) | (352,781,304) | (325,009,142) |
| Net cash flows from operating activities | 2,381,891,009 | 1,368,220,086 | 1,976,545,038 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to: | | | |
| Property, plant and equipment (Note 12) | (3,279,688,376) | (1,589,833,820) | (6,645,372,242) |
| Investments in associates (Note 11) | (581,018,200) | (57,317,300) | — |
| Investments in real estate (Note 10) | (502,881) | (559,426) | (50,472,122) |
| Computer software | (14,416,454) | (60,697) | (16,159,235) |
| Decrease (increase) in: | | | |
| Short-term cash investments (Note 7) | 114,240,535 | (138,499,937) | (25,642,688) |
| Other noncurrent assets | (41,236,029) | (55,143,340) | (69,478,547) |
| Collections (granting) of advances from (to) related parties | (43,141,593) | (109,853,804) | 263,323,852 |
| Proceeds from insurance claim (Notes 8 and 27) | 40,160,577 | — | — |
| Interest received | 41,568,862 | 23,535,345 | 21,835,016 |
| Proceeds from disposals of: | | | |
| Investment in real estate (Notes 10 and 11) | 953,457,022 | 23,946,931 | — |
| Property, plant and equipment | 2,060,124 | 1,678,359 | 345,967 |
| Net cash flows used in investing activities | (2,808,516,413) | (1,902,107,689) | (6,521,619,999) |

(Forward)



| | Years Ended December 31 | | |
|---|-------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Availment of loans and long-term debt (Notes 17 and 18) | ₱667,030,719 | ₱9,678,853,418 | ₱9,690,478,476 |
| Payments of: | | | |
| Interest and transaction costs (Note 18) | (998,033,628) | (1,331,956,527) | (1,178,876,982) |
| Dividends (Note 21) | (543,484,565) | (452,566,240) | (482,342,496) |
| Loans and long-term debt (Notes 17 and 18) | (588,798,053) | (5,428,392,395) | (2,264,117,211) |
| Increase in interest reserve account (Note 15) | — | (507,870,487) | (48,153,721) |
| Cash outflow from redemption of redeemable preferred shares (Note 1) | — | — | (72,469,702) |
| Net cash flows from (used in) financing activities | (1,463,285,527) | 1,958,067,769 | 5,644,518,364 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,889,910,931) | 1,424,180,166 | 1,099,443,403 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 649,893 | 3,284,013 | (9,422,813) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR (Note 7) | 3,939,847,554 | 2,512,383,375 | 1,422,362,785 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7) | ₱2,050,586,516 | ₱3,939,847,554 | ₱2,512,383,375 |

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

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

The registered office address of ACR is 2286 Don Chino Roces Ave. Extension, Makati City.

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

| Subsidiaries | Nature of business | Percentage of Ownership | | | |
|--|---------------------|-------------------------|----------|--------|----------|
| | | 2016 | | 2015 | |
| | | Direct | Indirect | Direct | Indirect |
| Conal Holdings Corporation (CHC) | Investment holding | 100.00 | — | 100.00 | — |
| Alsing Power Holdings, Inc. (APHI) | Investment holding | 20.00 | 80.00 | 20.00 | 80.00 |
| Western Mindanao Power Corporation (WMPC) | Power generation | — | 55.00 | — | 55.00 |
| Southern Philippines Power Corporation (SPPC) | Power generation | — | 55.00 | — | 55.00 |
| Alto Power Management Corporation (APMC) | Management services | — | 60.00 | — | 60.00 |
| APMC International Limited (AIL) | Management services | — | 100.00 | — | 100.00 |
| Mapalad Power Corporation (MPC) | Power generation | — | 100.00 | — | 100.00 |
| FGen Northern Power Corp. (FGNPC) | Power generation | — | 60.00 | — | 60.00 |
| Alsons Thermal Energy Corporation (ATEC) | Power generation | 100.00 | — | 100.00 | — |
| Sarangani Energy Corporation (Sarangani) | Power generation | — | 75.00 | 75.00 | — |
| ACES Technical Services Corporation (ACES) | Management services | — | 100.00 | 100.00 | — |
| Alsons Renewable Energy Corporation (AREC) | Investment holding | 80.00 | — | 80.00 | — |
| Siguil Hydro Power Corporation (Siguil) | Power generation | — | 80.00 | — | 80.00 |
| Kalaong Power Corporation (Kalaong) | Power generation | — | 80.00 | — | 80.00 |
| San Ramon Power, Inc. (SRPI) | Power generation | 100.00 | — | 100.00 | — |
| Alsons Power International Limited (APIL) | Power generation | 100.00 | — | 100.00 | — |
| Alsons Land Corporation (ALC) | Real estate | 99.55 | — | 99.55 | — |
| MADE (Markets Developers), Inc. (MADE) | Distribution | 80.44 | — | 80.44 | — |
| Kamanga Agro-Industrial Ecozone Development Corporation (KAED) | Real estate | 100.00 | — | 100.00 | — |
| Alsons Power Supply Corporation (APSC) | Customer service | 100.00 | — | — | — |

SPPC and WMPC are Independent Power Producers (IPPs) with Energy Conversion Agreements (ECAs) with the Philippine government through the National Power Corporation (NPC). SPPC's and WMPC's ECAs ended on April 28, 2016 and December 12, 2015, respectively (see Note 33).

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



Power and Energy

CHC and Subsidiaries. In July 2014, CHC and SPPC redeemed preferred shares of 178,462 and 483,875, respectively, for a total consideration of ₱232 million (\$5.2 million). The redeemed preferred shares were retired and are no longer available for re-issue. The share of the non-controlling interests (NCI) in the redemptions in 2014 is shown below:

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

The Board of Directors (BOD) of Northern Mindanao Power Corporation (NMPC), a subsidiary under CHC, approved on April 25, 2008 the amendments to NMPC's Articles of Incorporation to shorten its corporate life up to November 15, 2009. After November 15, 2009, NMPC was dissolved. Consequently, NMPC's remaining assets and liabilities have all been transferred to CHC's books as at December 31, 2009. CHC is responsible for the final liquidation of NMPC's net assets and the payment to the non-controlling shareholders. In 2013, CHC has fully liquidated the net distributable assets of NMPC and paid the non-controlling shareholders.

CHC organized and incorporated MPC on July 13, 2010 as a wholly owned subsidiary to rehabilitate and operate the 103 MW Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II located in Iligan City. On June 27, 2011, ACR acquired full control of MPC through an agreement with CHC, wherein CHC assigned all shares to ACR. The deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. On August 1, 2013, ACR transferred MPC to CHC for a total consideration of ₱0.3 million (\$7,781). MPC entered into Power Supply Agreements (PSAs) with various distribution utilities and electric cooperatives (see Note 33). On September 6, 2013, MPC started operating 98 MW of the 103 MW Bunker-Fired IDPPs. MPC completed the rehabilitation and operates the balance of 5 MW in 2014.

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

ATEC and Subsidiaries

ATEC. On November 23, 2015, ACR organized ATEC primarily to develop and invest in energy projects, including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱1 million.

On October 13, 2016, ACR and ATEC executed an assignment of share agreement wherein the Parent Company assigned and transferred its ownership interests in ACES to ATEC for a total consideration of ₱20 million. Accordingly, ACES became wholly owned subsidiary of ATEC.

Sarangani. CHC organized Sarangani on October 15, 2010 as a wholly owned subsidiary to construct, commission and operate power generating plant facilities of electricity in Maasim, Sarangani Province. On June 27, 2011, ACR acquired full control of Sarangani through an agreement with CHC, wherein CHC assigned all its 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 subscribed and paid ₱355 million worth of Sarangani shares representing 25% of the total equity of Sarangani. In accordance with the shareholders agreement,



ACR increased its investment in Sarangani to 75% of the total equity of Sarangani by converting its advances and additional cash infusion.

The construction of the Sarangani's SM200 project is in two phases. Construction of Phase 1 (105 MW) of the Project commenced in January 2013 and was completed in 2016. The preliminary works for Phase 2 (105 MW) has started in 2016 and the construction of the plant is expected to be completed in 2019.

In 2015, ACR made additional cash infusion and conversion of advances totaling to ₱572 million, primarily to meet the funding requirements of Sarangani's SM200 project.

On April 20, 2016, ACR subscribed to ATEC's proposed increase in authorized capital stock to the amount of ₱2,989,285,100 worth of shares of stock. The subscription was paid by way of ACR's investment in Sarangani and cash amounting to ₱14 million.

ACES. ACR organized and incorporated ACES on July 7, 2011 primarily to provide operations and maintenance services to the Group's coal power plants. As at March 29, 2017, ACES has not yet started commercial operations.

AREC and Subsidiaries

Siguil and Kalaong. ACR organized and incorporated Siguil and Kalaong on July 22, 2011 as wholly owned subsidiaries. Siguil and Kalaong were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. Siguil's 17MW Hydro Power Project is in Maasim, Sarangani while Kalaong's 22MW Hydro Power Project is in Bago, Negros Oriental. These projects are expected to augment power supply in the cities of General Santos and Bacolod, respectively, once they are completed. As at March 29, 2017, Siguil and Kalaong have not yet started commercial operations.

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

On July 10, 2015, ACR and AREC executed an assignment of share agreement wherein the Company assigned and transferred its ownership interests in Siguil and Kalaong to AREC. Accordingly, Siguil and Kalaong became subsidiaries of AREC. Also, ACR sold its 20% interest to ACIL, Inc., an entity under common control. Accordingly, ACR's interest in AREC was reduced from 100% in 2014 to 80% in 2015.

SRPI. ACR organized and incorporated SRPI on July 22, 2011 as a wholly owned subsidiary. SRPI was incorporated primarily to acquire, construct, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPI has obtained its Environmental Compliance Certificate (ECC) on March 20, 2012 for the planned 105MW coal fired power plant to be located in Zamboanga Ecozone. SRPI's expected construction of the power plant that was previously forecasted to commence in the later part of 2013, has been deferred at a later time. The total project cost is estimated at ₱13 billion. As at March 29, 2017, SRPI has not yet started the construction of the power plant.

Property Development

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



KAED. On September 3, 2010, ACR incorporated KAED to establish, develop, operate and maintain an agro-industrial economic zone and provides the required infrastructure facilities and utilities such as power and water supply and distribution system, sewerage and drainage system, waste management system, pollution control device, communication facilities and other facilities as may be required for an agro-industrial economic zone. As at March 29, 2017, KAED has not yet started commercial operations.

Other Investments

MADE. MADE, which is in the distribution business, has incurred significant losses in prior years resulting in capital deficiency. Because of the recurring losses, MADE decided to cease operations effective April 30, 2006 and terminated its employees. These factors indicate the existence of a material uncertainty which may cast significant doubt about MADE's ability to continue operating as a going concern. As at March 29, 2017, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading operations.

APSC. ACR organized and incorporated APSC on October 13, 2016 primarily to provide services necessary or appropriate in relation to the supply and delivery of electricity. As at March 29, 2017, APSC has not yet started commercial operations.

Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements upon recommendation for approval by the Audit Committee on March 16, 2017, were authorized for issuance by the BOD on March 29, 2017.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS financial assets and derivative financial instruments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Parent Company.

Statement of Compliance

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

Basis of Consolidation

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

The Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns



When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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

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

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

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

Material Partly-Owned Subsidiaries

The tables below show details of materially partly-owned subsidiaries of ACR through CHC or directly owned entity:

| Name of Subsidiary | Place of Incorporation and Operation | Principal Activity | Proportion Ownership Interest and Voting Rights Held by Non-controlling Interests | | |
|--------------------|--------------------------------------|--------------------|---|------|------|
| | | | 2016 | 2015 | 2014 |
| SPPC | Philippines | Power generation | 45% | 45% | 45% |
| WMPC | Philippines | Power generation | 45% | 45% | 45% |
| Sarangani | Philippines | Power generation | 25% | 25% | 25% |



The summarized financial information in respect of the subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

Summarized balance sheets as at December 31 are as follows:

| | 2016 | | | 2015 | | |
|---------------------------|-------------------------------|-----------|-------------|-----------|------------|-------------|
| | SPPC | WMPC | Sarangani | SPPC | WMPC | Sarangani |
| | <i>(Amounts in Thousands)</i> | | | | | |
| Current assets | ₱546,999 | ₱724,237 | ₱2,395,716 | ₱529,902 | ₱1,256,744 | ₱1,225,670 |
| Noncurrent assets | 416,740 | 398,329 | 16,027,380 | 351,948 | 414,139 | 13,203,612 |
| Current liabilities | (216,687) | (385,687) | (4,931,426) | (123,326) | (266,259) | (1,522,995) |
| Noncurrent liabilities | (73,064) | (82,452) | (8,631,235) | (69,638) | (93,108) | (8,939,088) |
| Equity | ₱673,988 | ₱654,427 | ₱4,860,435 | ₱688,886 | ₱1,311,516 | ₱3,967,199 |
| Equity attributable to: | | | | | | |
| Equity holders of the | | | | | | |
| Parent Company | ₱370,693 | ₱359,935 | ₱3,645,326 | ₱378,887 | ₱721,334 | ₱2,975,399 |
| Non-controlling interests | 303,295 | 294,492 | 1,215,109 | 309,999 | 590,182 | 991,800 |
| | ₱673,988 | ₱654,427 | ₱4,860,435 | ₱688,886 | ₱1,311,516 | ₱3,967,199 |

Summarized statements of comprehensive income for each of the three years in the period ended December 31, 2016 are as follows:

| | 2016 | | | 2015 | | | 2014 | | |
|-----------------------------------|-------------------------------|-------------|-------------|-----------|------------|-----------|-----------|------------|-----------|
| | SPPC | WMPC | Sarangani | SPPC | WMPC | Sarangani | SPPC | WMPC | Sarangani |
| | <i>(Amounts in Thousands)</i> | | | | | | | | |
| Revenue and other income | ₱711,504 | ₱1,652,261 | ₱3,503,115 | ₱742,145 | ₱1,485,698 | ₱17,717 | ₱745,196 | ₱1,445,099 | ₱13,877 |
| Expenses | (442,682) | (1,517,641) | (2,557,505) | (278,933) | (503,644) | (6,586) | (400,708) | (634,861) | (19,481) |
| Provision for income tax | (56,195) | (48,457) | (52,374) | (97,802) | (207,776) | — | (80,552) | (185,770) | — |
| Net income (loss) | 212,627 | 86,163 | 893,236 | 365,410 | 774,278 | 11,131 | 263,936 | 624,468 | (5,604) |
| Other comprehensive income (loss) | 6,571 | 4,285 | — | (359) | 2,268 | — | 300 | 1,490 | — |
| Total comprehensive income (loss) | ₱219,198 | ₱90,448 | ₱893,236 | ₱365,051 | ₱776,546 | ₱11,131 | ₱264,236 | ₱625,958 | (₱5,604) |
| Equity holders of the | | | | | | | | | |
| Parent Company | ₱120,559 | ₱49,746 | ₱669,927 | ₱200,778 | ₱427,100 | ₱8,348 | ₱145,330 | ₱344,277 | (₱4,203) |
| Non-controlling interests | 98,639 | 40,702 | 223,309 | 164,273 | 349,446 | 2,783 | 118,906 | 281,681 | (1,401) |
| | ₱219,198 | ₱90,448 | ₱893,236 | ₱365,051 | ₱776,546 | ₱11,131 | ₱264,236 | ₱625,958 | (₱5,604) |

Summarized statements of cash flows for each of the three years in the period ended December 31, 2016 are as follows:

| | 2016 | | | 2015 | | | 2014 | | |
|--|-------------------------------|------------|-------------|-----------|------------|-------------|-----------|------------|-------------|
| | SPPC | WMPC | Sarangani | SPPC | WMPC | Sarangani | SPPC | WMPC | Sarangani |
| | <i>(Amounts in Thousands)</i> | | | | | | | | |
| Operating | ₱187,423 | ₱140,462 | ₱1,797,552 | ₱487,480 | ₱1,034,800 | (₱111,076) | ₱554,147 | ₱1,025,743 | (₱47,124) |
| Investing | (225,655) | 103,854 | (3,089,795) | (42,501) | 64,841 | (2,008,205) | (8,918) | (350,963) | (7,016,723) |
| Financing | (150,648) | (600,591) | 1,855,008 | (326,469) | (822,323) | 1,696,358 | (522,776) | (824,547) | 7,904,667 |
| Net increase (decrease) in cash and cash equivalents | (₱188,880) | (₱356,275) | ₱562,765 | ₱118,510 | ₱277,318 | (₱422,923) | ₱22,453 | (₱149,767) | ₱840,820 |
| Dividends paid to non-controlling interests | ₱105,282 | ₱336,902 | — | ₱122,850 | ₱266,175 | — | ₱120,744 | ₱261,612 | — |



3. Changes in Accounting Policies and Disclosures

New Standards Effective Starting January 1, 2016

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2016. Adoption of these standards and amendments did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*

These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

- Amendments to PFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests in Joint Operations*

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

- PFRS 14, *Regulatory Deferral Accounts*

PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

- Amendments to PAS 1, *Presentation of Financial Statements: Disclosure Initiative*

The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

- That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions



- That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortization*

The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

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

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

- Annual Improvements to PFRSs 2012 - 2014 Cycle

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations: Changes in Methods of Disposal*, is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- Amendment to PFRS 7, *Financial Instruments: Disclosures: Servicing Contracts*, requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must



assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*, is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*, is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- Amendment to PAS 34, *Interim Financial Reporting: Disclosure of Information 'Elsewhere in the Interim Financial Report'*, is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Standards Issued but not yet Effective

The following are the new and revised standards and interpretations that will become effective subsequent to December 31, 2016. The Group does not expect the adoption of these new and amended PFRS, PAS and Philippine Interpretations to have any significant impact on its consolidated financial statements.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)*

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

- Amendments to PAS 7, *Statement of Cash Flows: Disclosure Initiative*

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 consolidated financial statements.



- Amendments to PAS 12, *Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

Effective beginning on or after January 1, 2018

- Amendments to PFRS 2, *Share-based Payment: Classification and Measurement of Share-based Payment Transactions*

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9*, *Financial Instruments*, with *PFRS 4*

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

- PFRS 15, *Revenue from Contracts with Customers*

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



The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018.

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group is currently assessing the impact of adopting PFRS 9.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle*)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property: Transfers of Investment Property*

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the



transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

- Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to 2016 on the Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.



4. Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheets based on current or noncurrent classification. An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle
- held primarily for the purpose of trading
- expected to be realized within twelve months after the reporting period, or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- expected to be settled in the normal operating cycle
- held primarily for the purpose of trading
- expected to be settled within twelve months after the reporting period, or
- there is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities and retirement benefits assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial and non-financial instruments are disclosed in Note 32.

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

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

The principal or the most advantageous market must be accessible by the Group.

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

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.



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

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

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

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Cash and Cash Equivalents

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

Short-term Cash Investments

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

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition

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

Initial recognition of financial instrument

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

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



“Day 1” difference

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

Categories of Financial Instruments

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

The Group has no HTM investments as at December 31, 2016 and 2015.

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.

Loans and receivables

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



After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Included in this category are the Group's cash and cash equivalents, short-term cash investments, trade and other receivables, and refundable deposits (included as part of "Other noncurrent assets" account).

AFS financial assets

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

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

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

Included in this category are the Group's investments in quoted and unquoted equity securities.

Other financial liabilities

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

These include liabilities arising from operations (e.g., accounts payable and accrued liabilities, excluding withholding taxes and other taxes payable to government agencies) and loans and borrowings. All loans and borrowings are initially recognized at fair value less debt issue costs associated with the borrowings.

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



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

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

Included in this category are the Group's accounts payable and other current liabilities (excluding statutory payables), loans payable and long-term debt.

Derivative Financial Instruments

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

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

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

Embedded derivatives

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

The Group has no embedded derivative which are required to be bifurcated.



Classification of Financial Instruments between Debt and Equity

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

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

Financial liability

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

Impairment of Financial Assets

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



Loans and receivables

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is presented as "Gain on recovery of bad debts" under other income (charges) in the consolidated statement of income.

AFS financial assets

In the case of equity investments classified as AFS, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed in the consolidated statement of income. Increases in their fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated balance sheet if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.



Spare Parts and Supplies

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

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

Real Estate Inventories

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

Investments in Real Estate

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

Subsequent to initial recognition, Investments in real estate, except land, are measured at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Building and improvements are depreciated using the straight-line method over estimated useful life of five years to 15 years.

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

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

Investments in Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The consideration made in determining significant influence is similar to those necessary to determine control over subsidiaries.



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

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

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

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

When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.

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

Property, Plant and Equipment

Property, plant and equipment (except land) is stated at cost, net of accumulated depreciation and amortization and accumulated impairment losses, if any. Such cost includes the cost of replacing the part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the



consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is carried at cost less any impairment losses.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the item is derecognized.

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

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

| | Number of Years |
|---|-----------------|
| Main engine | 12 - 28 years |
| Plant mechanical, electrical, switchyard and desulfurization equipment | 28 years |
| Plant structures and others | 28 years |

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

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

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

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

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

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



Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

Initial measurement

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

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

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

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

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

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



Subsequent measurement

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

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized as income or loss in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units (CGU) or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

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.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less cost to sell or its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that



are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

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

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

Capital Stock

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

Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Redeemable preferred shares is presented as equity when the option for redeeming the redeemable preferred shares is at the issuer's discretion and the price of redemption is to be decided by the BOD.

Retained Earnings

Retained earnings include accumulated profits attributable to the equity holders of the Parent Company reduced by dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. When the retained earnings account has a debit balance, it is called "deficit". A deficit is not an asset but a deduction from equity.



Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings are restricted for specific purposes that are approved by the BOD and are not available for dividend distributions.

Cash Dividend and Non-cash Distribution to Equity Holders of the Parent Company

The Company recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Company. A distribution is authorized when it is approved by the BOD. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of income.

Revenue Recognition

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

Energy fees

Revenues from the long-term ECA with NPC under the Build-Operate-Own (BOO) arrangement consist of fixed capacity, operation and maintenance fee, infrastructure fee and variable energy fee. Revenue from variable energy fee is recognized upon delivery of power to NPC. Billings to NPC are denominated both in US dollar and Philippine peso in accordance with the ECA.

Revenue from PSAs consist of fixed capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees. Revenues from fixed capital recovery fee and fixed operation and maintenance fee are recognized on a monthly basis in accordance with the terms of the PSAs. Revenue from actual fuel cost, and variable operations and maintenance and other energy fees are recognized upon delivery of power to customers.

Sale of real estate

Revenue from sales of real estate and cost from real estate projects is accounted for using the full accrual method. Under this method, revenue is recognized in full when the collectability of the contract price is reasonably assured and the Group is not obliged to perform significant performance obligations. When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

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.

Costs and Expenses

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

Retirement Benefits

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

Defined benefit costs comprise the following:

- service cost
- net interest on the net defined benefit liability or asset

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

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



Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

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

Leases

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

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

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

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

Group as lessee

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

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as rental income in the consolidated statement of income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income.

Contingent rents are recognized as revenue in the period in which these are earned.



Foreign Currency-denominated Transactions and Translations

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs not qualified for capitalization are expensed as incurred.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the 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.

Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the consolidated balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and is presented as part of "Other current assets" in the consolidated balance sheet.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

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

- When the deferred income 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 income 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) [excess MCIT] and net operating loss carryover (NOLCO).



Deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of excess MCIT and NOLCO can be utilized, except:

- When the deferred income 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 income 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 income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income 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 income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

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

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

Value-added tax

Revenue, expenses, assets and liabilities are recognized net of the amount of value-added tax (VAT), except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of value-added tax recoverable from, or payable to, the taxation authority is included as part of "Input VAT" or "Accounts payable and other current liabilities" in the consolidated balance sheet.

Input VAT income

Input VAT income represents the excess of the allowable input tax sales of goods and service to the Philippine government, through NPC, of SPPC and WMPC over the actual input tax from purchases.

Provisions

General

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



obligation. When the Group expects some or all of provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

Decommissioning liability

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

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.

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

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur losses and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD. The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance.

The Group conducts majority of its business activities into two major business segments: (1) Power and Energy 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.

Events After the End of Reporting Period

Events after the end of the reporting period 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. Events after the end of the reporting period that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Management believes the following represent a summary of these significant judgments, estimates and assumptions and related impact and associated risks in the consolidated financial statements.

Judgments

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

Assessment of significant influence on investment less than 20% of voting rights

Prior to 2015, the Parent Company exercised significant influence on its interest in Indophil Resources, NL (IRNL) despite owning less than 20% interest by virtue of an Agreement for the Joint Voting of IRNL shares entered into with Alsons Prime Investment Corporation (APIC) and Alsons Corporation (Alcorp), companies under the Alcantara Group, through the Alcantara Group's representation in the BOD of IRNL. Accordingly, the Parent Company accounted for its investment in IRNL as part of "Investments in associates" with carrying value amounting to ₱1,213 million as at December 31, 2014 (see Note 11).

In 2015, the Parent Company acquired an interest in Indophil Resources Philippines, Inc. (IRPI) through the swap of its interest in IRNL for an interest in IRPI. While the Parent Company holds less than 20% interest in IRPI, the Parent Company assessed that it exercises significant influence over IRPI because of its representations in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, the Parent Company accounts for its investment in IRPI as part of "Investments in associates", with carrying value amounting to ₱1,213 million as at December 31, 2015 and 2016 (see Note 11).



Determining whether an arrangement contains a lease and proper classification of the lease

The ECAs qualify as leases on the basis that the Group sells all its output to NPC. The agreements call for a take or pay arrangement where payments are made on the basis of the availability of the power plant complex and not on actual deliveries. The lease arrangements are determined to be operating leases where significant portion of the risks and rewards of ownership are retained by the Group. Accordingly, the power plant complex is recorded as part of property, plant and equipment and the fees billed to NPC are recorded as revenue on a straight-line basis (see Note 33).

Operating lease commitments - Group as lessor

The Group has entered into a lease of its property. The Group has determined that it retains all significant risks and rewards of ownership of the property as the Group considered, among others, the length of the lease term as compared with the estimated useful life of the assets and accounts for the lease as an operating lease (see Note 30).

Distinction between real estate inventories and investments in real estate

The Group determines whether a property will be classified as real estate inventories or investments in real estate as follows:

- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.
- Investments in real estate comprise land and building which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

The carrying values of the Group's investments in real estate and real estate inventories amounted to ₱176 million and ₱647 million, respectively, as at December 31, 2016 and ₱1,464 million and ₱637 million, respectively, as at December 31, 2015 (see Note 10).

Classification of financial instruments

The Parent Company classifies a financial instrument, or its component parts, on initial recognition and re-evaluates this designation at every financial reporting date as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

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

PFRSs 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 different valuation assumptions. Changes in assumptions could affect the reported fair value of the financial assets and liabilities. The Group's investments in unquoted equity securities are stated at cost in view of the high variability in the resulting estimated fair values. The methods and assumptions used to estimate the fair value of financial assets and liabilities are discussed in Note 32.



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 collectability 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 ₱2,096 million and ₱1,770 million as at December 31, 2016 and 2015, respectively. Allowance for impairment losses amounted to ₱83 million and ₱80 million as at December 31, 2016 and 2015, respectively (see Note 8).

Estimation of NRV of inventories

Inventories are valued at the lower of cost and NRV. For spare parts and supplies, allowance for inventory obsolescence and losses are maintained at a level considered adequate to provide for potentially nonvaluable items. The level of allowance is based on the turnover/movement of specific inventories and other physical factors affecting usefulness of specific inventories.

For real estate inventories, determining the fair value requires the determination of cash flows from the expected sale of the asset less cost of marketing. The determination of fair value requires the Group to make estimates and assumptions that may materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material impact on the Group's financial position and performance.

The carrying values of spare parts and supplies amounted to ₱652 million and ₱496 million as at December 31, 2016 and 2015, respectively (see Note 9). The carrying values of real estate inventories amounted to ₱647 million and ₱637 million as at December 31, 2016 and 2015, respectively (see Note 10).

Estimation of useful lives of property, plant and equipment

The useful lives of the property, plant and equipment is estimated based on the period over which the property, plant and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment. It is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the carrying values of the property, plant and equipment.



In 2014, management assessed that the useful life of components of certain power plant complexes will be extended for another 10 years after the ECA period. However, in 2015, management re-assessed that the useful life of these power plant complexes will be extended to 17 years after the ECA period. Reduction on the 2015 depreciation expense amounted to ₱472 million and the estimated reduction in future annual depreciation expense amounted to ₱26 million.

The carrying values of property, plant and equipment amounted to ₱18,709 million and ₱15,676 million as at December 31, 2016 and 2015, respectively (see Note 12).

Impairment of AFS financial assets

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

The carrying value of AFS financial assets amounted to ₱2,344 million and ₱2,346 million as at December 31, 2016 and 2015, respectively. The Group recognized unrealized gain of ₱7 million in 2015 and unrealized loss of ₱2 million and ₱87 million in 2016 and 2014, respectively (see Note 13).

Impairment of nonfinancial assets (except goodwill)

An impairment review is performed when certain impairment indicators are present. These factors include, among others:

- a. investments in real estate and property, plant and equipment
 - Significant underperformance relative to the future sales performance and projected operating results; and
 - Significant negative industry or market trends
- b. investment in associates

There is objective evidence that one or more events occurring after the initial recognition of the investment have had an impact on the estimated future cash flows of the investment that can be reliably estimated. Impairment exists when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

The Group is required to make estimates and assumptions that can materially affect the consolidated financial statements when determining the value-in-use of nonfinancial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that such financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group’s financial position and performance.

Based on management’s evaluation in 2016 and 2015, there are no indicators that would trigger an impairment review. The carrying values of nonfinancial assets as at December 31 follows:

| | 2016 | 2015 |
|---|----------------------|----------------|
| | <i>(In Millions)</i> | |
| Property, plant and equipment (see Note 12) | ₱18,709 | ₱15,676 |
| Investments in associates (see Note 11) | 2,176 | 1,276 |
| Investments in real estate (see Note 10) | 176 | 1,464 |
| | ₱21,061 | ₱18,416 |



Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated.

Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

In 2016, the Group recognized impairment loss on goodwill amounting to ₱245 million (nil in 2015). As at December 31, 2016 and 2015, the carrying amount of goodwill amounted to ₱807 million and ₱1,052 million, respectively (see Note 14).

Estimation of retirement benefits cost and obligation and accrued compensation absences

The determination of the retirement benefits cost and obligation and accrued compensated absences is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, which include among others, discount rates and future salary increase, are described in Note 28. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations and accrued compensated absences.

The Group obtained actuarial valuation reports in 2016 and 2015. Total net retirement assets of SPPC and WMPC amounted to ₱30 million and ₱29 million as at December 31, 2016 and 2015, respectively, and net retirement liability of APMC amounted to ₱15 million as at December 31, 2016 (see Note 28). Total retirement benefits liabilities of the Parent Company and other subsidiaries amounted to ₱17 million and ₱6 million as at December 31, 2016 and 2015, respectively (see Note 28). Retirement benefits costs recognized in the consolidated statements of income amounted to ₱30 million, ₱16 million and ₱9 million in 2016, 2015 and 2014, respectively (see Notes 24 and 28). Accrued compensated absences amounted to ₱15 million and ₱12 million as at December 31, 2016 and 2015, respectively (see Note 28).

Estimation of decommissioning liability

The decommissioning liability arises from the Group's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income. Decommissioning liability as at December 31, 2016 and 2015 amounted to ₱176 million and ₱69 million, respectively (see Note 19).

Estimation and recognition of deferred income tax assets

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



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

Deferred income tax assets amounted to ₱25 million and ₱34 million as at December 31, 2016 and 2015, respectively. Also, the Group has unrecognized NOLCO, excess MCIT and deductible temporary differences as at December 31, 2016 and 2015 as disclosed in Note 29.

Legal contingencies

The Group is involved in certain legal proceedings. The estimate of the probable costs for the assessment and resolution of these possible claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon thorough analysis of potential results. There are no provisions for probable losses arising from contingencies recognized in the Group's consolidated financial statements as management believes that the resolution will not materially affect the Group's financial position and performance (see Note 34).

6. Segment Information

The Group conducts majority of its business activities in two major business segments: (1) Power and Energy 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:

2016

| | Power and Energy | Property Development | Other Investments | Total | Eliminations | Consolidated |
|--|------------------------|-------------------------|----------------------|-------------|--------------|--------------|
| <i>(Amounts in Thousands)</i> | | | | | | |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | ₱7,191,249 | ₱ 26,699 | ₱- | ₱7,217,948 | (₱111,150) | ₱7,106,798 |
| Inter-segment | - | - | 674,749 | 674,749 | (674,749) | - |
| Total revenues | 7,191,249 | 26,699 | 674,749 | 7,892,697 | (785,899) | 7,106,798 |
| Interest income | 21,348 | 202 | 110,388 | 131,938 | (89,976) | 41,962 |
| Finance charges | 580,533 | - | 686,059 | 1,266,592 | (401,439) | 865,153 |
| Provision for income tax | 190,480 | 466 | 5,299 | 196,245 | 81,242 | 277,487 |
| Net income | 1,105,167 | 4,478 | 104,420 | 1,214,065 | (578,277) | 635,788 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | 652,320 | 902,701 | 9,864,055 | 11,419,076 | (8,277,303) | 3,141,773 |
| Segment assets | 23,892,840 | 2,109,241 | 12,713,467 | 38,715,548 | (7,905,822) | 30,809,726 |
| Segment liabilities | 12,764,340 | 379,668 | 11,323,411 | 24,467,419 | (4,369,688) | 20,097,731 |
| Depreciation and amortization | (705,932) | (831) | (158) | (706,921) | (5,231) | (712,152) |
| Capital expenditures | 3,752,248 | 195 | 256 | 3,752,699 | - | 3,752,699 |
| Cash Flow Information | | | | | | |
| Net cash flows provided by (used in): | | | | | | |
| Operating activities | 2,103,391 | 1,488 | 379,557 | 2,484,436 | (102,545) | 2,381,891 |
| Investing activities | (3,425,160) | (697) | (2,243,373) | (5,669,231) | 2,860,714 | (2,808,516) |
| Financing activities | 962,874 | 2,667 | 327,588 | 1,293,128 | (2,756,414) | (1,463,286) |



2015

| | Power and Energy | Property Development | Other Investments | Total | Eliminations | Consolidated |
|--|------------------------|-------------------------|----------------------|-------------|--------------|--------------|
| <i>(Amounts in Thousands)</i> | | | | | | |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | ₱5,002,696 | ₱23,635 | ₱— | ₱5,026,331 | (₱4,635) | ₱5,021,696 |
| Inter-segment | — | — | 534,538 | 534,538 | (534,538) | — |
| Total revenues | 5,002,696 | 23,635 | 534,538 | 5,560,869 | (539,173) | 5,021,696 |
| Interest income | 20,378 | 254 | 3,403 | 24,035 | — | 24,035 |
| Finance charges | 64,886 | 1,584 | 580,778 | 647,248 | (322,888) | 324,360 |
| Provision for income tax | 334,770 | 173 | 8,619 | 343,562 | 96,866 | 440,428 |
| Net income (loss) | 1,296,948 | (47,697) | (373,257) | 875,994 | (185,057) | 690,937 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | 663,210 | 899,941 | 3,847,486 | 5,410,637 | (3,267,874) | 2,142,763 |
| Segment assets | 21,001,629 | 2,047,070 | 10,030,603 | 33,079,302 | (2,912,878) | 30,166,424 |
| Segment liabilities | 18,471,812 | 1,147,128 | 2,335,632 | 21,954,572 | (2,388,264) | 19,566,308 |
| Depreciation and amortization | (347,859) | (975) | (121) | (348,955) | — | (348,955) |
| Capital expenditures | 2,238,246 | 845 | 172 | 2,239,263 | — | 2,239,263 |
| Cash Flow Information | | | | | | |
| Net cash flows provided by (used in): | | | | | | |
| Operating activities | 1,562,983 | 25,096 | (586,140) | 1,001,939 | 366,281 | 1,368,220 |
| Investing activities | (535,018) | 17,425 | (1,108,572) | (1,626,165) | (275,943) | (1,902,108) |
| Financing activities | (1,104,820) | (55,602) | 3,210,009 | 2,049,587 | (91,519) | 1,958,068 |

2014

| | Power and Energy | Property Development | Other Investments | Total | Eliminations | Consolidated |
|--|------------------------|-------------------------|----------------------|-------------|--------------|--------------|
| <i>(Amounts in Thousands)</i> | | | | | | |
| Earnings Information | | | | | | |
| Revenues | | | | | | |
| External customer | ₱5,159,454 | ₱20,617 | ₱— | ₱5,180,071 | ₱— | ₱5,180,071 |
| Inter-segment | — | — | 499,595 | 499,595 | (499,595) | — |
| Total revenues | 5,159,454 | 20,617 | 499,595 | 5,679,666 | (499,595) | 5,180,071 |
| Interest income | 21,004 | 833 | 387 | 22,224 | — | 22,224 |
| Finance charges | (90,954) | (4,063) | (348,817) | (443,834) | 237,265 | (206,569) |
| Provision for income tax | (334,882) | (1,283) | (26,078) | (362,243) | — | (362,243) |
| Net income (loss) | 925,137 | (48,199) | 36,941 | 913,879 | (186,736) | 727,143 |
| Other Information | | | | | | |
| Investments in associates and due from related parties | 703,007 | 1,489,724 | 4,113,704 | 6,306,435 | (2,143,428) | 4,163,007 |
| Segment assets | 19,083,253 | 2,126,793 | 6,269,685 | 27,479,731 | (1,754,438) | 25,725,293 |
| Segment liabilities | 12,313,587 | 430,769 | 4,330,249 | 17,074,605 | (1,757,682) | 15,316,923 |
| Depreciation and amortization | (813,320) | (975) | (81) | (814,376) | — | (814,376) |
| Capital expenditures | 7,552,904 | 264 | 25 | 7,553,193 | — | 7,553,193 |
| Equity in net losses | — | — | — | — | (1,279) | (1,279) |
| Cash Flow Information | | | | | | |
| Net cash flows provided by (used in): | | | | | | |
| Operating activities | 2,056,813 | 3,437 | (158,154) | 1,902,096 | 74,449 | 1,976,545 |
| Investing activities | (7,746,386) | (336) | (782,807) | (8,529,529) | 2,007,909 | (6,521,620) |
| Financing activities | 6,750,778 | (32,080) | 1,011,223 | 7,729,921 | (2,085,403) | 5,644,518 |

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to ₱7 million in 2016 and ₱25 million in 2015 and 2014, 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:

| | 2016 | 2015 | 2014 |
|--|-------------------------------|-------------|-------------|
| | <i>(Amounts in Thousands)</i> | | |
| Assets | | | |
| Total assets for reportable segments | ₱27,296,473 | ₱23,821,179 | ₱21,173,297 |
| Investments in shares of stock of subsidiaries and associates and due from related parties | 11,419,075 | 11,267,227 | 12,179,485 |
| Goodwill | — | (43,140) | (43,140) |
| Eliminations | (7,905,822) | (4,878,842) | (7,584,349) |
| Consolidated assets | ₱30,809,726 | ₱30,166,424 | ₱25,725,293 |
| Liabilities | | | |
| Total liabilities for reportable segments | ₱1,414,361 | ₱1,429,375 | ₱1,895,312 |
| Long-term debt | 16,891,211 | 17,180,010 | 12,938,691 |
| Due to related parties | 4,696,513 | 2,464,839 | 1,435,592 |
| Loans payable | 667,031 | 300,000 | 260,000 |
| Deferred tax liabilities - net | 338,670 | 331,522 | 262,900 |
| Income tax payable | 58,790 | 64,901 | 120,268 |
| Accrued interest payable | 400,843 | 183,925 | 161,842 |
| Eliminations | (4,369,688) | (2,388,264) | (1,757,682) |
| Consolidated liabilities | ₱20,097,731 | ₱19,566,308 | ₱15,316,923 |

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

| | 2016 | 2015 |
|------------------|----------------|----------------|
| Cash on hand | ₱251,500 | ₱438,565 |
| Cash in banks | 2,040,298,350 | 3,422,014,549 |
| Cash equivalents | 10,036,666 | 517,394,440 |
| | ₱2,050,586,516 | ₱3,939,847,554 |

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 ₱58 million and ₱173 million as at December 31, 2016 and 2015, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging 3.00% to 4.10%.

Interest income from cash and cash equivalents and short-term cash investments amounted to ₱21 million, ₱23 million and ₱22 million in 2016, 2015 and 2014, respectively.

8. Trade and Other Receivables

| | 2016 | 2015 |
|--|----------------|----------------|
| Trade: | | |
| Power | ₱964,559,609 | ₱682,845,454 |
| Real estate | 91,506,354 | 93,034,991 |
| Product distribution and others | 31,730,458 | 31,730,458 |
| Due from related parties (see Note 20) | 966,128,080 | 867,129,580 |
| Retention receivable | 46,364,378 | 47,364,378 |
| Others | 79,160,083 | 128,156,128 |
| | 2,179,448,962 | 1,850,260,989 |
| Less noncurrent portion of installment receivables | 6,557,239 | 6,758,473 |
| | 2,172,891,723 | 1,843,502,516 |
| Less allowance for impairment losses | 83,435,820 | 80,401,919 |
| | ₱2,089,455,903 | ₱1,763,100,597 |



Power

These receivables are noninterest-bearing and are generally on 30 days term. Trade receivables include SPPC's long-outstanding receivables from NPC amounting to ₱123 million and ₱117 million as of December 31, 2016 and 2015, respectively. These receivables pertain to the portion of accounts that were disputed by NPC and was decided upon by the Energy Regulation Commission (ERC) on June 3, 2013 in favor of SPPC. On July 23, 2013, NPC elevated the case to the Court of Appeals (CA). On August 17, 2015, CA denied NPC's motion for reconsideration and decided in favor of SPPC. On September 18, 2015, NPC elevated the case with the Supreme Court (SC). On July 4, 2016, SC rendered a decision holding NPC liable to pay SPPC for the additional 5 MW from 2005 to 2010 which affirmed ERC's requirement for both parties to reconcile settlement amount. On November 23, 2016, SC issued its decision to deny the motion for reconsideration submitted by NPC and to render the case with finality. However, ERC left the specific amount of NPC's liability for determination by SPPC and NPC through reconciliation of accounts.

The allowance for impairment loss of ₱33 million and ₱30 million as at December 31, 2016 and 2015, respectively, is management's best estimate of impairment loss on the long-outstanding receivables from NPC.

Real Estate

These pertain 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 ₱62 million and ₱63 million as at December 31, 2016 and 2015, respectively, which are collectible in monthly installment over a period of two to 10 years and bear interest rates ranging from 18% to 21% computed on the outstanding balance of the principal. Title on the lots sold is passed on to the buyer only upon full settlement of the contract price. The noncurrent portion of the installment receivables amounted to ₱7 million as at December 31, 2016 and 2015.

Real estate receivables include the Group's share on the sale of the developed residential and commercial lots and golf shares in the Eagle Ridge Golf and Residential Estates jointly developed with Sta. Lucia Realty and Development, Inc. (SLRDI) (see Notes 10 and 33).

Product Distribution and Others

These pertain to receivables from the supply of goods and merchandise to customers. Product distribution and other receivables are noninterest-bearing and generally have a term of less than one year. Outstanding receivables amounting to ₱32 million were fully provided with allowance for impairment losses as at December 31, 2016 and 2015.

Retention Receivable

Retention receivable pertains to the outstanding balance from Aboitiz Land, Inc. (Aboitiz) for the sale of Lima Land Inc. (LLI), which will be collected upon accomplishment of certain milestones.

Due from Related Parties and Other Receivables

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

On November 25, 2016, SPPC recognized gain from settlement of insurance claim for damaged diesel engine amounting to ₱69.70 million. As at December 31, 2016, the uncollected portion amounting to ₱29.54 million was recorded under the "Others" account.

The Parent Company has various advances to third parties that were nonmoving since prior years. These advances have been specifically identified to be potentially uncollectible and thus, provided with allowance amounting to ₱5.07 million as at December 31, 2016 and 2015.



Movements of allowance for impairment losses are as follows:

| | 2016 | | | | |
|---|-------------|-------------|----------------------|------------|-------------|
| | Power | Real Estate | Product Distribution | Others | Total |
| Balances at beginning of year | ₱30,433,725 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱80,401,919 |
| Effect of change in foreign exchange rate | 3,033,901 | — | — | — | 3,033,901 |
| Balances at end of year | ₱33,467,626 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱83,435,820 |
| Individually impaired | ₱33,467,626 | — | ₱31,730,458 | ₱5,074,645 | ₱70,272,729 |
| Collectively impaired | — | 13,163,091 | — | — | 13,163,091 |
| | ₱33,467,626 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱83,435,820 |

| | 2015 | | | | |
|---|-------------|-------------|----------------------|------------|-------------|
| | Power | Real Estate | Product Distribution | Others | Total |
| Balance at beginning of year | ₱30,515,721 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱80,483,915 |
| Effect of change in foreign exchange rate | (81,996) | — | — | — | (81,996) |
| Balance at end of year | ₱30,433,725 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱80,401,919 |
| Individually impaired | ₱30,433,725 | — | ₱31,730,458 | ₱5,074,645 | ₱67,238,828 |
| Collectively impaired | — | 13,163,091 | — | — | 13,163,091 |
| | ₱30,433,725 | ₱13,163,091 | ₱31,730,458 | ₱5,074,645 | ₱80,401,919 |

9. Spare Parts and Supplies - at Cost

| | 2016 | 2015 |
|------------------------------------|--------------|--------------|
| Spare parts | ₱277,808,330 | ₱112,531,781 |
| Coal | 227,199,340 | 187,137,924 |
| Fuel | 120,100,663 | 168,406,092 |
| Oil, lubricants and chemicals | 18,268,536 | 15,311,741 |
| Operating supplies and consumables | 8,272,186 | 12,963,455 |
| | ₱651,649,055 | ₱496,350,993 |

10. Real Estate Inventories and Investments in Real Estate

Real Estate Inventories

| | 2016 | 2015 |
|---|--------------|--------------|
| Eagle Ridge Project (General Trias, Cavite) | | |
| - at cost (see Note 33) | ₱619,416,037 | ₱620,497,880 |
| Campo Verde Project (Lipa and Malvar, Batangas) | | |
| - at NRV (see Note 33) | 27,470,827 | 16,077,704 |
| | ₱646,886,864 | ₱636,575,584 |

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

| | 2016 | 2015 |
|---|--------------|--------------|
| Cost | | |
| Balances at beginning of year | ₱657,642,149 | ₱664,519,522 |
| Cost of real estate sold, net of cancellations | (5,066,790) | (6,877,373) |
| Reclassification | 14,901,446 | — |
| Balances at end of year | 667,476,805 | 657,642,149 |
| Allowance for Impairment Loss | | |
| Balances at beginning of year | 21,066,565 | 22,178,686 |
| Recovery of impairment loss due to sale (see Note 27) | (476,624) | (1,112,121) |
| Balances at end of year | 20,589,941 | 21,066,565 |
| | ₱646,886,864 | ₱636,575,584 |



Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱0.5 million in 2016, ₱1 million in 2015 and ₱4 million in 2014 are recognized also as part of "Other income (charges)" in the consolidated statements of income (see Note 27). Accumulated impairment losses on real estate inventories amounted to ₱21 million as at December 31, 2016 and 2015.

Investments in Real Estate

| | 2016 | 2015 |
|--|---------------------|-----------------------|
| ALC Property (Pasong Tamo, Makati) | ₱129,178,107 | ₱131,577,641 |
| Batangas Project (Lipa and Malvar, Batangas) | 42,412,032 | 54,744,468 |
| Laguna Project (Cabuyao, Laguna) | 4,685,936 | 4,685,936 |
| Lanang Property (Lanang, Davao City) | – | 1,272,631,722 |
| | ₱176,276,075 | ₱1,463,639,767 |

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

| | December 31, 2016 | | |
|---|---------------------|---------------------------|---------------------|
| | Land | Building and Improvements | Total |
| Cost | | | |
| Balances at beginning of year | ₱1,457,482,132 | ₱30,445,623 | ₱1,487,927,755 |
| Additions | 300,000 | 202,881 | 502,881 |
| Disposal and others | (1,272,631,722) | – | (1,272,631,722) |
| Reclassification to real estate inventories | (13,052,437) | (2,416,439) | (15,468,876) |
| Balances at end of year | 172,097,973 | 28,232,065 | 200,330,038 |
| Accumulated Depreciation | | | |
| Balances at beginning of year | – | 24,287,988 | 24,287,988 |
| Depreciation (see Note 25) | – | 333,405 | 333,405 |
| Reclassification to real estate inventories | – | (567,430) | (567,430) |
| Balances at end of year | – | 24,053,963 | 24,053,963 |
| Net Book Value | ₱172,097,973 | ₱4,178,102 | ₱176,276,075 |

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

Lanang Property

On December 27, 2011, the BOD of ACR approved the acquisition of 72% of the outstanding shares (consisting of 2,000,000 common shares and 344,498 preferred shares) of C. Alcantara & Sons, Inc. (CASI) from Aldevinco, a stockholder of ACR and Alcorp, in behalf of Aldevinco, for a total consideration of ₱1,226 million. The acquisition was paid through the reduction of ACR's receivables from Aldevinco equivalent to ₱1,226 million on that date. The total consideration of



1,226 million represents the market value of Lanang landholdings of CASI as determined by an independent third party appraiser. This acquisition provides ACR the right to own and develop 21.27 hectares of land and 3 hectares of foreshore leased area in Lanang, Davao City.

CASI filed with the Bureau of Internal Revenue (BIR) and notified the SEC regarding the shortening of its corporate life until March 31, 2014. As a result, ACR received the Lanang property of CASI as liquidating dividend amounting to ₱1,226 million in 2014. Transaction costs incurred such as taxes and processing fees to transfer the Lanang property to ACR's name totaling ₱49 million were capitalized as part of "Investments in real estate". Also, ACR incurred input VAT amounting to ₱103 million in 2014 arising from this transaction (see Note 15).

On April 11, 2016, ACR transferred the Lanang property to Aviana as part of its capital contribution (see Note 11).

Fair Value

The estimated fair value of the investment properties as at December 31, 2013, the latest valuation date, amounted to ₱434 million. This is determined by an accredited independent appraiser, using sales comparison approach, which is a comparative approach to value properties that considers the sales of similar assets or related market data and establishes a value estimate.

Management believes that the fair value of the investment properties as at the latest valuation date is substantially the same as their fair value as at December 31, 2016 and 2015.

11. Investments in Associates

| | Percentage of Ownership | | | |
|---|----------------------------|-------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 |
| At equity: | | | | |
| Acquisition costs: | | | | |
| Indophil Resources Philippines, Inc. (IRPI) | 2.00 | 2.00 | ₱1,213,332,960 | ₱1,213,332,960 |
| Aviana Development Corporation (Aviana) | 34.00 | 34.00 | 962,311,802 | 62,300,300 |
| RCPHI | 31.24 | 31.24 | 80,851,701 | 80,851,701 |
| T'boli Agro-Industrial Development, Inc. | 22.32 | 22.32 | 66,193,299 | 66,193,299 |
| Duta, Inc. | 30.00 | 30.00 | 13,725,000 | 13,725,000 |
| | | | 2,336,414,762 | 1,436,403,260 |
| Accumulated equity in net losses: | | | | |
| Balances at beginning of year | | | — | (102,200,120) |
| Equity swap of IRNL shares with IRPI shares | | | — | 102,200,120 |
| Balances at end of year | | | — | — |
| Accumulated impairment loss - | | | | |
| Balances at beginning and end of year | | | (160,770,000) | (160,770,000) |
| | | | ₱2,175,644,762 | ₱1,275,633,260 |

IRNL and IRPI

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



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

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

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

The transfer of the Parent Company's investment in IRNL to investment in IRPI resulted in the Parent Company still exercising significant influence over IRPI due to its representations in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, ACR treats its investment in IRPI as part of "Investments in associates" using the equity method in the 2016 and 2015 consolidated financial statements.

Aviana

On March 21, 2013, Aldevinco and ACIL, Inc. (collectively referred to as "AG") and Ayala Land, Inc. (Ayala Land) entered into a joint venture agreement, where Ayala Land shall own 60% and AG shall own 40% of the outstanding capital stock of Aviana to undertake the development of the Lanang property of the Parent Company in Davao City. On September 17, 2013, Aviana was incorporated as a joint venture corporation. The Parent Company subscribed to the 296 preferred shares and 32 common shares for 32.8% ownership in Aviana. In December 2015, the Parent Company subscribe to additional 332,200 preferred shares and 35,800 common shares of Aviana through the conversion of the Parent Company's advances amounting to ₱36 million. In August 2015, the Parent Company subscribed to additional 261,450 preferred shares and 29,050 common shares of Aviana for ₱22 million. The additional subscription to shares of Aviana in 2015 increased the Parent Company's interest in Aviana to 34%. As at March 29, 2017, Aviana has not yet started its commercial operations.

The aggregate financial information of IRPI and Aviana as at and for the years ended December 31 are as follows:

| | 2016 | 2015 |
|-----------------------------------|-------------------------------|-------------|
| | <i>(Amounts in Thousands)</i> | |
| Current assets | ₱18,582,220 | ₱17,181,253 |
| Noncurrent assets | 3,451,246 | 2,437,505 |
| Current liabilities | 433,058 | 11,320,420 |
| Noncurrent liabilities | 398,818 | 105,565 |
| Revenue and other income | 741,417 | 345,256 |
| Net income (loss) | 414,879 | 257,259 |
| Total comprehensive income (loss) | 414,879 | 257,259 |

* The Group did not recognize its share in net earnings of associate for the year ended December 31, 2016 and 2015 because the amount is not material to the consolidated financial statements.



Aggregate financial information of IRPI and Aviana as at December 31, 2016 and 2015 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

| | IRPI | | Aviana | |
|--|----------------------|--------------|------------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| | <i>(In millions)</i> | | | |
| Current assets | ₱18,083,422 | ₱17,038,839 | ₱498,798 | ₱142,414 |
| Noncurrent assets | 2,109,145 | 2,109,152 | 1,342,101 | 328,353 |
| Current liabilities | (415,120) | (11,316,753) | (17,938) | (3,667) |
| Noncurrent liabilities | (327,968) | (105,565) | (70,850) | – |
| Equity | 19,449,479 | 7,725,673 | 1,752,111 | 467,100 |
| Equity interest of the Parent Company | 2% | 2% | 34% | 34% |
| Share in net assets of the acquiree | 388,990 | 154,513 | 595,718 | 158,814 |
| Goodwill, translation adjustments and others | 824,343 | 1,058,820 | 366,594 | (96,514) |
| Carrying value of investment | ₱1,213,333 | ₱1,213,333 | ₱962,312 | ₱62,300 |



12. Property, Plant and Equipment

As at December 31, 2016:

| | Main Engine, Plant Structures and Others | Plant Mechanical, Electrical, Switchyard and Desulfurization Equipment | Land, Buildings and Leasehold Improvements | Machinery and Other Equipment | Construction in Progress | Total |
|--|--|---|--|-------------------------------------|-----------------------------|------------------------|
| Cost | | | | | | |
| Balances at beginning of year | ₱6,728,301,635 | ₱3,848,817,389 | ₱483,981,849 | ₱230,755,417 | ₱12,961,754,333 | ₱24,253,610,623 |
| Additions | 173,357,032 | 2,130,837 | 68,107,270 | 51,083,696 | 3,458,020,594 | 3,752,699,429 |
| Disposals | (190,518,257) | — | — | (1,340,902) | (10,705,657) | (202,564,816) |
| Reclassifications | 12,524,932,268 | 791,625,912 | — | 148,638,878 | (13,465,197,058) | — |
| Balances at end of year | 19,236,072,678 | 4,642,574,138 | 552,089,119 | 429,137,089 | 2,943,872,212 | 27,803,745,236 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balances at beginning of year | (4,957,055,251) | (3,349,926,248) | (88,511,363) | (181,985,919) | — | (8,577,478,781) |
| Depreciation and amortization for the year: | | | | | | |
| Expensed (see Note 25) | (573,526,757) | (53,943,903) | (39,390,298) | (36,437,891) | — | (703,298,849) |
| Capitalized | — | — | — | (2,109,482) | — | (2,109,482) |
| Disposals | 186,678,273 | — | — | 1,340,902 | — | 188,019,175 |
| Balances at end of year | (5,343,903,735) | (3,403,870,151) | (127,901,661) | (219,192,390) | — | (9,094,867,937) |
| Net Book Value | ₱13,892,168,943 | ₱1,238,703,987 | ₱424,187,458 | ₱209,944,699 | ₱2,943,872,212 | ₱18,708,877,299 |



As at December 31, 2015:

| | Main Engine, Plant Structures and Others | Plant Mechanical, Electrical, Switchyard and Desulfurization Equipment | Land, Buildings and Leasehold Improvements | Machinery and Other Equipment | Construction in Progress | Total |
|--|--|---|--|-------------------------------------|-----------------------------|-----------------|
| Cost | | | | | | |
| Balances at beginning of year | ₱6,735,767,122 | ₱3,848,817,389 | ₱452,298,715 | ₱223,288,714 | ₱10,894,750,889 | ₱22,154,922,829 |
| Additions | 126,361,676 | - | 31,725,394 | 13,267,084 | 2,067,908,599 | 2,239,262,753 |
| Disposals | (134,732,318) | - | (42,260) | (5,800,381) | - | (140,574,959) |
| Reclassifications | 905,155 | - | - | - | (905,155) | - |
| Balances at end of year | 6,728,301,635 | 3,848,817,389 | 483,981,849 | 230,755,417 | 12,961,754,333 | 24,253,610,623 |
| Accumulated Depreciation and Amortization | | | | | | |
| Balances at beginning of year | (4,997,042,821) | (3,409,588,113) | (8,516,693) | (161,366,497) | - | (8,576,514,124) |
| Depreciation and amortization for the year: | | | | | | |
| Expensed (see Note 25) | (199,604,132) | (34,787,435) | (79,982,163) | (21,908,762) | - | (336,282,492) |
| Capitalized | - | - | - | (5,527,714) | - | (5,527,714) |
| Disposals | 134,280,111 | - | 42,260 | 5,617,881 | - | 139,940,252 |
| Cumulative translation adjustments | 105,311,591 | 94,449,300 | (54,767) | 1,199,173 | - | 200,905,297 |
| Balances at end of year | (4,957,055,251) | (3,349,926,248) | (88,511,363) | (181,985,919) | - | (8,577,478,781) |
| Net Book Value | ₱1,771,246,384 | ₱498,891,141 | ₱395,470,486 | ₱48,769,498 | ₱12,961,754,333 | ₱15,676,131,842 |



Construction in progress represents the total accumulated costs incurred for the construction of Sarangani's power-generating project "SM 200". The construction of SM 200 is in two phases. Construction of Phase 1 (105 MW) of SM 200 commenced in January 2013 and was completed in April 2016. The preliminary works for Phase 2 (105 MW) has started in 2016 and the construction of the plant is expected to be completed in 2019.

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

Property, plant and equipment with a net book value of ₱250 million as at December 31, 2015 are mortgaged as collateral for the long-term debt of SPPC (see Note 18).

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱2,106 million and ₱2,077 million as at December 31, 2016 and 2015, respectively.

13. Available-for-sale Financial Assets

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

| | 2016 | 2015 |
|--|----------------|----------------|
| Acquisition costs | | |
| Unquoted (see Note 20) | ₱2,222,168,768 | ₱2,222,168,768 |
| Quoted | 174,384,498 | 174,384,498 |
| | 2,396,553,266 | 2,396,553,266 |
| Unrealized loss on changes in fair value | (52,922,963) | (50,979,995) |
| | ₱2,343,630,303 | ₱2,345,573,271 |

In May 2015, the Parent Company declared its 91% investment in ACR Mining Corporation (ACRMC) as property dividend amounting to ₱208 million. The Parent Company's remaining 9% interest in ACRMC amounting to ₱21 million is recognized as AFS investment. ACRMC is still in exploration stage as at March 29, 2017.

Movement in unrealized loss on changes in fair value follow:

| | 2016 | 2015 |
|--------------------------------------|-------------|-------------|
| Balances at beginning of year | ₱50,979,995 | ₱58,243,535 |
| Fair value changes recognized in OCI | 1,942,968 | (7,263,540) |
| Balances at end of year | ₱52,922,963 | ₱50,979,995 |

14. Goodwill

Goodwill acquired through business combinations has been allocated to the power generation CGUs consisting of the operations of SPPC and WMPC.

The power plants of SPPC and WMPC were fully contracted in 2016. However, the actual dispatch capacity were significantly lower than what was originally forecasted. Accordingly, the Group revised the assumed dispatchable capacity which significantly reduced the cash flow projections. As a result, the Group recognized impairment loss on goodwill amounting to ₱245 million. As at December 31, 2016 and 2015, the carrying amount of goodwill amounted to ₱807 million and ₱1,052 million, respectively.



Key assumptions used in value-in-use calculations

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

Tariff rates. Tariff rates, comprising capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees, pertain to the rates used in determining the amount of energy fees to be billed to electric cooperatives and distribution utilities. The tariff rates used in the value-in-use computation are based on SPPC's and WMPC's provisionally approved PSAs.

Contracted and dispatchable capacity. Contracted capacity reflects the management's forecast of future contracts to be agreed with electric cooperatives and distribution utilities, and approved by ERC. On the other hand, dispatchable capacity reflects management's estimate of actual energy to be delivered during the contract period. Contracted and dispatchable capacities are based on historical performance of the CGUs. The contracted and dispatchable capacity used in value-in-use computation are as follows:

| | 2016 | | 2015 | |
|------|---------------------|-----------------------|---------------------|-----------------------|
| | Contracted Capacity | Dispatchable Capacity | Contracted Capacity | Dispatchable Capacity |
| SPPC | 100% | 2% | 100% | 45%-60% |
| WMPC | 100% | 20% | 100% | 35%-50% |

Discount rates. Discount rates reflect management's estimate of the risks specific to the CGUs. The discount rates used for the CGUs are 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 pre-tax discount rates used were 13.71%-14.57% and 14.40%-15.60% in 2016 and 2015, respectively.

Sensitivity to Changes in Assumptions

With regard to the assessment of value-in-use, management believes that an increase in discount rate by 0.5% would result in further impairment.

15. Prepaid Expenses and Other Current Assets

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Deposits in interest reserve account (see Note 18) | ₱290,536,677 | ₱556,024,208 |
| Creditable withholding taxes | 206,052,597 | 103,458,809 |
| Prepayments | 65,391,821 | 64,629,550 |
| Input VAT (see Note 10) | 25,069,923 | 170,065,078 |
| | ₱587,051,018 | ₱894,177,645 |

16. Accounts Payable and Other Current Liabilities

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Trade | ₱762,766,522 | ₱405,251,742 |
| Accrued expenses (Notes 17, 18 and 28) | 642,295,878 | 425,996,345 |
| Output tax and withholding tax payable | 78,625,277 | 107,363,534 |
| Advances from customers | 28,256,745 | 27,441,600 |
| Payable to customers | — | 199,495,999 |
| Other current liabilities | 60,121,743 | 182,984,328 |
| | ₱1,572,066,165 | ₱1,348,533,548 |



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

Accrued expenses represent accruals for vacation and sick leaves, interest, overhead fees and utilities. Accrued expenses are normally settled within a year.

Other current liabilities include statutory payables, such as withholding taxes, SSS premiums and other liabilities to the government. Other current liabilities are noninterest-bearing and have an average term of 30 days.

17. Loans Payable

Parent Company

In 2016, ACR availed of unsecured short-term loans from local banks totaling to ₱367 million. The loans are subject to annual interest rates ranging from 3.25% to 3.90% per annum and are payable lump sum on various dates within one year.

MPC

The outstanding bank loans of MPC on Development Bank of the Philippines (DBP) and Philippine National Bank as at December 31, 2015 amounted to ₱200 million and ₱100 million, respectively. MPC availed of the loans to service its operating requirements, collection and distribution of electricity. In 2016, MPC fully settled the bank loans.

Interest rates of the loans ranged from 4.0% to 4.8% in 2016 and 2015, respectively.

WMPC

On November 9, 2016, WMPC availed of bank loan from DBP amounting to ₱150 million with interest rate of 3.5%. The loan was fully paid on February 17, 2017.

SPPC

On December 5, 2016, SPPC availed of bank loan from DBP amounting to ₱150 million with interest rates of 3.5%. The loan was fully paid on March 3, 2017.

Interest expense related to loans payable amounted to ₱2.6 million and ₱4.6 million in 2016 and 2015, respectively (see Note 26).

18. Long-term Debt

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

| | 2016 | 2015 |
|--|----------------|----------------|
| Parent Company | | |
| Philippine peso-denominated debt: | | |
| Five-year fixed rate corporate note | ₱5,600,000,000 | ₱5,600,000,000 |
| Seven-year fixed rate corporate note | 1,881,000,000 | 1,900,000,000 |
| Sarangani | | |
| Thirteen and a half-year peso-denominated floating rate debt | 9,106,280,000 | 9,280,000,000 |
| CHC's Subsidiaries | | |
| <i>MPC</i> | | |
| Six-year peso-denominated fixed rate debt | 604,260,000 | 696,960,000 |

(Forward)



| | 2016 | 2015 |
|--|------------------------|-----------------|
| <i>SPPC</i> | | |
| Seven-year U.S. dollar-denominated floating rate note | ₱— | ₱45,300,380 |
| Three and a half-year U.S. dollar-denominated floating rate note | — | 23,483,280 |
| | 17,191,540,000 | 17,545,743,660 |
| Less unamortized transaction costs | 300,328,847 | 365,734,471 |
| | 16,891,211,153 | 17,180,009,189 |
| Less current portion | 612,245,238 | 311,720,556 |
| Noncurrent portion | ₱16,278,965,915 | ₱16,868,288,633 |

Movement in the unamortized transaction costs is as follows:

| | 2016 | 2015 |
|-------------------------------|---------------------|---------------|
| Balances at beginning of year | ₱365,734,471 | ₱349,878,386 |
| Additions | — | 258,084,429 |
| Amortization | (65,405,624) | (242,228,344) |
| Balances at end of year | ₱300,328,847 | ₱365,734,471 |

Parent Company

The loans of the Parent Company consist of the following:

- a. *Fixed Rate Corporate Notes Facility* - On November 25, 2015, the Company entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of ₱7,500 million divided into two (2) tranches: (a) Tranche A with principal amount of ₱5,600 million, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of ₱1,900 million, subject to fixed interest rate of 7.92% and payable in annual installment of ₱19 million for the first six (6) years with balloon payment of ₱1,786 million on the 7th year from the drawdown date. Proceeds of the loan shall be used to prepay ACR's existing long-term debt and finance the investments in power-related assets. In December 2015, ACR had drawn the entire loan facility amounting to ₱7,500 million.

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

ACR shall maintain certain financial ratios such as debt-to-equity ratio of not more than 2.9 and interest coverage ratio of not less than 2. As at December 31, 2016 and 2015, ACR is in compliance with the debt covenants.

As required in the loan agreement, ACR deposited ₱556 million into an interest reserve account in 2015 (see Note 15). Throughout the term of the loan, the interest reserve account is required to have a balance of not less than the aggregate amount of interest falling due within



the next interest period which is equivalent to one-year interest period as defined in the loan agreement. As at December 31, 2016 and 2015, the remaining balance of interest reserve account amounted to ₱291 million and ₱556 million, respectively. Interest income earned from interest reserve account amounted to ₱21.0 million and ₱1.1 million in 2016 and 2015, respectively.

- b. Short-term bank borrowings amounting to ₱145 million as at December 31, 2010, which was subject to annual interest using a base rate of 8% was approved for restructuring in December 2010. The creditor approved the restructuring and partial settlement of this loan as follows: (i) ₱85 million of which is restructured to be paid quarterly over five years until September 2015 with 6% interest per annum, and (ii) the balance is to be settled through *dacion en pago*. In October 2011, the compromise settlement agreement and the deed of assignment have been notarized. Accordingly, the restructured loan amounting to ₱85 million has been reclassified to long-term debt. ACR fully paid the outstanding balance of restructured loan amounting to ₱28 million in 2015.
- c. *US\$100 million Loan Facility Agreement* - In October 2014, ACR entered into a US\$100 million Loan Facility Agreement with various banks to finance the investment in power-related assets. The loan was subject to floating interest rate which is the aggregate of the applicable Margin and LIBOR and was payable in full at maturity, three years from the date of the loan facility agreement.

ACR made drawdown to the loan facility amounting to \$73.5 million in 2014. ACR made another drawdown in 2015 for the balance of the credit loan facility.

All outstanding loans were prepaid by ACR in December 2015 resulting in the recognition of loss on prepayment of ₱181 million in 2015, representing unamortized transaction cost as at that date. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan.

- d. *US\$65 million Loan Facility Agreement* - On May 24, 2012, ACR entered into a US\$65 million Loan Facility Agreement with Alsons Power Holdings Corporation (APHC) to finance the construction of the Sarangani Project (see Note 1). The loan was subject to 6% interest payable semi-annually and the principal is payable in full at maturity in 2015. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan were deferred and amortized over 36 months using the effective interest rate. The loan was fully paid by ACR in 2015.

Sarangani

On December 12, 2012, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱9,300 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,600 million for the construction of the Phase 1 100-MW coal-fired power plant and its common or shared areas and facilities; and (2) Series 2 Loan in the principal amount of up to ₱700 million for the construction of the transmission line (see Note 1). Sarangani should pay interest semi-annually at the rate equal to the higher of (a) PDST-F benchmark bid yield for five-year treasury securities plus 3.5% spread per annum, or (b) 7.5% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, to be adjusted based on the higher of (a) interpolated PDST-F benchmark bid yield for eight and one-half (8 1/2)-year treasury securities plus 2.75% spread per annum, or (b) interest rate applicable on the initial borrowing.



Under the OLSA, Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes eight parcels of land registered in the name of KAED, and one parcel of land registered in the name of Sarangani. The nine parcels of land have an aggregate area of 297,000 square meters and comprise the plant site of the Project. Further, chattel mortgage shall consist of office and transportation equipment with a total value of ₱62 million. In addition to the collaterals, the shares of stock in Sarangani registered under the names of ACR and TTC representing 100% of its outstanding capital stock have been pledged in favor of the collateral trustee.

Sarangani's long-term debt is shown below:

As at December 31, 2016:

| | Series I | Series II | Total |
|-----------------------------------|-----------------------|---------------------|-----------------------|
| Long-term debt | ₱8,434,140,000 | ₱672,140,000 | ₱9,106,280,000 |
| Less unamortized debt issue costs | 152,603,531 | 12,087,458 | 164,690,989 |
| | <u>₱8,281,536,469</u> | <u>₱660,052,542</u> | <u>₱8,941,589,011</u> |

As at December 31, 2015:

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

Sarangani is required to maintain a debt-to-equity ratio not to exceed 2.33:1.00. As at December 31, 2016 and 2015, Sarangani is in compliance with such debt covenant. Interest expense and amortization of debt issue costs that were incurred during the construction of Phase I were capitalized as part of "Construction in progress" under "Property, plant and equipment" account (see Note 12).

Capitalized interest expense and amortization of debt issue costs as at December 31 are as follows:

| | 2016 | 2015 |
|----------------------------------|---------------------|---------------------|
| Interest expense | ₱234,314,896 | ₱689,786,556 |
| Amortization of debt issue costs | 7,628,058 | 21,334,011 |
| | <u>₱241,942,954</u> | <u>₱711,120,567</u> |

Interest expense and amortized debt issue cost after completion of Phase I amounting to ₱480 million and ₱16 million, respectively, were recorded as expense in 2016 (see Note 26). Accrued interest as at December 31, 2016 and 2015 amounted to ₱140 million (see Note 16).

CHC's Subsidiaries

SPPC. On July 15, 2009, SPPC obtained a US dollar-denominated loan amounting to \$9.00 million from a local bank under the Omnibus Loan and Security Agreement (OLSA) to finance the maturing obligations with the syndicate lender banks. The loan bears an annual interest equal to London Interbank Offer Rate (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.

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.



Under the terms of the OLSA, SPPC is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as, dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. SPPC is also required to maintain certain financial ratios. As at December 31, 2015, SPPC is in compliance with the loan covenants. In 2016, SPPC fully settled its long-term debt.

The OLSA contains an embedded prepayment option where 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\$1.00 million;
- no prepaid amount may be re-borrowed; and
- SPPC shall pay a prepayment penalty of one percent (1%) based on the amount of the principal to be prepaid.

Under the terms of the OLSA, SPPC shall provide collateral security which shall consist of mortgage on SPPC's property, plant and equipment, including assignment of its rights arising from the project agreements with NPC. As at December 31, 2015, the carrying amount of the property, plant and equipment mortgaged as collateral amounted to ₱250 million (see Note 12).

MPC. On July 15, 2013, MPC entered into a fixed interest rate long-term Omnibus Loan and Security Agreement (OLSA) amounting to ₱900.00 million from a local bank. The loan is payable in 11 semi-annual principal amortizations beginning immediately at the end of the first year from loan draw down, August 16, 2014, up to August 16, 2019. Interest is computed as the sum of the spread and the applicable benchmark rate, based on outstanding facility amount, and calculated on the basis of the actual number of days elapsed in a year of 360 days. The fixed rate shall be subject to a floor rate of 6.25% per annum, excluding gross receipt tax. The interest is payable every six months reckoned from August 16, 2013, the initial drawdown date.

On August 16, 2013, MPC made the first drawdown on the loan amounting to ₱800.00 million. The remaining loan balance amounting to ₱100.00 million was fully drawn on October 31, 2013.

MPC is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. MPC is also required to maintain certain financial ratios. As at December 31, 2016 and 2015, MPC is in compliance with the loan covenants.

The OLSA contains an embedded prepayment option where MPC may prepay the loan in whole or in part provided certain conditions are met. MPC assessed that the prepayment option is not required to be separated from the facility, host contract, as at December 31, 2016 and 2015.

The OLSA is also subject to a floor cap interest rate wherein interest payment will be at the rate equal to the higher of (a) minimum interest rate of 6.25% per annum or (b) a PDST-F benchmark bid yield for six (6) year treasury securities plus 2.25% spread per annum. Through interpolation, MPC assessed that the floor cap interest rate option is not required to be separated from the debt contract since it is clearly and closely related to the economic characteristics of the related debt contract. Interest payments are computed using benchmark interest rates in 2016 and 2015.

Under the terms of the OLSA, MPC shall provide collateral security which shall consist of mortgage on MPC's land and CHC's IDPPs I and II. As at December 31, 2016 and 2015, the carrying amount of the Company's land mortgaged as collateral amounted to ₱62 million (see Note 12). MPC paid collateral trustee fee amounting to ₱0.30 million in 2015.



19. Decommissioning Liability

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

Movements in decommissioning liability follow:

| | 2016 | 2015 |
|--|---------------------|-------------|
| Balances at beginning of year | ₱69,380,652 | ₱67,169,574 |
| Addition | 93,446,985 | — |
| Accretion (see Note 26) | 6,959,708 | 3,342,840 |
| Effects of changes in estimate and discount rate | 6,330,123 | (1,131,762) |
| Balances at end of year | ₱176,117,468 | ₱69,380,652 |

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

The Group assesses the best estimate of cash flows required to settle the obligation on an annual basis. The changes in estimate resulted to an increase in decommissioning liability by ₱6 million and decrease in decommissioning liability by ₱1 million in 2016 and 2015, respectively.

20. Related Party Transactions

Parties are considered to be related if one party has the ability 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. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses. Outstanding related party balances are generally settled in cash.

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

| Related Party | | Advances | Due from Related Parties (see Note 8) | Terms | Conditions |
|------------------------------------|------|---------------------|---|------------------------------|-------------------------------|
| Major stockholders | 2016 | ₱195,605,137 | ₱829,776,448 | 30 days, noninterest-bearing | Partly secured, no impairment |
| | 2015 | 348,602,599 | 775,568,499 | | |
| Subsidiaries of major stockholders | 2016 | 97,563,051 | 110,184,902 | 30 days, noninterest-bearing | Unsecured, no impairment |
| | 2015 | 37,032,581 | 12,621,851 | | |
| Affiliates | 2016 | 52,772,500 | 26,166,730 | 30 days, noninterest-bearing | Unsecured, no impairment |
| | 2015 | 189,130,974 | 78,939,230 | | |
| Total | 2016 | ₱345,940,688 | ₱966,128,080 | | |
| | 2015 | 574,766,154 | 867,129,580 | | |



- a. The Parent Company guarantees the obligations of SPPC and WMPC with NPC under the Operational Performance Bonds in accordance with the terms and conditions of the ECAs and to answer for the liabilities that SPPC and WMPC may incur in connection with the said Performance Bonds.
- b. On December 16, 2015, the Parent Company subscribed to 22 million redeemable preferred shares of Aldevinco, a shareholder, through conversion of its advances to Aldevinco amounting to ₱2.2 billion. The redeemable preferred shares have a par value ₱100 per share with cumulative dividend of 4% per annum and non-participating. The Parent Company accounts for this investment in redeemable preferred shares as part of AFS financial assets (see Note 13).
- c. Compensation of key management personnel are as follows:

| | 2016 | 2015 | 2014 |
|---------------------------|--------------------|--------------------|--------------------|
| Salaries and wages | ₱43,249,658 | ₱41,683,566 | ₱38,398,515 |
| Retirement benefits costs | 3,210,607 | 2,595,002 | 3,510,296 |
| | ₱46,460,265 | ₱44,278,568 | ₱41,908,811 |

21. Equity

Capital Stock

| | 2016 | | 2015 | |
|-----------------------------------|----------------|------------------------|----------------|------------------------|
| | No. of shares | Amount | No. of shares | Amount |
| Authorized | | | | |
| Common stock - ₱1 par value | 11,945,000,000 | ₱11,945,000,000 | 11,945,000,000 | ₱11,945,000,000 |
| Preferred stock - ₱0.01 par value | 5,500,000,000 | 55,000,000 | 5,500,000,000 | 55,000,000 |
| | | ₱12,000,000,000 | | ₱12,000,000,000 |
| Common Shares | | | | |
| Issued and outstanding | 6,291,500,000 | ₱6,291,500,000 | 6,291,500,000 | ₱6,291,500,000 |
| Preferred Shares | | | | |
| Subscribed | 5,500,000,000 | 55,000,000 | 5,500,000,000 | 55,000,000 |
| Subscriptions receivable | | (24,016,667) | | (28,416,667) |
| | | ₱6,322,483,333 | | ₱6,318,083,333 |

On May 24, 2011, SEC approved the amendment of the Articles of Incorporation of ACR creating a class of preferred shares, by reclassifying 55,000,000 unissued common shares with a par value of ₱1.00 per share into 5,500,000,000 redeemable preferred voting shares with a par value of ₱0.01 per share.

The redeemable preferred shares have the following features:

- a. Redeemable preferred shares may only be issued or transferred to Filipino citizens or corporations or associations at least 60% of capital of such corporations or associations is owned by Filipino citizens.
- b. Holders of redeemable preferred shares are entitled to receive, out of the unrestricted retained earnings of ACR, cumulative dividends at the rate of 8% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares.



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

All common and preferred shares have full voting rights.

On February 4, 2013, Alcorp subscribed to 5,500,000,000 preferred shares with par value of ₱0.01 per share, from the unissued authorized preferred shares of the Company. On the same date, Alcorp paid ₱13.8 million representing 25% of the subscription price of ₱55 million. As at December 31, 2016 and 2015, subscriptions receivable from Alcorp amounted to ₱24 million and ₱28 million, net of the 8% dividends declared for preferred shares in 2016 and 2015, respectively.

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

| Date of SEC Approval | Activity | Authorized Common Shares | No. of Shares Issued | Issue/Offer Price |
|----------------------|---|--------------------------|----------------------|-------------------|
| 1993 | Initial Public Offering | 12,000,000,000 | 6,291,500,000 | ₱1 |
| 2011 | Conversion of unissued common shares to redeemable preferred shares | (55,000,000) | — | — |
| | | 11,945,000,000 | 6,291,500,000 | |

As at December 31, 2016 and 2015, the Parent Company has 466 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 |
| SMI400 | 400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato | 50 | 2019 |
| | | ₱850 | |

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



On March 28, 2014, the BOD approved an additional appropriation of ₱850 million of the Parent Company's retained earnings as at December 31, 2013 for its equity contribution to the following projects:

| Project Name | Nature/Project Description | Amount (In millions) | Timeline (Year) |
|--------------|---|-------------------------|--------------------|
| SM200 1 & 2* | Phase 2 of the 200 MW coal-fired power plant in Maasim Sarangani | ₱600 | 2015 |
| ZAM100 | Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City | 150 | 2017 |
| Siguil | Hydro-electric power in Maasim, Sarangani | 35 | 2017 |
| Bago | Hydro-electric power in Negros Occidental | 15 | 2019 |
| SMI400 | 400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato | 50 | 2019 |
| | | ₱850 | |

*As discussed above, completion of Phase 2 was extended to 2018.

On December 11, 2015, the BOD approved the reversal of appropriation relating to Phase 1 of the Sarangani project amounting to ₱400 million.

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

The Parent Company declared the following cash dividends:

| Year | Date of Declaration | Amount | Per Share | Date of Record | Date of Payment |
|------|---------------------|--------------|-----------|----------------|-----------------|
| 2016 | May 27, 2016 | ₱100,664,000 | ₱0.016 | June 30, 2016 | July 25, 2016 |
| 2015 | March 27, 2015 | 3,145,750 | 0.0005 | June 5, 2015 | March 22, 2016 |
| 2015 | May 22, 2015 | 62,915,000 | 0.01 | June 5, 2015 | June 16, 2015 |
| 2014 | May 23, 2014 | 101,000,000 | 0.016 | June 30, 2014 | July 24, 2014 |

Dividends on preferred shares amounting to ₱4 million in 2016, 2015 and 2014 were applied against the Parent Company's subscriptions receivable from Alcorp.

The share of non-controlling interests on the dividends declared by subsidiaries amounted to ₱443 million, ₱390 million and ₱382 million in 2016, 2015 and 2014, respectively.

The retained earnings is further restricted for dividend declaration to the extent of (a) undistributed earnings of subsidiaries amounting to ₱993 million and ₱520 million as at December 31, 2016 and 2015, respectively, and (b) deferred income tax assets amounting to ₱30 million and ₱34 million as at December 31, 2016 and 2015, respectively.

Other Equity Reserves - Acquisition of Non-controlling Interest

On July 2, 2013, the Parent Company entered into a Share Purchase Agreement to acquire 40% interest in voting shares of CHC, increasing its ownership to 100%. Cash consideration paid on August 1, 2013 amounted to ₱528 million (US\$12.16 million). The carrying value of the net assets of CHC was ₱2,456 million (US\$38.97 million). Following is the schedule of additional interest acquired in CHC in 2013:

| | |
|---|---------------|
| Carrying value of the additional interest in CHC | ₱982,232,166 |
| Cash consideration paid to non-controlling interest | (527,910,397) |
| Excess of book value of non-controlling interest acquired over acquisition cost | ₱454,321,769 |



The excess of book value of non-controlling interest acquired over acquisition cost was recognized in equity as follows:

| | |
|---|---------------------|
| Absorbed cumulative translation adjustment from acquired non-controlling interest | ₱308,841,072 |
| Included as part of other equity reserves | 145,480,697 |
| | <u>₱454,321,769</u> |

As at December 31, 2016 and 2015, other equity reserves consist of the following:

| | 2016 | | | | |
|---|--|--|---|--|-----------------------|
| | Remeasurement Gains on Defined Benefit Plan | Unrealized Gains on AFS Financial Assets | Cumulative Translations Adjustments | Equity Reserves - Acquisition of Non-controlling Interest | Total |
| Balances at beginning of year | ₱5,753,023 | (₱50,979,995) | ₱1,667,389,765 | ₱145,480,697 | ₱1,767,643,490 |
| Actuarial loss, net of tax | (996,789) | - | - | - | (996,789) |
| Loss on fair valuation of AFS financial assets | - | (1,942,968) | - | - | (1,942,968) |
| Translation adjustments | - | - | 9,810,200 | - | 9,810,200 |
| Balances at end of year | <u>₱4,756,234</u> | <u>(₱52,922,963)</u> | <u>₱1,677,199,965</u> | <u>₱145,480,697</u> | <u>₱1,774,513,933</u> |

| | 2015 | | | | |
|---|--|--|---|--|-----------------------|
| | Remeasurement Gains on Defined Benefit Plan | Unrealized Gains (Losses) on AFS Financial Assets | Cumulative Translations Adjustments | Equity Reserves - Acquisition of Non-controlling Interest | Total |
| Balances at beginning of year | ₱5,487,847 | (₱58,243,535) | ₱1,520,279,471 | ₱145,480,697 | ₱1,613,004,480 |
| Actuarial gains, net of tax | 265,176 | - | - | - | 265,176 |
| Gain on fair valuation of AFS financial assets | - | 7,263,540 | - | - | 7,263,540 |
| Translation adjustments | - | - | 147,110,294 | - | 147,110,294 |
| Balances at end of year | <u>₱5,753,023</u> | <u>(₱50,979,995)</u> | <u>₱1,667,389,765</u> | <u>₱145,480,697</u> | <u>₱1,767,643,490</u> |

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

| | 2016 | 2015 | 2014 |
|--|---------------|---------------|---------------|
| Net income attributable to equity holders of the Parent Company* | ₱312,195,386 | ₱183,741,930 | ₱354,640,865 |
| Divided by the average number of common shares outstanding during the year | 6,291,500,000 | 6,291,500,000 | 6,291,500,000 |
| Basic/Diluted EPS | <u>₱0.050</u> | <u>₱0.029</u> | <u>₱0.056</u> |

* Net of dividends declared on preferred shares

22. Cost of Services

The Group's cost of services are as follows:

| | 2016 | 2015 | 2014 |
|--|-----------------------|-----------------------|-----------------------|
| Fuel, oil and lubricants | ₱2,384,938,380 | ₱2,516,058,181 | ₱2,510,512,188 |
| Coal | 1,107,753,692 | - | - |
| Depletion, depreciation and amortization (see Note 25) | 674,892,189 | 316,557,938 | 779,980,202 |
| Repairs and maintenance | 178,565,159 | 32,693,779 | 48,536,775 |
| Personnel costs (see Notes 24 and 28) | 121,369,576 | 67,799,232 | 66,996,869 |
| Insurance expense | 106,743,347 | 78,286,254 | 76,337,222 |
| Contracted services (see Note 33) | 3,886,711 | 3,138,008 | 2,901,365 |
| Property administration | 1,775,909 | 1,177,287 | 1,992,553 |
| Others | 99,557,948 | 50,171,585 | 49,676,200 |
| | <u>₱4,679,482,911</u> | <u>₱3,065,882,264</u> | <u>₱3,536,933,374</u> |



23. General and Administrative Expenses

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

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Personnel costs (see Notes 24 and 28) | ₱152,014,520 | ₱126,057,967 | ₱130,983,353 |
| Taxes and licenses | 110,080,888 | 74,056,093 | 129,067,573 |
| Outside services | 74,866,677 | 53,346,521 | 49,375,668 |
| Depreciation and amortization (see Note 25) | 36,975,535 | 32,396,706 | 34,395,784 |
| Transportation and travel | 18,627,783 | 15,099,561 | 17,386,575 |
| Utilities | 15,463,889 | 43,411,504 | 15,851,149 |
| Representation | 7,419,804 | 132,518 | 599,460 |
| Customer relations | 6,646,982 | 11,726,457 | 19,146,369 |
| Telephone, telegraph and postage | 6,433,296 | 9,315,951 | 8,723,736 |
| Directors and executive fees and bonuses | 2,655,000 | 3,210,000 | 3,099,000 |
| Supplies | 1,775,336 | 23,342,131 | 7,348,282 |
| Insurance | 1,440,113 | 686,567 | 997,569 |
| Commissions | 311,431 | 598,728 | 1,089,983 |
| Others | 96,095,839 | 40,734,263 | 49,247,753 |
| | ₱530,807,093 | ₱434,114,967 | ₱467,312,254 |

Others include costs of freight and brokerage fees, professional license upgrading, reproduction, supplies and other administrative expenses of the Group.

24. Personnel Costs

The Group's personnel costs are as follows:

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Cost of services (see Note 22) | ₱121,369,576 | ₱67,799,232 | ₱66,996,869 |
| General and administrative expenses (see Note 23) | 152,014,520 | 126,057,967 | 130,983,353 |
| | ₱273,384,096 | ₱193,857,199 | ₱197,980,222 |
| Salaries, wages and bonuses | ₱190,096,762 | ₱155,924,100 | ₱156,990,170 |
| Retirement benefits costs (see Note 28) | 29,062,514 | 15,606,477 | 8,918,489 |
| Other employee benefits | 54,224,820 | 22,326,622 | 32,071,563 |
| | ₱273,384,096 | ₱193,857,199 | ₱197,980,222 |

25. Depreciation and Amortization

| | 2016 | 2015 | 2014 |
|--|---------------------|--------------|--------------|
| Cost of services (see Note 22) | ₱674,892,189 | ₱316,557,938 | ₱779,980,202 |
| General and administrative expenses (see Note 23) | 36,975,535 | 32,396,706 | 34,395,784 |
| | ₱711,867,724 | ₱348,954,644 | ₱814,375,986 |



| | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|
| Property, plant and equipment (see Note 12) | ₱703,298,849 | ₱336,282,492 | ₱806,626,460 |
| Amortization of software costs | 8,235,470 | 12,175,755 | 7,233,035 |
| Investments in real estate (see Note 10) | 333,405 | 496,397 | 516,491 |
| | ₱711,867,724 | ₱348,954,644 | ₱814,375,986 |

26. Finance Charges

| | 2016 | 2015 | 2014 |
|--|---------------------|---------------------|---------------------|
| Interest on long-term debt and loans payable (see Notes 17 and 18) | ₱787,723,781 | ₱78,789,004 | ₱103,034,700 |
| Amortization of transaction costs and loss on prepayment of long-term debt (see Notes 17 and 18) | 70,469,255 | 242,228,344 | 96,201,486 |
| Interest on decommissioning liability (see Note 19) | 6,959,708 | 3,342,840 | 7,332,562 |
| | ₱865,152,744 | ₱324,360,188 | ₱206,568,748 |

27. Other Income (Charges)

| | 2016 | 2015 | 2014 |
|--|-----------------------|----------------------|---------------------|
| Impairment loss (see Note 14) | (₱245,376,195) | ₱— | ₱— |
| Income from insurance claim (see Note 8) | 69,699,527 | — | — |
| Input VAT income | 23,280,347 | 104,235,222 | 98,505,580 |
| Foreign exchange loss - net | (15,005,706) | (218,312,160) | (14,043,712) |
| Income from decrease in decommissioning liability (see Note 12) | 9,140,983 | 5,933,564 | 11,315,962 |
| Gain (loss) on sale of property and equipment and investment in real estate | (2,960,574) | (35,649,469) | 360,839 |
| Recovery of impairment losses on real estate inventories due to sale (see Note 10) | 476,624 | 1,112,121 | 3,946,795 |
| Reversal of VL and SL (see Note 28) | — | 11,117,516 | — |
| Mark-to-market gain on derivative liability (see Note 32) | — | 27,595,736 | 10,328,044 |
| Equity in net losses of an associate (see Note 11) | — | — | (1,279,357) |
| Others | 5,685,621 | 20,109,595 | 168,412 |
| | (₱155,059,373) | (₱83,857,875) | ₱109,302,563 |

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



28. Employee Benefits

a. Retirement Benefits

The Parent Company, ALC and Sarangani have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and AMPC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. Retirement benefits are dependent on the years of service and the respective employee's compensation. The Group's latest actuarial valuation report is as at December 31, 2016.

Under the existing regulatory framework, Republic Act. 7641, otherwise known as the Retirement Pay Law, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

SPPC, WMPC, APMC and MPC

The tables below summarize the movements in net retirement assets of SPPC, WMPC, AMPC and MPC.

As at December 31, 2016:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|--|--|------------------------------|---|-----------------------------|
| At January 1, 2016 | ₱93,075,106 | ₱133,243,149 | (₱11,421,771) | ₱28,746,272 |
| Retirement benefits cost recognized in profit or loss: | | | | |
| Loss on settlement | 10,267,406 | — | — | (10,267,406) |
| Current service cost | 10,572,139 | — | — | (10,572,139) |
| Net interest income | 4,762,586 | 7,344,999 | — | 2,582,413 |
| | 25,602,131 | 7,344,999 | — | (18,257,132) |
| Remeasurements gains (losses) recognized in OCI: | | | | |
| Return on plan assets (excluding amount included in net interest) | — | 12,890,016 | — | 12,890,016 |
| Arising from changes in financial assumptions | 2,928,607 | — | — | (2,928,607) |
| Due to experience adjustments | 14,892,554 | — | — | (14,892,554) |
| Changes in the effect of asset ceiling | — | — | 14,388,164 | 14,388,164 |
| | 17,821,161 | 12,890,016 | 14,388,164 | 9,457,019 |
| Benefits paid and translation adjustments | (59,149,314) | (59,148,068) | (5,873,331) | (5,872,085) |
| Contributions paid | — | 141,600 | — | — |
| At December 31, 2016 | ₱77,349,084 | ₱94,471,696 | (₱2,906,938) | ₱14,215,674 |

As at December 31, 2015:

| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|---|--|------------------------------|---|--------------------------|
| At January 1, 2015 | ₱92,125,794 | ₱168,233,331 | (₱30,906,976) | ₱45,200,561 |
| Retirement benefits cost recognized in profit or loss: | | | | |
| Loss on settlement | 10,024,515 | — | — | (10,024,515) |
| Current service cost | 7,621,887 | — | — | (7,621,887) |
| Net interest income | 3,837,652 | 6,415,682 | — | 2,578,030 |
| | 21,484,054 | 6,415,682 | — | (15,068,372) |

(Forward)



| | Present Value of Defined Benefit Obligation | Fair Value of Plan Assets | Effect of Changes in Asset Ceiling | Net Retirement Assets |
|--|--|------------------------------|---|--------------------------|
| Remeasurements gains (losses) recognized in OCI: | | | | |
| Return on plan assets (excluding amount included in net interest) | P= | (P2,402,581) | P= | (P2,402,581) |
| Arising from changes in financial assumptions | (3,442,212) | - | - | 3,442,212 |
| Due to experience adjustments | 20,223,340 | - | - | (20,223,340) |
| Due to changes in demographic assumptions | 1,687,413 | - | - | (1,687,413) |
| Changes in the effect of asset ceiling | - | - | 16,026,965 | 16,026,965 |
| | 18,468,541 | (2,402,581) | 16,026,965 | (4,844,157) |
| Benefits paid and translation adjustments | (39,003,283) | (39,003,283) | 3,458,240 | 3,458,240 |
| At December 31, 2015 | P93,075,106 | P133,243,149 | (P11,421,771) | P28,746,272 |

The Group Plan is being maintained by Banco de Oro Unibank, Inc. - Trust and Investments Group (BDO - TIG), a trustee bank.

The carrying amounts and fair values of the plan assets of the Group Plan follows:

| | 2016 | 2015 |
|--|---------|---------|
| Cash and cash equivalents | 17.70% | 8.07% |
| Investments in unit investment trust fund (UITF) | 54.76% | 61.81% |
| Investments in shares of stock | 15.64% | 17.65% |
| Investments in debt and other securities | 9.43% | 10.65% |
| Investments in government securities | 0.80% | 0.90% |
| Others | 1.67% | 0.92% |
| | 100.00% | 100.00% |

The plan assets of the Group Plan consist of the following:

- Cash and cash equivalents include regular deposit and time deposits which bear interest ranging from 1.75% to 2.00%;
- Investments in UITF are ready-made investments that allow the pooling of funds that are managed by BDO - TIG;
- Investments in shares of stock consist of quoted equity securities;
- Investments in debt and other securities, consisting of both short-term and long-term corporate notes and bonds, bear interest ranging from 4.38% to 8.46% and have maturities from 2014 to 2024;
- Investments in government securities, consisting of fixed rate treasury notes and retail treasury bonds bear interest ranging from 2.84% to 8.13% and have maturities from 2014 to 2037; and
- Other financial assets held by the Group Plan consist primarily of interest and dividends receivable.

The Group Plan does not have investments in the Parent Company and related entities. APMC, SPPC, and WMPC do not expect to contribute to the defined benefit pension plans in 2017.



ACR, ALC and Sarangani

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

| | 2016 | 2015 |
|--|---------------|--------------|
| Balances at beginning of year | (P6,488,611) | (P7,472,680) |
| Retirement benefits income (cost) charged in profit or loss: | | |
| Current service cost | (10,522,154) | (515,907) |
| Interest cost | (283,228) | (302,991) |
| Past service cost | — | 1,713,503 |
| | (10,805,382) | 894,605 |
| Remeasurements gains (losses) recognized in OCI: | | |
| Arising from changes in financial assumptions | 2,199,990 | — |
| Due to experience adjustments | (713,550) | 8,794,406 |
| Arising from changes in demographic assumptions | (852,876) | (8,704,942) |
| | 996,789 | 89,464 |
| Balances at end of year | (P16,660,429) | (P6,488,611) |

The net retirement assets and liabilities in the consolidated balance sheets are as follows:

| | Net retirement assets | | Retirement benefits liabilities | |
|----------|-----------------------|-------------|---------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Funded | P29,607,129 | P28,746,272 | P15,391,455 | P— |
| Unfunded | — | — | 16,660,429 | 6,488,611 |
| Total | P29,607,129 | P28,746,272 | P32,051,884 | P6,488,611 |

Actuarial Assumptions

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

SPPC, WMPC and APMC

| | 2016 | 2015 |
|-------------------------|-------------|-------------|
| Discount rates | 4.69%-5.23% | 3.74%-4.67% |
| Future salary increases | 2%-4% | 1.60% |

ACR, ALC and Sarangani

| | 2016 | 2015 |
|-------------------------|-------------|-------------|
| Discount rates | 5.52%-5.60% | 5.52%-5.88% |
| Future salary increases | 10%-12% | 7%-12% |

The Group has no specific matching strategies between the retirement plan assets and the defined benefit obligation under the retirement plans.

The sensitivity analysis shown in the next page has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations, assuming all other assumptions were held constant:



As at December 31, 2016:

| | SPPC, WMPC and APMC | | ACR and ALC | |
|-----------------------|------------------------|--------------|------------------------|--------------|
| | Increase (Decrease) | Amount | Increase (Decrease) | Amount |
| Discount rates | +0.5% | (₱2,493,274) | +1.0% | (₱1,211,954) |
| | -0.5% | 2,761,997 | -1.0% | 1,488,522 |
| Salary increase rates | +1.0% | 5,756,627 | +1.0% | 1,310,003 |
| | -1.0% | (4,784,190) | -1.0% | (1,106,306) |

As at December 31, 2015:

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

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

| | 2016 | 2015 |
|--------------------------------|-------------|-------------|
| Less than 1 year | ₱35,110,656 | ₱59,656,409 |
| More than 1 year to 5 years | 6,047,003 | 12,666,252 |
| More than 5 years to 10 years | 44,736,457 | 18,780,853 |
| More than 10 years to 15 years | 25,320,196 | 51,424,297 |
| More than 15 years to 20 years | 76,351,932 | 55,992,223 |
| More than 20 years | 230,223,882 | 103,234,204 |

b. Compensated Absences

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

Movements in the accrued leave credits (recognized under "Accrued expenses" account in "Accounts payable and other current liabilities") are as follows:

| | 2016 | 2015 |
|---|-------------|--------------|
| Balance at beginning of year | ₱11,851,153 | ₱31,620,305 |
| Current service cost | 12,665,443 | 2,204,339 |
| Benefits paid | (9,450,987) | (11,294,556) |
| Reversal of accrual for compensated absences (see Note 27) | — | (11,117,516) |
| Translation adjustments | — | 438,581 |
| Balances at end of year | ₱15,065,609 | ₱11,851,153 |



29. Income Taxes

The major components of income tax expense are as follows:

Consolidated statements of income:

| | 2016 | 2015 | 2014 |
|---------------------|---------------------|---------------------|---------------------|
| Current income tax | ₱206,066,372 | ₱272,708,907 | ₱345,191,757 |
| Deferred income tax | 71,420,419 | 167,719,203 | 17,052,091 |
| Total | ₱277,486,791 | ₱440,428,110 | ₱362,243,848 |

Consolidated statements of comprehensive income:

| | 2016 | 2015 | 2014 |
|---|------------|--------------|----------|
| Deferred tax related to items charged or credited directly to equity during the year - actuarial losses (gains) | (₱825,575) | (₱2,009,180) | ₱448,297 |

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

| | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|
| Statutory income tax rate | 30.0% | 30.0% | 30.0% |
| Increase (decrease) in income tax rate resulting from: | | | |
| Unrecognized deferred tax assets | 11.7% | 10.5% | 0.9% |
| Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays and others - net | (11.3%) | (1.6%) | 2.3% |
| Effective income tax rate | 30.4% | 38.9% | 33.2% |

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

| | 2016 | | 2015 | |
|---|---|--|---|--|
| | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities |
| Deferred Income Tax Assets | | | | |
| Impairment losses on projects costs | ₱4,274,186 | ₱- | ₱4,274,186 | ₱- |
| Decommissioning liability | 5,905,390 | - | - | - |
| Retirement plan assets | 3,286,131 | 417,968 | - | 242,394 |
| Accrued vacation and sick leaves | 3,332,368 | 98,526 | 2,607,658 | 326,842 |
| Unrealized foreign exchange losses | 1,764,001 | - | 3,016,753 | - |
| Unamortized past service cost | 446,323 | 738,297 | 634,002 | 1,081,476 |
| Allowance for impairment loss | 1,518,887 | 1,413,190 | 1,518,887 | 1,556,177 |
| Unrealized intercompany transactions | 15,079,187 | - | - | - |
| Actuarial loss recognized in equity | 1,717,099 | 364,558 | 1,471,574 | - |
| Advanced management fees | - | - | 237,678 | - |
| NOLCO | - | - | - | 1,896,962 |
| Difference between financial and tax depreciation | - | - | - | 1,262,678 |
| Excess MCIT | - | - | - | 315,554 |
| Payable to customers | - | - | - | 100,935 |
| | 37,323,572 | 3,032,539 | 13,760,738 | 6,783,018 |

(Forward)



| | 2016 | | 2015 | |
|---|---|--|---|--|
| | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities | Net Deferred Income Tax Assets | Net Deferred Income Tax Liabilities |
| Deferred Income Tax Liabilities | | | | |
| Capitalized interest | (P5,559,327) | (P341,382,696) | P- | (P219,388,795) |
| Difference between tax and financial amortization of transaction costs | (1,406,464) | (39,284,894) | - | (47,045,771) |
| Effect of change in functional currency | (36,324) | (41,498,201) | (65,640) | (59,870,397) |
| Fair value adjustment on real estate inventories, net of impairment | - | (168,606,547) | - | (167,050,371) |
| Difference between financial and tax depreciation | - | (75,308,769) | - | (73,094,181) |
| Equity in undistributed net earnings of a foreign subsidiary | - | (31,457,498) | - | (30,022,463) |
| Unrealized foreign exchange gains | - | (2,742,887) | - | (4,202,390) |
| Retirement plan assets | - | (1,746,962) | (4,334) | (1,419,849) |
| Actuarial gains recognized in equity | - | (1,467,833) | - | (1,683,325) |
| | (7,002,115) | (703,496,287) | (69,974) | (603,777,542) |
| | P30,321,457 | (P700,463,748) | P13,690,764 | (P596,994,524) |

The following are the Group's deductible temporary differences and carryforward benefits of NOLCO and excess MCIT 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:

| | 2016 | 2015 |
|--|-----------------------|----------------|
| NOLCO | P1,955,954,528 | P1,528,094,586 |
| Impairment losses on property, plant and equipment | 149,244,117 | 149,244,117 |
| Allowance for doubtful accounts | 44,893,549 | 44,893,549 |
| Unrealized foreign exchange losses | 6,059,284 | 20,496 |
| Excess MCIT | 3,348,858 | 2,516,646 |
| Others | 6,768,149 | 16,926,829 |

Movements of NOLCO and excess MCIT follow:

| | 2016 | | 2015 | |
|-------------------------------|-----------------------|--------------------|----------------|-------------|
| | NOLCO | Excess MCIT | NOLCO | Excess MCIT |
| Balances at beginning of year | P1,541,107,552 | P2,841,642 | P665,676,700 | P7,987,154 |
| Additions | 464,650,113 | 3,348,857 | 944,202,195 | 308,076 |
| Utilization and expiration | (49,803,137) | (2,841,641) | (68,771,343) | (5,453,588) |
| Balances at end of year | P1,955,954,528 | P3,348,858 | P1,541,107,552 | P2,841,642 |

As at December 31, 2016, NOLCO and excess MCIT that can be claimed as deduction from taxable income and RCIT due, respectively, are as follows:

| Years Incurred | Expiry Dates | NOLCO | Excess MCIT |
|----------------|--------------|-----------------------|-------------------|
| 2014 | 2017 | P496,380,314 | P191,265 |
| 2015 | 2018 | 944,167,566 | 94,590 |
| 2016 | 2019 | 515,406,648 | 3,063,002 |
| | | P1,955,954,528 | P3,348,858 |



30. Lease Commitments

Operating Lease Payments

SPPC has a contract for the lease of land owned by Sarangani Agricultural Co., Inc. until May 2016. The lease contract provides for annual rental of ₱1 million and provides for escalation of rent at a rate of 5% every other year. The lease contract was accounted for using the straight-line method over the term of the lease contract.

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

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Within one year | ₱1,578,231 | ₱1,277,689 |
| After one year but not more than five years | 2,882,634 | 2,683,135 |
| | ₱4,460,865 | ₱3,960,824 |

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

Operating Lease Receipts

The Group entered into various operating lease contracts with various third-party lessees. The lease term is one year renewable annually. Total rental income from these lease agreements amounted to ₱12 million in 2016, ₱11 million in 2015 and ₱9 million in 2014.

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash and cash equivalents, short-term cash investments, AFS financial assets, loans payable, derivative liability and long-term debt. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables (including noncurrent portion of installment receivables) and accounts payable and other current liabilities which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk (interest rate risk, equity price risk and foreign currency risk).

Management reviews and the BOD approves policies for managing each of these risks which are summarized below.

Credit Risk

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

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



In the Group's power generation business, it is the policy of the Group to ensure that all terms specified in the ECA and PSAs with its customers, including the credit terms of the billings, are complied with.

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

| | 2016 | 2015 |
|------------------------------|-----------------------|----------------|
| Loans and receivables | | |
| Cash and cash equivalents* | ₱2,050,335,016 | ₱3,939,408,989 |
| Short-term cash investments | 58,172,400 | 172,944,935 |
| Trade and other receivables | | |
| Trade receivables | | |
| Power | 931,091,983 | 652,411,729 |
| Real estate** | 78,343,263 | 79,871,900 |
| Due from related parties | 966,128,080 | 867,129,580 |
| Other receivables*** | 14,079,714 | 166,341,860 |
| | ₱4,098,150,456 | ₱5,878,108,993 |

*Excludes cash on hand

**Includes noncurrent portion of installment receivables

***Excludes advances to suppliers and contractors

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

| | Neither Past Due nor Impaired | 2016 | | | | | |
|------------------------------------|-------------------------------------|---------------------------|------------------|----------------|-------------|----------------|-------|
| | | Past Due but not Impaired | | | Subtotal | Impaired | Total |
| | | ≤ 6 Months | Over 6 Months | | | | |
| Cash and cash equivalents* | ₱2,050,335,016 | ₱– | ₱– | ₱– | ₱– | ₱2,050,335,016 | |
| Short-term cash investments | 58,172,400 | – | – | – | – | 58,172,400 | |
| Trade and other receivables: | | | | | | | |
| Trade receivables | | | | | | | |
| Power | 791,199,795 | 20,001,348 | 119,890,839 | 139,892,187 | 33,467,626 | 964,559,608 | |
| Real estate** | 13,287,452 | 807,271 | 64,248,540 | 65,055,811 | 13,163,091 | 91,506,354 | |
| Product distribution and others | – | – | – | – | 31,730,458 | 31,730,458 | |
| Due from related parties | 94,840,191 | 893,189 | 870,394,701 | 871,287,890 | – | 966,128,081 | |
| Others*** | 4,669,502 | 2,661,710 | 6,748,502 | 9,410,212 | 5,074,645 | 19,154,359 | |
| | ₱3,012,504,356 | ₱24,363,518 | ₱1,061,282,582 | ₱1,085,646,100 | ₱83,435,820 | ₱4,181,586,276 | |

* Excludes cash on hand

** Includes noncurrent portion of installment receivables

*** Excludes advances to suppliers and contractors

| | Neither Past Due nor Impaired | 2015 | | | | |
|------------------------------------|-------------------------------------|---------------------------|------------------|----------------|-------------|----------------|
| | | Past Due but not Impaired | | | Impaired | Total |
| | | < 6 Months | Over 6 Months | Subtotal | | |
| Cash and cash equivalents* | ₱3,939,408,989 | ₱- | ₱- | ₱- | ₱- | ₱3,939,408,989 |
| Short-term cash investments | 172,944,935 | - | - | - | - | 172,944,935 |
| Trade and other receivables: | | | | | | |
| Trade receivables | | | | | | |
| Power | 588,491,254 | 1,462,954 | 62,457,521 | 63,920,475 | 30,433,725 | 682,845,454 |
| Real estate** | 12,037,869 | 588,124 | 67,245,907 | 67,834,031 | 13,163,091 | 93,034,991 |
| Product distribution and others | - | - | - | - | 31,730,458 | 31,730,458 |
| Due from related parties | 84,506,333 | 802,296 | 781,820,951 | 782,623,247 | - | 867,129,580 |
| Others*** | 73,646,043 | 2,275,506 | 90,420,311 | 92,695,817 | 5,074,645 | 171,416,505 |
| | ₱4,871,035,423 | ₱5,128,880 | ₱1,001,944,690 | ₱1,007,073,570 | ₱80,401,919 | ₱5,958,510,912 |

* Excludes cash on hand

** Includes noncurrent portion of installment receivables

*** Excludes advances to suppliers and contractors



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

| 2016 | | | | |
|------------------------------|----------------|--------------|-------------|----------------|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | ₱2,050,335,016 | ₱— | ₱— | ₱2,050,335,016 |
| Short-term cash investments | 58,172,400 | — | — | 58,172,400 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 392,877,190 | 398,322,605 | — | 791,199,795 |
| Real estate* | 13,287,452 | — | — | 13,287,452 |
| Due from related parties | — | 17,606,664 | 77,233,527 | 94,840,191 |
| Other receivables | 4,669,502 | — | — | 4,669,502 |
| | ₱2,519,341,560 | ₱415,929,269 | ₱77,233,527 | ₱3,012,504,356 |

*Includes noncurrent portion of installment receivables

| 2015 | | | | |
|------------------------------|----------------|-------------|-------------|----------------|
| | Grade A | Grade B | Grade C | Total |
| Cash and cash equivalents | ₱3,939,408,989 | ₱— | ₱— | ₱3,939,408,989 |
| Short-term cash investments | 172,944,935 | — | — | 172,944,935 |
| Trade and other receivables: | | | | |
| Trade: | | | | |
| Power | 588,491,254 | — | — | 588,491,254 |
| Real estate* | 12,037,869 | — | — | 12,037,869 |
| Due from related parties | — | 15,814,962 | 68,691,371 | 84,506,333 |
| Other receivables | 606,499 | 73,039,544 | — | 73,646,043 |
| | ₱4,713,489,546 | ₱88,854,506 | ₱68,691,371 | ₱4,871,035,423 |

*Includes noncurrent portion of installment receivables

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

Cash and cash equivalents and short-term cash investments are deposited in top 10 banks in the Philippines, hence, considered Grade A.

Liquidity Risk

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

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

| 2016 | | | | | |
|---|----------------|----------------|-----------------|----------------|-----------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | Total |
| Accounts payable and other current liabilities* | ₱1,281,371,238 | ₱183,812,905 | ₱— | ₱— | ₱1,465,184,143 |
| Loans payable** | — | 667,030,719 | — | — | 667,030,719 |
| Long-term debt** | — | 563,690,339 | 15,814,955,602 | 2,089,407,000 | 18,468,052,941 |
| | ₱1,281,371,238 | ₱1,414,533,963 | ₱15,814,955,602 | ₱2,089,407,000 | ₱20,600,267,803 |

* Excluding statutory payables and other payable to government agencies

** Including interest payable computed using prevailing rate as at December 31, 2016



| | 2016 | | | | |
|------------------------------|----------------|--------------|------------|----------------|----------------|
| | On Demand | < 1 Year | 1-3 Years | > 3 Years | Total |
| Cash and cash equivalents | ₱2,050,335,016 | ₱- | ₱- | ₱- | ₱2,050,335,016 |
| Short-term cash investments* | 58,172,400 | - | - | - | 58,172,400 |
| Trade receivables | 224,594,138 | 799,201,095 | 6,557,239 | - | 1,030,352,472 |
| AFS financial assets | 70,050,000 | - | 900,000 | 2,273,440,303 | 2,344,390,303 |
| | ₱2,403,151,554 | ₱799,201,095 | ₱7,457,239 | ₱2,273,440,303 | ₱5,483,250,191 |

*Including interest income computed using prevailing rate as at December 31, 2016

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

* Excluding statutory payables and other payable to government agencies

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

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

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

Interest Rate Risk

Interest risk is the risk that changes in interest rates will adversely affect the Group's income or value of its financial instruments. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations.

Interest on financial instruments classified as floating rate is repriced on a quarterly and semi-annual basis.

The table below demonstrates sensitivity analysis to a reasonably possible change in interest rates on long-term debts, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate interest on borrowings). There is no effect on equity other than those already affecting the consolidated statements of income.

| | 2016 | | 2015 | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Increase in Basis Points | Decrease in Basis Points | Increase in Basis Points | Decrease in Basis Points |
| Change in basis points | +100 | -100 | +100 | -100 |
| Increase (decrease) in income before income tax | (₱89,620,899) | ₱89,620,899 | (₱93,487,836) | ₱93,487,836 |

Equity Price Risk

Equity price risk is the risk that the fair value of quoted AFS financial assets decreases as the result of changes in the value of individual stock. The Group's exposure to equity price risk relates primarily to the Group's quoted AFS financial assets. The Group's policy requires it to manage such risk by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector. The Group intends to hold these investments indefinitely in response to liquidity requirements or changes in market conditions.



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

Equity price risk of those AFS financial assets listed in the Philippine Stock Exchange and secondary or broker market (for golf club shares) is as follows:

| | 2016 | | 2015 | |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Increase in Equity Price | Decrease in Equity Price | Increase in Equity Price | Decrease in Equity Price |
| Change in equity price | +1% | -1% | +1% | -1% |
| Increase (decrease) in equity | ₱1,122,410 | (₱1,122,410) | ₱1,751,819 | (₱1,751,819) |

Foreign Currency Risk

The Group's exposure to foreign currency risk is limited to monetary assets and liabilities denominated in currencies other than its functional currency. Substantial portion of the U.S. dollar-denominated assets and liabilities is attributable to the Group's power segment in which the functional currency is the U.S. dollar. The Group closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risk associated with its financial instruments.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱49.72 to US\$1.0 and ₱47.06 to US\$1.0 for December 31, 2016 and 2015, 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.

| | 2016 | | 2015 | |
|--------------------------------------|----------------------|-----------------------|---------------------|-----------------------|
| | In U.S. Dollar | In Philippine Peso | In U.S. Dollar | In Philippine Peso |
| Financial assets - | | | | |
| Cash and cash equivalents | \$3,980,817 | ₱197,926,221 | \$29,389,745 | ₱1,383,081,410 |
| Short-term cash investments | 970,000 | 48,228,400 | - | - |
| Trade and other receivables | 2,033,272 | 101,094,284 | 9,636,930 | 453,513,926 |
| | 6,984,089 | 347,248,905 | 39,026,675 | 1,836,595,336 |
| Financial liabilities - | | | | |
| Trade payables and long-term debt | (8,121,893) | (403,820,520) | (27,404,349) | (1,289,648,647) |
| | (\$1,137,804) | (₱56,571,615) | \$11,622,326 | ₱546,946,689 |



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

| | 2016 | | 2015 | |
|---|-----------------|----------|-----------------|------------|
| | Philippine Peso | | Philippine Peso | |
| | Increase | Decrease | Increase | Decrease |
| Change in foreign exchange rate | +1.0 | -1.0 | +1.0 | -1.0 |
| Increase (decrease) in income before income tax | (P565,716) | P565,716 | (P5,469,467) | P5,469,467 |

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

There is no other impact on the Group's equity other those already affecting the consolidated statements of income.

Capital Management

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

The Group considers its total equity and debt reflected in the consolidated balance sheet as its capital. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and raise additional. No changes were made in the objectives, policies or processes in 2016 and 2015, respectively.

The Group monitors its capital based on debt to equity ratio. The Group includes within debt interest bearing loans and borrowings. Capital includes equity attributable to the equity holders of the parent less the other equity reserves.

The Group's debt-to-equity ratio as at December 31, 2016 and 2015 follow:

| | 2016 | 2015 |
|---|-----------------|-----------------|
| Long-term debt | P16,891,211,153 | P17,180,009,189 |
| Loans payable | 667,030,719 | 300,000,017 |
| Total debt | 17,558,241,872 | 17,480,009,206 |
| Equity attributable to equity holders of the Parent Company | 10,410,608,515 | 10,183,374,008 |
| Other equity reserves | (1,774,513,933) | (1,767,643,490) |
| Adjusted equity | P8,636,094,582 | P8,415,730,518 |
| | 2.03:1 | 2.08:1 |



32. Financial and Non-financial Instruments

The Group held the following financial and non-financial instruments that are carried at fair value or where fair value is required to be disclosed:

As at December 31, 2016:

| | Carrying value | Fair Value | | | |
|----------------------------|-----------------|-----------------|--------------|---------|-----------------|
| | | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Measured at fair value - | | | | | |
| Available-for-sale | ₱121,391,535 | ₱121,391,535 | ₱116,591,535 | ₱- | ₱4,800,000 |
| Non-financial Assets | | | | | |
| Fair value is disclosed - | | | | | |
| Investments in real estate | 176,276,075 | 433,927,000 | - | - | 433,927,000 |
| | ₱297,667,610 | ₱555,318,535 | ₱116,591,535 | ₱- | ₱438,727,000 |
| Financial Liabilities | | | | | |
| Fair value is disclosed - | | | | | |
| Long-term debt | ₱16,891,211,153 | ₱16,849,147,440 | ₱- | ₱- | ₱16,849,147,440 |

As at December 31, 2015:

| | Carrying Value | Fair Value | | | |
|----------------------------|-----------------|-----------------|--------------|---------|-----------------|
| | | Total | Level 1 | Level 2 | Level 3 |
| Financial Assets | | | | | |
| Measured at fair value - | | | | | |
| AFS financial assets | ₱123,404,503 | ₱123,404,503 | ₱118,604,503 | ₱- | ₱4,800,000 |
| Non-financial Assets | | | | | |
| Fair value is disclosed - | | | | | |
| Investments in real estate | 1,463,639,767 | 1,867,000,000 | - | - | 1,867,000,000 |
| | ₱1,587,044,270 | ₱1,990,404,503 | ₱118,604,503 | ₱- | ₱1,871,800,000 |
| Financial Liabilities | | | | | |
| Fair value is disclosed - | | | | | |
| Long-term debt | ₱17,180,009,189 | ₱17,137,226,888 | ₱- | ₱- | ₱17,137,226,888 |

During the years ended December 31, 2016 and 2015, there were no transfers between Level 1 and 2 fair value measurements, and no transfers into and out of Level 3 measurements.

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

Cash and cash equivalents, short-term cash investments, trade and other receivables, and advances to NPC

The carrying amounts of these financial assets approximate their fair values due to the short-term maturity of those instruments and the effect of discounting the instruments is not material.

AFS financial assets

The Group's AFS financial assets include investments in quoted and unquoted securities and golf club shares. The fair value of investment in quoted securities is determined based on the closing price in PSE as at balance sheet dates. The fair value of investment in golf club shares which are traded in organized financial markets is determined based on quoted market bid prices at the close of business at reporting date. Investment in unquoted securities are carried at cost due to high variability in the resulting estimated fair values.



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.

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 and long-term debt with variable interest rates subject to semi-annual repricing of interest is determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments.

Investments in real estate

Please see Note 10 for the basis of fair value.

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

| | 2016 | 2015 | 2014 |
|---|----------------|----------------|----------------|
| Fair Value through Profit or Loss | | | |
| Mark-to-market gain on derivative liability (see Note 27) | ₱— | ₱27,595,736 | ₱10,328,044 |
| Loans and Receivables | | | |
| Interest income from cash and cash equivalents and short-term cash investments (see Note 7) | 21,041,508 | 24,034,525 | 22,224,257 |
| AFS Financial Assets | | | |
| Gain (loss) on fair valuation of AFS taken to consolidated statements of comprehensive income (see Note 13) | (1,942,968) | 7,263,540 | (86,998,124) |
| Other Financial Liabilities | | | |
| Amortization of transaction costs and loss on prepayment of long-term debt (see Notes 17, 18 and 26) | (70,469,255) | (242,228,344) | (96,201,486) |
| Interest on loans payable and long-term debt (see Notes 17, 18 and 26) | (787,723,781) | (78,789,004) | (103,034,700) |
| | (858,193,036) | (321,017,348) | (199,236,186) |
| | (₱839,094,496) | (₱262,123,547) | (₱253,682,009) |

33. Significant Agreements and Commitments

a. Energy Conversion Agreements (ECAs)

SPPC and WMPC, each under separate ECAs with NPC, constructed a 55-megawatt and a 100-megawatt bunker C-fired diesel generator power plants in General Santos City and Zamboanga City, respectively, under a Build-Operate-Own scheme. NPC supplies all fuel necessary to generate electricity, with all electricity generated purchased by NPC at a price calculated based on the formula provided in the ECAs. SPPC and WMPC shall, directly or indirectly, own the power plants and shall operate and manage the power plants and provide all power generated to NPC for a period of 18 years up to April 28, 2016 and December 13, 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC. On December 13, 2015, ECA with WMPC expired and not renewed by NPC.



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

The ECAs qualify as operating leases as SPPC and WMPC sell all their outputs to NPC.

Energy fees earned on the ECAs amounted to ₱240 million in 2016, ₱2,115 million in 2015 and ₱2,182 million in 2014.

b. Operations and Maintenance (O&M) Service Agreements

Under an Advisory Service Agreement, AIL provides PT Makassar Power (PTMP), which is an independent power producer based in Indonesia, with technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for specified monthly fee of \$44,600 from August 2011 to April 2012 and \$46,600 from May 2012 to April 2015. On April 20, 2015, PTMP extended the Advisory Service Agreement with AIL for another year starting May 1, 2015.

Total billings to PTMP amounted to ₱8 million and ₱25 million in 2016 and 2015, respectively. Outstanding receivable from PTMP amounted to nil and ₱6 million in 2016 and 2015, respectively.

c. Power Supply Agreements (PSAs)

Starting December 13, 2015 and April 29, 2016, WMPC, and SPPC, respectively, arranged for PSAs with the following electric cooperatives:

WMPC

| Contracting Party | Contracted Capacity (in Megawatts) |
|--|---------------------------------------|
| Zamboanga City Electric Cooperatives, Inc. | 50 |
| Cagayan Electric Power and Light Company | 30 |

In January 2016, WMPC entered into interim PSAs with Davao Light and Power Company, Inc. and Cotabato Light and Power Company, Inc. for a period of four months with contracted capacity of 18 MW and 2 MW, respectively.

Energy fees earned on PSAs amounted to ₱1,299 million in 2016.

SPPC

Starting April 2016, SPPC entered into PSAs with the following private distribution utilities:

| Contracting Party | Contracted Capacity (in Megawatts) |
|----------------------------------|---------------------------------------|
| Davao Light and Power Company | 50 |
| Cotabato Light and Power Company | 5 |

Energy fees earned on the PSAs amounted to ₱341 million.



MPC

The details of MPC's contracted capacity (in Megawatts) with electric cooperatives based on the PSAs entered as at December 31 are as follows:

| Contracting Party | Contracted Capacity (in Megawatts) |
|--|---------------------------------------|
| Cagayan Electric Power and Light Company (CEPALCO) | 30 |
| South Cotabato II Electric Cooperative, Inc. (SOCOTECO II) | 30 |
| Zamboanga City Electric Cooperative, Inc. (ZAMCELCO) | 18 |
| Agusan del Norte Electric Cooperative (ANECO) | 15 |
| Zamboanga del Norte Electric Cooperative, Inc. (ZANECO) | 5 |

On January 8, 2016, MPC entered into a PSA with CEPALCO to supply energy for a period of ten (10) years.

Energy fees earned on PSAs amounted to ₱1,695 million and ₱2,862 million in 2016 and 2015, respectively.

SRPI, Sarangani, and MPC entered into PSAs with various distribution utilities and electric cooperatives for a period of 25 years for SPRI and Sarangani and three (3) years for MPC from start of their commercial operations.

Contracted capacities are shown below:

Sarangani

| Contracting Party | Contracted Capacity (in Megawatts) |
|--|---------------------------------------|
| SOCOTECO II | 70 |
| Iligan Light and Power Inc. | 27 |
| Cagayan Electric Power and Light Company, Inc. | 20 |
| Davao Del Norte Electric Cooperative, Inc. | 15 |
| Davao del Sur Electric Cooperative | 15 |
| Agusan del Norte Electric Cooperative | 10 |
| Agusan del Sur Electric Cooperative | 10 |
| Cotabato Electric Cooperative Inc. | 10 |
| South Cotabato I Electric Cooperative | 10 |
| Zamboanga del Sur I Electric Cooperative Inc. | 5 |
| Zamboanga del Norte Electric Cooperative Inc. | 5 |
| Misamis Oriental Electric Cooperative II | 3 |
| | 200 |

SRPI

| Contracting Party | Contracted Capacity (in Megawatts) |
|--|---------------------------------------|
| Zamboanga City Electric Cooperative, Inc. | 85 |
| Zamboanga del Sur I Electric Cooperative, Inc. | 10 |



d. Joint Venture Agreements

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sales of real estate" and "Cost of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots is included under "Real estate inventories" account in the consolidated balance sheets. The Group recorded sales from Eagle Ridge amounting to ₱4 million in 2016, ₱5 million in 2015 and ₱1 million in 2014.

In 2006, ALC entered a joint venture agreement with Sunfields Realty Development Inc., the developer, for the development of ALC's parcels of land at Lipa and Malvar, Batangas into residential house and lots, called as the Campo Verde Subdivision. The entire development costs were shouldered by the developer. In return to their respective contributions to the project, the parties have agreed to assign a number of units of residential house and lots proportionate to their respective contributions computed as specified in the Memorandum of Agreement. The developer was assigned as the exclusive marketing agent and receives 10% of the total contract price, net of value-added tax and discounts, as marketing fee. Sales and cost of lots sold allocated to ALC are shown as part of "Real estate sales" and "Cost of real estate sales" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots amounting to ₱28 million and ₱16 million as at December 31, 2016 and 2015, respectively, is included under "Real estate inventories" account in the consolidated balance sheets (see Note 10).

On March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana. On September 17, 2013, Aviana was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in Aviana. As at March 29, 2017, Aviana has not yet started operations.

e. Marketing Agreements

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

f. Engineering, Procurement and Construction Contract (EPC)

On March 30, 2011, Sarangani entered into EPC contract with the consortium of Daelim Industrial Co. Ltd, a company incorporated in Korea, and Daelim Philippines Incorporated, a company incorporated in the Philippines ("Contractor"). Under the terms of the contract, the Contractor shall perform any and all services and provide any and all equipment and construction equipment necessary to perform the work in accordance with the EPC contract on a fixed-price, turnkey basis and shall deliver a fully operational power plant facility (SM 200). On December 29, 2011 and May 24, 2012, Amendments 1 and 2 to the EPC, respectively, were signed, revising certain portions of the EPC. Construction of Phase 1 of the SM200 commenced in January 2013 and was completed in April 2016. The construction of Phase 2 is expected to start within the first quarter of 2017 (see Note 1).



On December 27, 2012, SRPI entered 3-year Construction Contract also with Daelim Philippines, Incorporated (“Daelim”) for a ₱2.38 billion fixed-price, date certain and turnkey basis. Under the Construction Contract, Daelim shall provide the design, engineering, procurement, supply, construction, start-up, testing and commissioning of the 100 MW coal-fired power station or the ZAM100 project.

- g. Registration with Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) and Kamanga Agro-Industrial Economic Zone

On November 20, 2012, SRPI obtained the certificate of registration and tax exemption issued by ZAMBOECOZONE. As a registered ZAMBOECOZONE enterprise, SRPI shall enjoy incentives and benefits provided for in Republic Act (R.A.) 7903 Sections 4(e) and 4(f) and Sections 43-44, 57-59 and 62 of R.A. 7903 throughout the Lease Agreement with ZAMBOECOZONE.

On June 7, 2011, Philippine Economic Zone Authority (PEZA) approved Sarangani’s registration as an Ecozone Utilities Enterprise inside Kamanga Agro-Industrial Economic Zone located at Barangay Kamanga, Maasim, Sarangani Province.

As a power generation registered economic zone enterprises SRPI and Sarangani are entitled to the following incentives:

- (a) Exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5% on gross income; and
- (b) Tax and duty free importation of capital equipment, machineries and spare parts. VAT-zero rating on local purchases subject to compliance with BIR and PEZA regulations/requirements.

- h. Land Lease Agreement with ZAMBOECOZONE

On January 27, 2013, SRPI entered into a Land Lease Agreement with ZAMBOECOZONE for a period of 31 years from execution of the lease agreement. The leased properties consist of: (a) 300,000 sq.m. for the Main Power Plant Area; and (b) 37,000 sq.m. for the Port Facility Area. Payment of monthly rental will commence on October 1, 2013 and subject to fee escalation. On January 27, 2014, SRPI received billing from ZAMBOECOZONE covering period October 1, 2013 to December 31, 2013. However, SRPI requested for the deferment of the recognition of its rental obligations to ZAMBOECOZONE for the three (3) months period ended December 31, 2013 pending resolution of the certain conditions requisite for the start of rental payments. SRPI requested for revised billing to reflect the three-month deferment of the full rental rates.

On April 2, 2014, ZAMBOECOZONE issued the revised billing to SRPI amounting to ₱10 million for the period starting January 1, 2014 to March 2015. In response to the revised billing, SRPI wrote to ZAMBOECOZONE on October 24, 2014 communicating that while the plant site was cleared of informal settlers, the conflicting positions taken by the Department of Agrarian Reform and the Office of the Government Corporate Counsel on land-use conversion made the use of the land for industrial purposes uncertain. Despite the issue on land-use conversion, SRPI tendered payment of ₱10 million to show good faith and willingness to continue with the contract.

As at March 29, 2017, SRPI has not yet received response from ZAMBOECOZONE. Meanwhile, the payment ₱10 million is recorded as security deposits under “Other noncurrent assets” account as at December 31, 2016.



34. Contingencies

The Group is currently involved in certain regulatory matters of which estimate of the probable costs for its resolution has been developed in consultation with the Group's advisors handling the defense on these matters and is based on the analysis of potential results, which are not reflected in the accompanying consolidated financial statements as management believes that it is not probable that the contingent liabilities will affect the Group's operations and consolidated financial statements.

35. Notes to Consolidated Statements of Cash Flows

The principal noncash investing and financing activities are as follows:

| | 2016 | 2015 | 2014 |
|---|--------------|-----------------|---------------|
| Financing activity: | | | |
| Application of dividends to subscriptions receivable (Note 21) | (P4,400,000) | (P4,400,000) | (P4,400,000) |
| Investing activities: | | | |
| Disposal of ACRMC through property dividend (Note 11) | - | 207,590,029 | - |
| Conversion of advances to related party to investment in preferred shares (Note 11) | - | (2,200,000,000) | - |
| Conversion of advances to related party to investment in associate (Note 11) | - | (35,800,000) | - |
| Reclassification from trade receivables to AFS financial assets (Note 13) | - | - | (148,176,396) |
| Disposal of subsidiaries without loss of control | - | 12,563,402 | - |

36. Other Matters

- a. Electric Power Industry Reform Act (EPIRA)
RA No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:
 - i. The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
 - ii. Creation of a Wholesale Electricity Spot Market within one year; and
 - iii. Open and non-discriminatory access to transmission and distribution systems.

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



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

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

b. Clean Air Act

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



INDEPENDENT AUDITOR'S 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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 29, 2017. 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 Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and is not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

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

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

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

February 27, 2015, valid until February 26, 2018

PTR No. 5908704, January 3, 2017, Makati City

March 29, 2017



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2016

Supplementary schedules required by Securities Regulation Code Rule 68, As Amended (2011):

- Schedule of all the effective standards and interpretations
- Reconciliation of retained earnings available for dividend declaration



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND
INTERPRETATIONS
AS AT DECEMBER 31, 2016

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|--|---------|-------------------|----------------|
| Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics | | ✓ | | |
| PFRSs Practice Statement Management Commentary | | | | ✓ |
| Philippine Financial Reporting Standards | | | | |
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate | | | ✓ |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | | | ✓ |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | | | ✓ |
| | Amendments to PFRS 1: Government Loans | | | ✓ |
| | Amendment to PFRS 1: Meaning of Effective PFRSs | ✓ | | |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| | Amendment to PFRS 2: Definition of Vesting Condition | | | ✓ |
| | Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions* | | ✓ | |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |
| | Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination | | | ✓ |
| | Amendment to PFRS 3: Scope Exceptions for Joint Arrangements | | | ✓ |
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4: Applying PFRS 9 with PFRS 4* | | ✓ | |

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.*



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---------|-------------------|----------------|
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| | Amendment to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendment to PFRS 7: Servicing Contracts | | | ✓ |
| | Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements | | | ✓ |
| PFRS 8 | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments* | | ✓ | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* | | ✓ | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10: Investment Entities | | | ✓ |
| | Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | | ✓ | |
| PFRS 11 | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | ✓ | | |

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---------|-------------------|----------------|
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 12: Investment Entities | | | ✓ |
| | Amendment to PFRS 12, Clarification of the Scope of the Standard* | | ✓ | |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendment to PFRS 13: Short-term Receivables and Payables | ✓ | | |
| | Amendment to PFRS 13: Portfolio Exception | ✓ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers* | | ✓ | |
| PFRS 16 | Leases* | | ✓ | |
| 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 | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiative* | | ✓ | |
| 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 | ✓ | | |
| | Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses* | | ✓ | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation | | | ✓ |
| | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| | Amendments to PAS 16: Bearer Plants | | | ✓ |

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|--|---------|-------------------|----------------|
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 (Amended) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contribution | | | ✓ |
| | Amendments to PAS 19: Regional market issue regarding discount rate | ✓ | | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment to PAS 21: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | ✓ | | |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| PAS 28 (Amended) | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28: Investment Entities | | | ✓ |
| | Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | | ✓ | |
| | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value* | | ✓ | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| | Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial report' | | | ✓ |

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|--|---------|-------------------|----------------|
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | ✓ | | |
| | Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization | | | ✓ |
| | Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization | | | ✓ |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | | | ✓ |
| | Amendments to PAS 39: The Fair Value Option | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | | | ✓ |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | | | ✓ |
| | Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting | | | ✓ |
| PAS 40 | Investment Property | ✓ | | |
| | Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property | | | ✓ |
| | Amendments to PAS 40: Transfers of Investment Property* | | ✓ | |
| PAS 41 | Agriculture | | | ✓ |
| | Amendments to PAS 41: Bearer Plants | | | ✓ |

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2016. The Company did not early adopt these standards, interpretations and amendments.



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|---|---|---------|-------------------|----------------|
| 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 9 | Reassessment of Embedded Derivatives | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives | ✓ | | |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| | Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement | | | ✓ |
| IFRIC 15 | Agreements for the Construction of Real Estate | | | ✓ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| IFRIC 18 | Transfers of Assets from Customers | | | ✓ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| IFRIC 21 | Levies | ✓ | | |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | | ✓ |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-15 | Operating Leases - Incentives | | | ✓ |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |



| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2016 | | Adopted | Not Early Adopted | Not Applicable |
|--|---|---------|----------------------|-------------------|
| Philippine Interpretations | | | | |
| 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 | | | ✓ |



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2016

| | |
|--|---------------|
| Unappropriated retained earnings as at December 31, 2016 | ₱277,847,179 |
| Add net income actually earned/realized during the year: | |
| Net income during the year closed to retained earnings | 92,771,389 |
| Less dividends declared during the year | (105,064,000) |

| | |
|---|---------------------|
| RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS AT DECEMBER 31, 2016 | ₱265,554,568 |
|---|---------------------|

Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of Alsons Consolidated Resources, Inc.



Alsons Consolidated Resources, Inc. and Subsidiaries
Schedule of Financial Soundness

| Financial KPI | Definition | Years Ended December 31 | | 2014 |
|-------------------------------------|---|-------------------------|--------|--------|
| | | 2016 | 2015 | |
| Liquidity | | | | |
| Current Ratio / Liquidity Ratio | Current Assets | 2.09:1 | 3.90:1 | 3.17:1 |
| | Current Liabilities | | | |
| Solvency | | | | |
| Debt to Equity Ratio/Solvency Ratio | Long-term debt (net of unamortized transaction costs)+Loans Payable | 2.03:1 | 2.08:1 | 1.55:1 |
| | (Equity attributable to Parent-Other Equity Reserves) | | | |
| Interest Rate Coverage Ratio | | | | |
| Interest Rate Coverage Ratio | Earnings Before Interest and Taxes | 2.01:1 | 4.41:1 | 6.17:1 |
| | Interest Expense | | | |
| Profitability Ratio | | | | |
| Return on Equity | Net Income | 6% | 7% | 7% |
| | Total Average Stockholders' Equity | | | |
| Asset-to-Equity Ratio | | | | |
| Asset-to-Equity Ratio | Total Assets | 2.88:1 | 2.90:1 | 2.47:1 |
| | Total Equity | | | |

