

APR 21 2015

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

ATTENTION : **MR. VICENTE GRACIANO P. FELIZMENIO, JR.**
Director, Markets and Securities Regulation Department

PHILIPPINE STOCK EXCHANGE, INC.
3rd Floor, Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

ATTENTION : **MS. JANET ENCARNACION**
Head, Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.
Market Regulatory Services Group
37/F Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

ATTENTION : **MS. VINA VANESSA S. SALONGA**
Head – Issuer Compliance and Disclosures Department

RE : **SEC Form 20-IS (Definitive Information Statement 2015)**

Gentlemen:

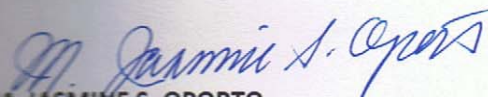
We submit two (2) copies of SEC Form 20-IS (Definitive Information Statement 2015) of Aboitiz Power Corporation for your files.

Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION
By



M. JASMINE S. OPORTO
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION
OFFICE OF TELECOMMUNICATIONS
APR 21 2015
BY: MARKET REGULATION DEPT.
J. P. Felizmenio, Jr.
J. Encarnacion

COVER SHEET

C 1 9 9 8 0 0 1 3 4

S.E.C. Registration Number

A B O I T I Z P O W E R C O R P O R A T I O N

(Company's Full Name)

3 2 N D S T R E E T , B O N I F A C I O G L O B A L

C I T Y , T A G U I G C I T Y , M E T R O M A N I L A

P H I L I P P I N E S

(Business Address: No. Street City / Town / Province)

M. JASMINE S. OPORTO

Contact Person

02- 886-2800

Company Telephone Number

Definitive Information
Statement

1 2 3 1

Month Day

Fiscal Year

2 0 - I S

FORM TYPE

3rd Monday of May

0 5 1 8

Month Day

Annual Meeting

Secondary License Type, if Applicable

S E C

Dept. Requiring this Doc

Amended Articles Number/Section

Total No. of Stockholders

x

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

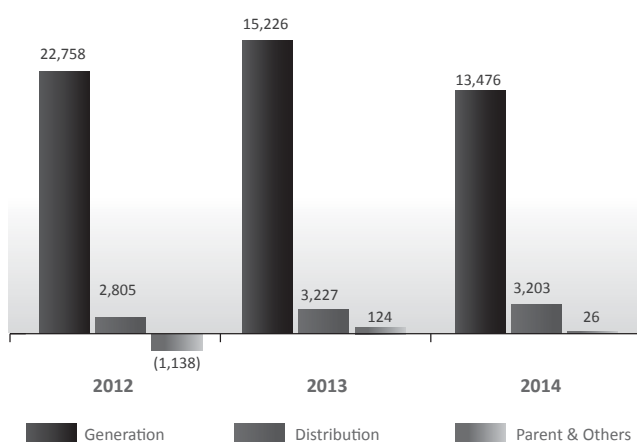
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FINANCIAL SUMMARY (In Million Pesos)

	2012	2013	2014	% CHANGE (2014 vs 2013)
INCOME STATEMENT				
Operating revenues	62,153	72,055	86,759	20%
Operating expenses	41,697	52,578	64,409	23%
Operating profit	20,456	19,477	22,351	15%
Share in net earnings of associates	9,940	6,474	4,009	-38%
Other charges	(4,089)	(6,014)	(4,930)	-18%
Income before income tax	26,306	19,938	21,430	7%
Provision for income tax	1,391	527	3,424	550%
Net income before non-controlling interests	24,916	19,411	18,006	-7%
Net income attributable to non-controlling interests	(490)	(834)	(1,301)	56%
Net income attributable to equity holders of the parent	24,426	18,577	16,705	-10%
EBITDA	34,242	29,900	31,765	6%
FINANCIAL CONDITION				
Total assets	163,105	193,939	216,761	12%
Total liabilities	80,646	102,688	120,681	18%
Non-controlling interests	1,566	3,622	4,118	14%
Equity attributable to equity holders of the parent	80,893	87,629	91,962	5%
RATIOS				
Per share (Pesos)				
Earnings	3.32	2.52	2.27	-10%
Book Value	10.99	11.91	12.50	5%
Cash dividend to common	1.54	1.66	1.66	0%
Return on equity	40%	27%	21%	
Current ratio	2.65	2.87	3.36	
Debt/equity	0.98	1.13	1.26	
Net debt/equity	0.44	0.52	0.59	

Income Contribution

PER BUSINESS SEGMENT (in Php millions)



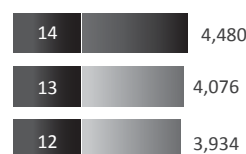
Attributable Power Sales

(in GWh)

GENERATION



DISTRIBUTION



NOTICE AND AGENDA OF ANNUAL MEETING OF STOCKHOLDERS

ABOITIZ POWER CORPORATION

32nd Street, Bonifacio Global City
Taguig City, Metro Manila 1634, Philippines

NOTICE is hereby given that the Annual Meeting of the Stockholders of ABOITIZ POWER CORPORATION will be held on May 18, 2015, 11:00 a.m., at the Grand Ballroom, 2nd Floor, InterContinental Manila, 1 Ayala Avenue, Makati City, 1226 Metro Manila, Philippines.

The Agenda* of the meeting is as follows:

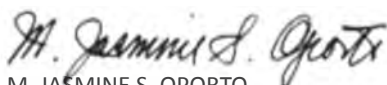
1. Call to Order
2. Proof of Notice of Meeting
3. Determination of Quorum
4. Reading and Approval of the Minutes of the Previous Stockholders' Meeting held on May 19, 2014
5. Presentation of the President's Report
6. Approval of the 2014 Annual Report and Financial Statements
7. Delegation of the Authority to Appoint the Company's External Auditor for 2015 to the Board of Directors
8. Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2014 up to May 18, 2015
9. Election of the Members of the Board of Directors
10. Approval of the Increase of Directors' Monthly Allowance
11. Renewal of the Delegated Authority to the Board of Directors to Amend or Repeal the Company's By-Laws or Adopt New By-Laws
12. Other Business
13. Adjournment

Only stockholders of record at the close of business hours on March 31, 2015 are entitled to notice and to vote at this meeting. Registration will start at 9:00 a.m. and will end at 11:00 a.m. Kindly present any valid proof of identification, such as, driver's license, passport, company ID or SSS/GSIS ID. Aside from personal identification, representatives of corporate stockholders and other entities should also present a duly sworn Secretary's Certificate or any similar document showing his or her authority to represent the corporation or entity.

If you are unable to attend the meeting, you may opt to execute a proxy in favor of a representative. In accordance with the Amended By-Laws of the Company, proxies must be submitted for inspection, validation and recording at least seven (7) days prior to the opening of the Stockholders' Meeting, or on or before May 11, 2015, to the Office of the Corporate Secretary at the 18th Floor of NAC Tower, 32nd Street, Bonifacio Global City, Taguig City. The Proxy Verification Committee will inspect, examine and validate the sufficiency of the proxies received.

We enclose a proxy form for your convenience.

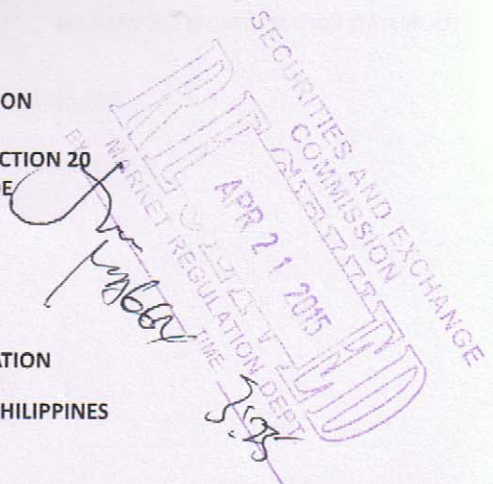
For the Board of Directors:



M. JASMINE S. OPORTO
Corporate Secretary

* The rationale for each Agenda item subject to stockholders' approval is explained in Annex "D".

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE**



1. Check the appropriate box:
 Preliminary Information Statement
 Definitive Information Statement
2. Name of Registrant as specified in its charter: **ABOITIZ POWER CORPORATION**
3. Province, country or other jurisdiction of incorporation or organization: **PHILIPPINES**
4. SEC Identification Number: **C199800134**
5. BIR Tax Identification Code: **200-652-460**
6. Address of principal office: **32ND STREET, BONIFACIO GLOBAL CITY
TAGUIG CITY, METRO MANILA
1634 PHILIPPINES**
7. Registrant's telephone number, including area code: **(02) 886-2800**
8. Date, time and place of the meeting of security holders:

Date: **MAY 18, 2015**
 Time: **11:00 A.M.**
 Place: **GRAND BALLROOM, 2ND FLOOR
INTERCONTINENTAL MANILA
1 AYALA AVENUE, MAKATI CITY
1226 METRO MANILA, PHILIPPINES**

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **APRIL 24, 2015**
10. In case of Proxy Solicitations: **N/A**
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Authorized Capital Stock: ₱17,000,000,000.00

Title of Each Class	Par Value	No. of Shares	Authorized Capital Stock
Common	₱1.00	16,000,000,000	₱16,000,000,000.00
Preferred	₱1.00	1,000,000,000	₱1,000,000,000.00
Total		17,000,000,000	₱17,000,000,000.00

No. of Common Shares Outstanding as of December 31, 2014 7,358,604,307
 Amount of Debt Outstanding as of December 31, 2014 ₱97,347,096,000.00

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes No

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

The common stock of the Company is listed at The Philippine Stock Exchange, Inc. (PSE).

INFORMATION REQUIRED IN INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, time and place of Annual Stockholders' Meeting

Date of meeting : **May 18, 2015**
 Time of meeting : **11:00 a.m.**
 Place of meeting : **Grand Ballroom, 2nd Floor
 InterContinental Manila
 1 Ayala Avenue, Makati City
 1226 Metro Manila, Philippines**

Approximate mailing date
 of this statement : **April 24, 2015**

Complete mailing address
 of the principal office of
 the registrant : **18th Floor, NAC Tower, 32nd Street
 Bonifacio Global City
 Taguig City, Metro Manila
 1634 Philippines**

Item 2. Dissenter's Right of Appraisal

There are no matters or proposed actions included in the Agenda of the Meeting that may give rise to a possible exercise by the stockholders of their appraisal rights. Generally, however, the stockholders of Aboitiz Power Corporation (hereinafter referred to as AboitizPower or the Company or the Registrant) have the right of appraisal in the following instances: (a) in case any amendment to the Articles of Incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence; (b) in case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets as provided in the Corporation Code of the Philippines (Corporation Code); and (c) in case of merger or consolidation.

Any stockholder who wishes to exercise his appraisal right must have voted against the proposed corporate action. He must make a written demand on AboitizPower, within 30 days after the date on which the vote was taken, for payment of the fair value of his shares. Failure to make the demand within such period shall be deemed a waiver of such appraisal right. If the proposed corporate action is implemented or effected, AboitizPower shall pay to such stockholder, upon surrender of the certificate or certificates of stock representing his shares, the fair value thereof as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If, within a period of 60 days from the date the corporate action was approved by the stockholders, the withdrawing stockholder and AboitizPower cannot agree on the fair value of the shares, it shall be determined and appraised by three disinterested persons, one of whom shall be named by the stockholder, another by AboitizPower, and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by AboitizPower within 30 days after such award is made. No payment shall be made to any dissenting stockholder unless AboitizPower has unrestricted retained earnings in its books to cover such payment. Upon payment by AboitizPower of the agreed or awarded price, the stockholder shall forthwith transfer his shares to AboitizPower.

Item 3. Interest of Certain Persons in or Opposition to Matters to be Acted Upon

- (a) No current director or officer of AboitizPower, or nominee for election as director of AboitizPower, or any associate of any of the foregoing persons, has any substantial interest, direct or indirect, by security holdings or otherwise, in any matter to be acted upon in the stockholders' meeting, other than in the election to AboitizPower's Board of Directors (Board).
- (b) No director has informed AboitizPower in writing that he intends to oppose any action to be taken by AboitizPower at the meeting.

B. CONTROL AND COMPENSATION INFORMATION**Item 4. Voting Securities and Principal Holders Thereof****(a) Class of Voting Shares as of March 27, 2015**

Nationality	Class of Voting Shares	Number of Shares	Percentage
Filipino	Common	6,740,263,212	91.60%
Non-Filipino	Common	618,341,095	8.40%
Total No. of Shares Entitled to Vote		7,358,604,307	100.00%

Every stockholder shall be entitled to one vote for each share of stock held, as of the established record date.

(b) Record Date

All common stockholders of record as of March 31, 2015 are entitled to notice and to vote at AboitizPower's Annual Stockholders' Meeting.

(c) Election of Directors and Cumulative Voting Rights

With respect to the election of directors, a stockholder may vote, in person or by proxy, the number of shares of stock standing in his own name on the stock and transfer book of the corporation. A stockholder may vote such number of shares for as many persons as there are directors to be elected. He may also cumulate said shares and give one candidate as many votes as the number of directors to be elected, or distribute the shares on the same principle among as many candidates as he shall see fit, provided, that the total number of votes cast by the stockholder shall not exceed the total number of shares owned by him as shown in the books of AboitizPower, multiplied by the number of directors to be elected; provided, further, that no delinquent stock shall be voted.

Section 5, Article I of the Amended By-Laws of AboitizPower provides that voting upon all questions, at all meetings of the stockholders, shall be by shares of stock and not per capita. Moreover, Section 6 of the same article states that stockholders may vote at all meetings either in person, or by proxy duly given in writing and presented to the Corporate Secretary for inspection, validation and recording, at least seven days prior to the opening of the said meeting.

In accordance with Sections 2 and 3 of the Guidelines for the Constitution of the Nomination Committee and the Nomination and Election of Independent Directors (Guidelines), nominations for independent directors must be submitted to the Corporate Secretary from January 1, 2015 to February 15, 2015.

Section 7, Article I of the Amended By-Laws of AboitizPower provides that nominations for the election of directors, other than independent directors, for the ensuing year must be received by the Corporate Secretary no less than 15 working days prior to the Annual Meeting of Stockholders, except as may be provided by the Board in appropriate guidelines that it may promulgate from time to time in compliance with law.

No discretionary authority to cumulate votes is solicited.

(d) No proxy solicitation is being made.

Security Ownership of Certain Record and Beneficial Ownership and Management

(1) Security Ownership of Certain Record and Beneficial Owners (more than 5% of the voting shares) as of March 27, 2015

Title of Class	Name, Address of Record Owner And Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Shares Held and Nature of Ownership (Record and/or Beneficial)	Percentage of Class Owned
Common	1. Aboitiz Equity Ventures, Inc. ¹ 32 nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures, Inc. ²	Filipino	5,657,530,774 (Record and Beneficial)	76.88%
Common	2. PCD Nominee Corporation (Filipino) ³ G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers ⁴	Filipino	861,629,670 (Record)	11.71%
Common	3. PCD Nominee Corporation (Foreign) ⁵ G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers ⁶	Non-Filipino	617,337,033 (Record)	8.39%

Aboitiz Equity Ventures, Inc. (AEV) is the public holding and management company of the Aboitiz Group, one of the largest conglomerates in the Philippines. As of March 27, 2015, the following entities own five per centum (5%) or more of AEV:

Title of Class	Name, Address of Stockholder and Beneficial Owner	Citizenship	No. of Shares and Nature of Ownership (Record and/ or Beneficial)	Percentage of Class Owned
Common	1. Aboitiz & Company, Inc. Aboitiz Corporate Center Gov. Manuel A. Cuenco Avenue Kasambagan, Cebu City 6000	Filipino	2,735,600,915 (Record and Beneficial)	49.35%
Common	2. PCD Nominee Corporation G/F MSE Bldg. Ayala Avenue, Makati City	Filipino	576,392,975 (Record)	10.40%
Common	3. PCD Nominee Corporation G/F MSE Bldg. Ayala Avenue, Makati City	Non-Filipino	566,272,831 (Record)	10.21%
Common	4. Ramon Aboitiz Foundation, Inc. 35 Lopez Jaena St., Cebu City	Filipino	424,538,863 (Record and Beneficial)	7.66%

¹ Mr. Erramon I. Aboitiz, President and Chief Executive Officer of AEV, will vote the shares of AEV in AboitizPower in accordance with the directive of the AEV Board of Directors.

² AEV is the parent company of AboitizPower.

³ The PCD Nominee Corporation is not related to the Company.

⁴ Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. As advised to the Company, none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.

⁵ *Supra* note 3.

⁶ *Supra* note 4.

(2) Security Ownership of Management as of March 27, 2015 (Record and Beneficial)

Title of Class	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	Enrique M. Aboitiz Chairman of the Board	758	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Jon Ramon Aboitiz Vice Chairman of the Board	33,001	Direct	Filipino	0.00%
		13,176,320	Indirect		0.18%
Common	Erramon I. Aboitiz Director/Chief Executive Officer	1,300,001	Direct	Filipino	0.02%
		47,453,739	Indirect		0.64%
Common	Antonio R. Moraza Director/ President and Chief Operating Officer	1	Direct	Filipino	0.00%
		20,432,299	Indirect		0.28%
Common	Jaime Jose Y. Aboitiz Director/Executive Vice President and Chief Operating Officer – Power Distribution Group	5,367,397	Direct	Filipino	0.07%
		2,264,254	Indirect		0.03%
Common	Mikel A. Aboitiz Director	1	Direct	Filipino	0.00%
		13,283,959	Indirect		0.18%
Common	Carlos C. Ejercito Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Romeo L. Bernardo Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Alfonso A. Uy Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Juan Antonio E. Bernad Executive Vice President – Strategy and Regulation	520,001	Direct	Filipino	0.01%
		488,734	Indirect		0.01%
Common	Luis Miguel O. Aboitiz Senior Vice President – Power Marketing and Trading	8,200,429	Direct	Filipino	0.11%
		0	Indirect		0.00%
Common	Gabriel T. Mañalac Senior Vice President – Group Treasurer	111,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Manuel R. Lozano First Vice President/Chief Financial Officer/Corporate Information Officer	65,654	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Emmanuel V. Rubio Chief Operating Officer – Power Generation Group	224,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Susan V. Valdez Chief Reputation and Risk Management Officer	509,862	Direct	Filipino	0.01%
		0	Indirect		0.00%
Common	Thomas J. Sliaman, Jr. Executive Director – Projects	47,866	Direct	American	0.00%
		0	Indirect		0.00%

Title of Class	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
Common	Donald L. Lane Executive Director – Business Development	0	Direct	British	0.00%
		0	Indirect		0.00%
Common	Ma. Chona Y. Tiu First Vice President and Chief Financial Officer – Power Distribution Group	187,250	Direct	Filipino	0.00%
		50,000	Indirect		0.00%
Common	Manuel M. Orig First Vice President – Mindanao Affairs	248,373	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Alvin S. Arco First Vice President for Regulatory	36,427	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	M. Jasmine S. Oporto Corporate Secretary and Compliance Officer	138,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	Joseph Trillana T. Gonzales First Vice President - General Counsel/ Assistant Corporate Secretary	62,527	Direct	Filipino	0.00%
		00	Indirect		0.00%
	TOTAL	114,205,261			1.55%

(3) Voting Trust Holders of Five Per Centum (5%) or More of Common Equity

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

(4) Changes in Control

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

Item 5. Directors and Executive Officers**(a) Directors and Officers for 2014-2015****(1) Directors for 2014-2015**

Below is the list of AboitizPower's directors for 2014-2015 with their corresponding positions and offices held for the past five years. The directors assumed their directorship during AboitizPower's Annual Stockholders' Meeting in 2014 for a term of one year.

ENRIQUE M. ABOITIZ Chairman of the Board of Directors Chairman – Board Risk and Reputation Management Committee	Mr. Enrique M. Aboitiz, 61 years old, Filipino, has served as Director and Chairman of the Board of Directors of AboitizPower since 2009. He is currently Director of AEV and Aboitiz & Company, Inc. (ACO). He is also Chairman of the Board of Directors of WeatherPhilippines Foundation, Inc. (WeatherPhilippines). Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, major in Economics, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.
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<p>JON RAMON ABOITIZ Vice Chairman of the Board of Directors Chairman – Board Corporate Governance Committee</p>	<p>Mr. Jon Ramon Aboitiz, 66 years old, Filipino, has been Director of AboitizPower since 1998 and served as Chairman of the Board from 1998 until 2008. He is also Vice Chairman of the Board of Directors of the Company. Mr. Aboitiz began his career with the Aboitiz Group in 1970. From being a manager of Aboitiz Shipping Corporation, Mr. Aboitiz was promoted to President in 1976 and was President of ACO from 1991 to 2008. He is currently Chairman of the Board of Directors of ACO and AEV; and Director of Cotabato Light & Power Company (Cotabato Light), Davao Light & Power Company, Inc. (Davao Light), Bloomberry Resorts Corporation, International Container Terminal Services, Inc., and Sociedad Puerto Industrial del Aguadulce S.A. (SPIA). Mr. Aboitiz is also the Vice Chairman of the Board of Directors of Union Bank of the Philippines (UnionBank). He is Chairman of UnionBank’s Executive Committee, Risk Management Committee and Vice Chairman of the Corporate Governance Committee, including the latter’s Compensation Remuneration and Nomination Sub-Committees. He is Trustee and Vice President of Ramon Aboitiz Foundation, Inc. (RAFI), Trustee of Santa Clara University and Philippine Business for Social Progress (PBSP), member of the Board of Advisors of the Coca-Cola Export Corporation (Philippines) and Pilipinas Kao, Inc., and Trustee of the Association of Foundations. Mr. Aboitiz holds a Bachelor of Science degree in Commerce, major in Management from the Santa Clara University, California, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>ERRAMON I. ABOITIZ Chief Executive Officer Member – Board Corporate Governance Committee</p>	<p>Mr. Erramon I. Aboitiz, 58 years old, Filipino, has served as Chief Executive Officer of AboitizPower since 1998. He is currently the President & Chief Executive Officer of AEV. He has been Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to December 2008. He is also President and Chief Executive Officer of ACO, Chairman of the Board of Directors of Davao Light, San Fernando Electric Light and Power Co., Inc. (SFELAPCO), Cotabato Light, Subic EnerZone Corporation (SEZ), SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat), SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet), Aboitiz Renewables, Inc. (ARI), Therma Power, Inc. (TPI) and Aboitiz Land, Inc. (AboitizLand). He is a Director of UnionBank, Pilmico Foods Corporation (PFC) and Redondo Peninsula Energy, Inc. (RP Energy). He is also Chairman of Aboitiz Foundation, Inc. (Aboitiz Foundation) and Director of Family Business Development Center (Ateneo de Manila University) and the Philippine Disaster Recovery Foundation. He obtained a Bachelor of Science degree in Business Administration, major in Accounting and Finance, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>MIKEL A. ABOITIZ Director Member – Board Audit Committee – Board Risk and Reputation Management Committee</p>	<p>Mr. Mikel A. Aboitiz, 60 years old, Filipino, has been Director of AboitizPower since 1998 and has been a member of its Board Audit Committee since 2010. He was formerly President and Chief Executive Officer of City Savings Bank, Inc. (CitySavings) from 2001 to 2014. He is also Senior Vice President of AEV; Director and Senior Vice President of ACO; Vice Chairman of CitySavings; Vice-Chairman of AboitizLand and Propriedad del Norte, Inc. (PDNI); Director of Cotabato Light, Davao Light, PFC, PANC, APRI, AEV Aviation and TPI; and Trustee and Treasurer of RAFI. He holds a degree in Bachelor of Science, major in Business Administration, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>

<p>ANTONIO R. MORAZA Director President and Chief Operating Officer Member – Board Audit Committee – Board Risk and Reputation Management Committee</p>	<p>Mr. Antonio R. Moraza, 58 years old, Filipino, has been Director of AboitizPower since 1999 and currently serves as AboitizPower’s President and Chief Operating Officer. He has been a member of the Board Audit Committee since 2014. He has been Director of AEV since May 2009. He is also Chairman of the Board of Directors of PFC, Pilmico Animal Nutrition Corporation (PANC), East Asia Utilities Corporation (EAUC), Therma Visayas, Inc. (TVI), Therma Mobile, Inc. (TMO), Therma South, Inc. (TSI), Therma Marine, Inc. (TMI), Therma Luzon, Inc. (TLI), Luzon Hydro Corporation (LHC), Hedcor, Inc. (Hedcor), Hedcor Tudaya, Inc. (Hedcor Tudaya), Hedcor Sibulan, Inc. (Hedcor Sibulan), Cebu Private Power Corporation (CPPC) and AP Renewables, Inc. (APRI). He is Vice Chairman of Cebu Energy Development Corporation (Cebu Energy). He is likewise Director and Senior Vice President of ACO, President and Chief Executive Officer of Abovant Holdings, Inc. (Abovant) and ARI, and Director of SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, Southern Philippines Power Corporation (SPPC), STEAG State Power, Inc. (STEAG Power) and Western Mindanao Power Corporation (WMPC). He is also Director and President of TPI and Manila-Oslo Renewable Enterprise, Inc. (MORE). He holds a degree in Business Management from Ateneo de Manila University. He is not connected with any government agency or instrumentality.</p>
<p>JAIME JOSE Y. ABOITIZ Director Executive Vice President and Chief Operating Officer – Power Distribution Group</p>	<p>Mr. Jaime Jose Y. Aboitiz, 53 years old, Filipino, was Director of AboitizPower from 2004 to April 2007. He was again elected as Director of AboitizPower in 2009. He is currently AboitizPower’s Executive Vice President and Chief Operating Officer – Power Distribution Group and a member of the Board Audit Committee since 2010. He is also Vice Chairman and President of Visayan Electric Company, Inc. (VECO); Director and President and Chief Executive Officer of Cotabato Light, SEZ, and Davao Light; Director and President of Mactan Enerzone Corporation (MEZ) and Balamban Enerzone Corporation (BEZ); Director of ARI, Hedcor Sibulan, CPPC, SFELAPCO and Hedcor. He is also Trustee of Aboitiz Foundation. He holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A. and a Master’s degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality.</p>
<p>ALFONSO A. UY Independent Director Member – Board Audit Committee – Board Risk and Reputation Management Committee – Board Corporate Governance Committee</p>	<p>Mr. Alfonso A. Uy, 75 years old, Filipino, has been an Independent Director of AboitizPower since May 2012 and has been a member of its Board Audit Committee, Board Risk and Reputation Management Committee and Board Corporate Governance Committee since 2013. He currently serves as Chairman of La Filipina Uy Gongco Corporation, Philippine Foremost Milling Corporation, Mindanao Grain Processing Corporation, Iloilo Economic Development Foundation and Star Terminals of the Asian Regions Corporation. Mr. Uy is the Vice Chairman of Panay Power Holding Corporation and Director of State Properties, Inc., State Investment Trust, Inc., STEAG Power and BDO Private Bank. In the past, Mr. Uy has served in various capacities in government and non-government organizations, such as President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. and Member of the City Council of Iloilo City. He is also the recipient of various awards, such as the Dr. Jose Rizal Award for Excellence in Business and Commerce, Outstanding Chemical Engineer Award of the Philippine Institute of Chemical Engineers and the Professional of the Year Award in the field of Chemical Engineering by the Philippine Regulatory Commission for the year 2005. Mr. Uy graduated magna cum laude from Central Philippine University with a degree in Bachelor of Science in Chemical Engineering. He is a licensed Chemical Engineer. He is not connected with any government agency or instrumentality.</p>

<p>CARLOS C. EJERCITO Independent Director Chairman – Board Audit Committee Member – Board Risk and Reputation Management Committee – Board Corporate Governance Committee</p>	<p>Mr. Carlos C. Ejercito, 69 years old, Filipino, was elected as Independent Director of AboitizPower during the Annual Stockholders Meeting held last May 19, 2014. He has been a member of the Board Audit Committee, Board Corporate Governance Committee and Board Risk and Reputation Management Committee since 2014. He is currently the Chairman and President of Morganhouse Holdings, Inc., Morganhouse Properties, Inc. and CR Nichrome, Inc. He is also currently the Chairman and Chief Executive Officer of Northern Access Mining, Inc., Forum Cebu Coal Corporation, Kaipara Mining and Development Corporation and Mount Grace Hospitals, Inc. Mr. Ejercito is also a Director of Medical Center Manila, Unihealth Tagaytay Medical Center, VR Potenciano Medical Center and Pinehurst Medical Clinic, Inc. He is an Independent Director of Bloomberry Resorts Corporation and Monte Oro Resources and Energy Corporation. Mr. Ejercito was a former director of the National Grid Corporation of the Philippines and former President and CEO of United Laboratories, Inc., Unilab Group of Companies and Univet Agricultural Products, Inc. He was a member of the Board of Governors of Management Association of the Philippines for 2012 and 2013. He was formerly Chairman of the Board of United Coconut Planters Bank. Mr. Ejercito graduated cum laude from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of the Harvard Business School in 1983 and has completed the coursework for Masters in Business Administration at the Ateneo Graduate School of Business. Mr. Ejercito is a certified public accountant. He is not connected with any government agency or instrumentality.</p>
<p>ROMEO L. BERNARDO Independent Director Member – Board Audit Committee Member – Board Corporate Governance Committee</p>	<p>Mr. Romeo L. Bernardo, 60 years old, Filipino, has been an Independent Director of AboitizPower since 2008 and has been a member of its Board Audit Committee and its Board Corporate Governance Committee since 2008. He is the Managing Director of Lazaro Bernardo Tiu and Associates, a boutique financial advisory firm based in Manila. He is also a GlobalSource economist in the Philippines. He does World Bank and Asian Development Bank-funded policy advisory work. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is likewise Independent Director of several companies and organizations including Globe Telecom, Inc., Bank of the Philippine Islands (BPI), RFM Corporation, Philippine Investment Management, Inc., Philippine Institute for Development Studies, BPI-Philam Life Assurance Corporation (formerly known as Ayala Life Assurance, Inc.), National Reinsurance Corporation of the Philippines and Institute for Development and Econometric Analysis. He previously served as Undersecretary of Finance and as Alternate Executive Director of the Asian Development Bank. He was an Advisor of the World Bank and the International Monetary Fund (Washington D.C.), and served as Deputy Chief of the Philippine Delegation to the GATT (WTO), Geneva. He was formerly President of the Philippine Economics Society; Chairman of the Federation of ASEAN Economic Societies and a faculty member (Finance) of the University of the Philippines. Mr. Bernardo holds a degree in Bachelor of Science in Business Economics from the University of the Philippines (magna cum laude) and a Master’s degree in Development Economics (top of the class) from Williams College in Williamstown, Massachusetts.</p> <p>Mr. Bernardo is also an Independent Director of BPI, and is a member of the Trust Committee of BPI-Asset Management Trust Group. He is a member of the Board of Trustees of the Philippine Institute for Development Studies.</p>

Nominations for Independent Directors and Procedure for Nomination

The procedure for the nomination and election of the Independent Directors is in accordance with Rule 38 of the Securities Regulation Code (SRC Rule 38), AboitizPower's Amended By-Laws and the Guidelines. AboitizPower's By-Laws was amended on May 15, 2007 to incorporate the requirements of SRC Rule 38.

Nominations for Independent Directors were opened starting January 1, 2015, in accordance with Section 2 of the Guidelines, and the table for nominations was closed on February 15, 2015, also in accordance with Section 3 of the Guidelines.

SRC Rule 38 further requires that the Board Corporate Governance Committee meet to pre-screen all nominees and submit a Final List of Nominees to the Corporate Secretary so that such list will be included in the Company's Preliminary and Definitive Information Statements. Only nominees whose names appear on the Final List shall be eligible for election as Independent Directors. No other nominations shall be entertained after the Final List of nominees has been prepared. The name of the person or group of persons who nominates an Independent Director shall be identified in such report including any relationship with the nominee.

In approving the nominations for Independent Directors, the Board Corporate Governance Committee considered the guidelines on the nominations of Independent Directors prescribed in SRC Rule 38, the Guidelines and AboitizPower's Revised Manual on Corporate Governance. The Board Corporate Governance Committee took over the functions of the Board Nominations and Compensation Committee, pursuant to an amendment in the Company's Manual on Corporate Governance in 2009. The Chairman of the Board Corporate Governance Committee is Mr. Jon Ramon Aboitiz. The voting members are Messrs. Erramon I. Aboitiz, Carlos C. Ejercito, Romeo L. Bernardo and Alfonso A. Uy, while the ex-officio non-voting members are Ms. M. Jasmine S. Oporto and Mr. Xavier Jose Y. Aboitiz.

No nominations for Independent Director shall be accepted at the floor during the Annual Stockholders' Meeting at which such nominee is to be elected. However, Independent Directors shall be elected in the Annual Stockholders' Meeting during which other members of the Board are to be elected.

Messrs. Romeo L. Bernardo, Alfonso A. Uy, and Mr. Carlos C. Ejercito are the nominees for Independent Directors of AboitizPower. They are neither officers nor employees of AboitizPower or its Affiliates, and do not have any relationship with AboitizPower which would interfere with the exercise of independent judgment in carrying out the responsibilities of an Independent Director. Attached as Annexes "A-1," "A-2" and "A-3" are the Certifications of Qualification of the Nominees for Messrs. Bernardo, Uy and Ejercito, respectively.

AboitizPower stockholders, Catherine Alvarez, Adella Villegas and Wahini Marie C. Balansag, have respectively nominated Messrs. Bernardo, Uy and Ejercito as AboitizPower's Independent Directors. None of the nominating stockholders has any relation to Messrs. Bernardo, Uy or Ejercito.

Other Nominees for Election as Members of the Board of Directors

As conveyed to the Corporate Secretary, the following have also been nominated as members of the Board for the ensuing year 2015-2016:

Jon Ramon Aboitiz
Erramon I. Aboitiz
Antonio R. Moraza
Mikel A. Aboitiz
Enrique M. Aboitiz
Jaime Jose Y. Aboitiz

Pursuant to Section 7, Article I of the Amended By-Laws of AboitizPower, nominations for members of the Board, other than Independent Directors, for the ensuing year must be received by the Corporate Secretary no less than 15 working days prior to the Annual Stockholders' Meeting on May 18, 2015 or not later than April 24, 2015.

All other information regarding the positions and offices by the above mentioned nominees are integrated in Item 5 (a) (1) above.

Officers for 2014-2015

Below is the list of AboitizPower’s officers for 2014-2015 with their corresponding positions and offices held for the past five years. The officers assumed their positions during AboitizPower’s annual organizational meeting in 2014 for a term of one year.

<p>ENRIQUE M. ABOITIZ Chairman of the Board of Directors Chairman – Board Risk and Reputation Management Committee</p>	<p>Mr. Enrique M. Aboitiz, 62 years old, Filipino, has served as Director and Chairman of the Board of Directors of AboitizPower since 2009. He is currently Director of AEV and ACO. He is also Chairman of the Board of Directors of WeatherPhilippines. Mr. Aboitiz graduated with a degree in Bachelor of Science in Business Administration, major in Economics, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>JON RAMON ABOITIZ Vice Chairman of the Board of Directors Chairman – Board Corporate Governance Committee</p>	<p>Mr. Jon Ramon Aboitiz, 66 years old, Filipino, has been Director of AboitizPower since 1998 and served as Chairman of the Board from 1998 until 2008. He is currently Vice Chairman of the Board of Directors of AboitizPower; Mr. Aboitiz began his career with the Aboitiz Group in 1970. From being a manager of the Aboitiz Shipping Corporation, Mr. Aboitiz was promoted to President in 1976 and was President of ACO from 1991 to 2008. He is currently Chairman of the Board of Directors of ACO and AEV; and Director of Cotabato Light, Davao Light,, Bloomberry Resorts Corporation, International Container Terminal Services, Inc., and Sociedad Puerto Industrial del Aguadulce S.A. (SPIA). Mr. Aboitiz is also the Vice Chairman of the Board of Directors of UnionBank. He is Chairman of UnionBank’s Executive Committee, Risk Management Committee and Vice Chairman of the Corporate Governance Committee, including the latter’s Compensation Remuneration and Nomination Sub-Committees. He is Trustee and Vice President of the RAFI, Trustee of Santa Clara University and PBSP, member of the Board of Advisors of The Coca-Cola Export Corporation (Philippines) and Pilipinas Kao, Inc., and Trustee of the Association of Foundations. Mr. Aboitiz holds a Bachelor of Science degree in Commerce, major in Management from the Santa Clara University, California, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>ERRAMON I. ABOITIZ Chief Executive Officer Member – Board Corporate Governance Committee – Board Risk and Reputation Management Committee</p>	<p>Mr. Erramon I. Aboitiz, 58 years old, Filipino, has served as Chief Executive Officer of AboitizPower since 1998. He is currently the President & Chief Executive Officer of AEV. He has been Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to December 2008. He is also President and Chief Executive Officer of ACO, Chairman of the Board of Directors of Davao Light, SFELAPCO, Cotabato Light, SEZ, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, ARI, TPI and AboitizLand. He is a Director of UnionBank, PFC, and RP Energy. He is also Chairman of Aboitiz Foundation, and Director of Family Business Development Center (Ateneo de Manila University) and the Philippine Disaster Recovery Foundation. He obtained a Bachelor of Science degree in Business Administration, major in Accounting and Finance, from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>

<p>ANTONIO R. MORAZA Director President and Chief Operating Officer Member – Board Audit Committee Board Risk and Reputation Management Committee</p>	<p>Mr. Antonio R. Moraza, 58 years old, Filipino, has been Director of AboitizPower since 1999 and currently serves as AboitizPower’s President and Chief Operating Officer. He has been a member of the Board Audit Committee since 2014. He has been Director of AEV since May 2009. He is also Chairman of the Board of Directors of PFC, Pilmico Animal Nutrition Corporation PANC, EAUC, TVI, TMO, TSI, TMI, TLI, LHC, Hedcor, Hedcor Tudaya, Hedcor Sibulan, CPPC and APRI. He is Vice Chairman of Cebu Energy. He is likewise Director and Senior Vice President of ACO, President and Chief Executive Officer of Abovant and ARI and Director of SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, SPPC, STEAG Power and WMPC. He is also Director and President of TPI and MORE. He holds a degree in Business Management from Ateneo de Manila University. He is not connected with any government agency or instrumentality.</p>
<p>JAIME JOSE Y. ABOITIZ Director Executive Vice President and Chief Operating Officer – Power Distribution Group</p>	<p>Mr. Jaime Jose Y. Aboitiz, 53 years old, Filipino, was Director of AboitizPower from 2004 to April 2007. He was again elected as Director of AboitizPower in 2009. He is currently AboitizPower’s Executive Vice President and Chief Operating Officer – Power Distribution Group and a member of the Board Audit Committee since 2010. He is also Vice Chairman and President of VECO; Director and President and Chief Executive Officer of Cotabato Light, SEZ, and Davao Light; Director and President of MEZ and BEZ; Director of ARI, Hedcor Sibulan, CPPC, SFELAPCO and Hedcor. He is also Trustee of Aboitiz Foundation. He holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A. and a Master’s degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality.</p>
<p>JUAN ANTONIO E. BERNAD Executive Vice President – Strategy and Regulation</p>	<p>Mr. Juan Antonio E. Bernad, 58 years old, Filipino, has been AboitizPower’s Executive Vice President for Strategy and Regulation since 2009. He previously served AboitizPower in several capacities, as Director from 1998 until May 18, 2009, as Executive Vice President/Chief Financial Officer/Treasurer from 1998 to 2003 and as Executive Vice President for Regulatory Affairs/Chief Financial Officer from 2004 to 2007. Mr. Bernad is also AEV’s Senior Vice President, a position he has held since 1995. He was AEV’s Senior Vice President - Electricity Regulatory Affairs from 2004 to 2007 and Senior Vice President - Chief Financial Officer from 1995 to 2004. He is Director and the Executive Vice President - Regulatory Affairs of Davao Light, Director and Senior Vice President of VECO and Director of Cotabato Light, AEV Aviation, and UnionBank. Mr. Bernad has an Economics degree from Ateneo de Manila University and a Masters in Business Administration from The Wharton School of the University of Pennsylvania, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>LUIS MIGUEL O. ABOITIZ Senior Vice President – Power Marketing and Trading</p>	<p>Mr. Luis Miguel O. Aboitiz, 50 years old, Filipino, has been AboitizPower’s Senior Vice President – Power Marketing and Trading since 2009. He is currently First Vice President of AEV, Director and First Vice President of ACO, Director and President and Chief Executive Officer of Aboitiz Energy Solutions, Inc. (AESI) and Adventenergy, Inc. (AdventEnergy), Director of STEAG Power, ARI, TPI, PFC, PANC, MORE, TMO, TSI, TLI, APRI, Pagbilao Energy Corporation (PEC) and Cebu Praedia Development Corporation (CPDC). He graduated from Santa Clara University, California, U.S.A. with a Bachelor of Science degree in Computer Science and Engineering and took his Masters in Business Administration at the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.</p>

<p>GABRIEL T. MAÑALAC Senior Vice President – Group Treasurer</p>	<p>Mr. Gabriel T. Mañalac, 58 years old, Filipino, has been AboitizPower’s Treasurer since 2004 and its Senior Vice President - Group Treasurer since 2009. He has been Senior Vice President – Group Treasurer of AEV since 2009. Mr. Mañalac joined AEV as Vice President for Treasury Services in 1998 and was promoted to First Vice President for Treasury Services in 2004. He is also Vice President and Treasurer of Davao Light, and Treasurer of Cotabato Light. Mr. Mañalac graduated cum laude with a Bachelor of Science degree in Finance and a Bachelor of Arts in Economics degree from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance degree from the Asian Institute of Management and was awarded the Institute’s Scholarship for Merit. He is not connected with any government agency or instrumentality.</p>
<p>MANUEL R. LOZANO First Vice President/Chief Financial Officer/Corporate Information Officer Ex-officio Member – Board Risk and Reputation Management Committee</p>	<p>Mr. Manuel R. Lozano, 44 years old, Filipino, was appointed First Vice President/Chief Financial Officer/ Chief Information Officer of AboitizPower in May 2014. He was Chief Financial Officer of the Power Generation Group of AboitizPower from 2009 up to 2013. Mr. Lozano is currently Director and Senior Vice President – Finance of ARI and Director of, among others, Hedcor, Hedcor Sibulan, TVI, LHC, Hedcor Tamugan, Hedcor Bukidnon, Hedcor Benguet, Hedcor Tudaya, Hedcor Sabangan, Inc. (Hedcor Sabangan), TMI, APRI and MORE. Before he joined the Aboitiz Group, Mr. Lozano was Chief Financial Officer and Director of Paxys, Inc., a PSE-listed company, focused on the BPO industry and other IT-related sectors within the Asia Pacific region. He also has a wide range of experience working in several financial institutions. Mr. Lozano earned his Bachelor of Science in Business Administration degree from the University of the Philippines - Diliman and his Masters in Business Administration from The Wharton School of the University of Pennsylvania, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p>SUSAN V. VALDEZ Chief Reputation and Risk Management Officer Ex-officio Member – Board Risk and Reputation Management Committee</p>	<p>Ms. Susan V. Valdez, 54 years old, Filipino, has been the Chief Reputation Officer and Risk Management Officer since 2012. She is also Senior Vice President - Chief Reputation and Risk Management Officer of AEV. Ms. Valdez is also Trustee, President and Member of the Executive Committee of Aboitiz Foundation; and Trustee and President of WeatherPhilippines. Before joining AEV, Ms. Valdez was the Executive Vice President and Chief Executive Officer of the 2GO Freight Division of Aboitiz Transport System (ATSC) Corporation (now 2GO Group, Inc.) for eight years. She was also President and Chief Executive Officer of Aboitiz One, Inc. (now ATS Express, Inc.) and Aboitiz One Distribution, Inc. (now ATS Distribution, Inc.) for two years. Prior to heading the freight and supply chain business of the then ATSC, Ms. Valdez was its Chief Finance Officer and Chief Information Officer for eight years. She is a Certified Public Accountant and graduated Cum Laude from St. Theresa’s College with a degree of Bachelor of Science in Commerce, major in Accounting. She earned her Masters degree in Business Management from the University of the Philippines. Ms. Valdez completed a program on Management Development at the Harvard Business School, Boston, U.S.A. She is not connected with any government agency or instrumentality.</p>

<p>EMMANUEL V. RUBIO Chief Operating Officer – Power Generation Group</p>	<p>Mr. Emmanuel V. Rubio, 50 years old, Filipino, was appointed as the Chief Operating Officer – Power Generation Group of AboitizPower in May 2014. He was President and CEO of SN Aboitiz Power-Magat, SN Aboitiz Power-Generation, Inc. (SN Aboitiz Power-Generation) and SN Aboitiz Power-Benguet since 2011. Mr. Rubio is currently Director and President and Chief Executive Officer of SN Aboitiz Power-Benguet, Director and Chief Executive Officer of APRI, Chief Executive Officer of SN Aboitiz Power-RES, Inc. (SN Aboitiz Power-Res), and Director of TLI, TMO, TSI, TVI, Cebu Energy, CPPC, EAUC, Hedcor, LHC, Hedcor Sibulan, Hedcor Tamugan, Hedcor Sabangan, Hedcor Tudaya, Hedcor Bukidnon, Inc. (Hedcor Bukidnon) and Hedcor Benguet. Prior to joining AboitizPower, Mr. Rubio was connected with Consolidated Industrial Gases Inc. (CIGI) Philippines, where he worked for more than 15 years in various capacities, including Vice President for Sales and Marketing, Business Unit General Manager, and eventually, President. Mr. Rubio is a graduate of Bachelor of Science in Industrial Management Engineering, with a minor in Mechanical Engineering, from De La Salle University, where he also completed his post-graduate studies. He is also a certificate course graduate of the University of Michigan Executive Education Program, the LEAD program of Columbia University and the Strategic Management Course of the Nanyang Technological University in Singapore. Mr. Rubio is a holder of the Executive Certificate in Directorship from the Singapore Management University-Singapore Institute of Directors (SMU-SID). He is not connected with any government agency or instrumentality.</p>
<p>THOMAS J. SLIMAN, JR. Executive Director – Projects</p>	<p>Mr. Thomas J. Sliman, Jr., 55 years old, American, was appointed Executive Director for Projects of AboitizPower in August 2013. He was appointed as AboitizPower's Vice President – Business Development in 2010, and was its First Vice President for Business Development from 2012 to 2013. Mr. Sliman has extensive experience in the power industry, both in the Philippines and in the U.S.A. After working for 20 years in the U.S.A. for the Southern Company in various operations and maintenance roles in thermal power plants, he relocated to the Philippines to work with Mirant Philippines and was initially assigned at the Pagbilao and Sual plants as plant manager. He was the Executive Vice President - Operations for Mirant Philippines until its sale in 2007. Mr. Sliman previously worked with AboitizPower in 2009 as a consultant during AboitizPower's submission of bid proposals to be the Independent Power Producer Administrator (IPPA) of the Pagbilao and Sual Coal-Fired Power Plants. He earned his degree in Bachelor of Science in Electrical Engineering from the Mississippi State University in 1983. He had completed approximately 75% of the required coursework for a Masters of Business Administration degree from the University of Southern Mississippi, Long Beach, Mississippi. He is not connected with any government agency or instrumentality.</p>
<p>DONALD L. LANE Executive Director – Business Development</p>	<p>Mr. Donald L. Lane, 56 years old, British, was appointed Executive Director for Business Development in September 2014. Mr. Lane has over 25 years of experience in the power business in the Philippines and abroad. Prior to joining AboitizPower, Mr. Lane was the General Manager for Power at WorleyParsons Resources and Energy, for its Southeast Asia Power Hub based in Singapore. At WorleyParsons, Mr. Lane exercised full operational profit and loss responsibility and strategic control of the business. Mr. Lane completed his doctorate degree in Mechanical Engineering from Brunel University, Uxbridge, United Kingdom. He is not connected with any government agency or instrumentality.</p>

<p>MA. CHONA Y. TIU First Vice President/Chief Financial Officer – Power Distribution Group</p>	<p>Ms. Ma. Chona Y. Tiu, 57 years old, Filipino, joined the Aboitiz Group in 1977 as Research Assistant of the Corporate Staff Department of ACO. She rose from the ranks and held various finance positions in different companies within the Aboitiz Group, including Aboitiz Construction Group, Inc. (ACGI) and AboitizLand. She joined the AboitizPower Group where she was appointed Vice President–Administration and Chief Finance Officer of AboitizPower’s Affiliate, VECO, in 2007. Ms. Tiu has been Chief Financial Officer–Power Distribution Group since 2009. She was Vice President from 2009 to 2013, before she was appointed as First Vice President in January 2014. She is also Director and Vice President/Chief Financial Officer/Treasurer of BEZ, MEZ, SEZ and Lima Enerzone Corporation (Lima Enerzone); Director and Vice President–Chief Financial Officer of Cotabato Light; Vice President–Chief Financial Officer of Davao Light and VECO; and Director of SFELAPCO and VECO. She is not connected with any government agency or instrumentality.</p>
<p>MANUEL M. ORIG First Vice President – Mindanao Affairs</p>	<p>Mr. Manuel M. Orig, 73 years old, Filipino, was appointed AboitizPower’s First Vice President for Mindanao Affairs in 2010. He has been with the Aboitiz Group for over 40 years. He was the Executive Vice President of Davao Light prior to his appointment in AboitizPower. Mr. Orig was instrumental in transforming Davao Light into a professional and customer-oriented organization. In 2004, he was awarded the Don Ramon Aboitiz Award of Excellence, the highest recognition bestowed on Aboitiz Group team members and team leaders, for his outstanding contribution to the Aboitiz Group. He finished his Bachelor’s degree in Commerce from the Colegio de San Jose - Recoletos and completed his Masters in Business Administration from the University of the Philippines. He is not connected with any government agency or instrumentality.</p>
<p>ALVIN S. ARCO First Vice President – Regulatory Affairs</p>	<p>Mr. Alvin S. Arco, 54 years old, Filipino, was appointed First Vice President for Regulatory Affairs of AboitizPower on January 2, 2014. He is also Vice President – Regulatory Affairs of Davao Light and Vice President – Finance of Cotabato Light. He was Vice President – Regulatory Affairs of AboitizPower from April 2007 to December 2013. Mr. Arco was also Accounting Manager of AboitizPower from 1998 to 1999, Assistant Vice President – Finance from 2000 to 2004 and Vice President – Finance in 2005. Mr. Arco is a Certified Public Accountant. He obtained his degree in Accountancy from the University of San Jose - Recoletos, Cebu City. He is not connected with any government agency or instrumentality.</p>
<p>M. JASMINE S. OPORTO Corporate Secretary and Compliance Officer</p>	<p>Ms. M. Jasmine S. Oporto, 55 years old, Filipino, has been the Corporate Secretary of AboitizPower since 2007. She was appointed Compliance Officer of AboitizPower in December 2012. She is also Senior Vice President – Chief Legal Officer/Corporate Secretary/Compliance Officer of AEV since May 2012. Ms. Oporto is also Vice President for Legal Affairs of Davao Light; Corporate Secretary of Hijos De F. Escaño, Inc. (Hijos) and Assistant Corporate Secretary of VECO. Prior to joining AEV, she worked in various capacities at the Hong Kong office of Kelley Drye & Warren, LLP, a New York-based law firm, and the Singapore-based consulting firm Albi Consulting Pte. Ltd. She obtained her Bachelor of Laws degree from the University of the Philippines and is a member of both the Philippine and New York bars. She is an Associate of the Institute of Corporate Directors. She is also an accredited director of the Bangko Sentral ng Pilipinas, having completed the course for Corporate Governance and Risk Management for Board of Trustees/Directors of Banks. She completed the course for Corporate Governance and Risk Management for Board of Trustees/Directors of Banks conducted by the Bangko Sentral ng Pilipinas (BSP). She is not connected with any government agency or instrumentality.</p>

<p>JOSEPH TRILLANA T. GONZALES First Vice President – General Counsel/ Assistant Corporate Secretary</p>	<p>Mr. Joseph Trillana T. Gonzales, 48 years old, Filipino, was appointed First Vice President – General Counsel of AboitizPower in January 1, 2015. He is also Assistant Corporate Secretary of the Company since 2007. He was Vice President for Legal and Corporate Services of AEV from 2008 to 2014. He was Special Counsel of SyCip Salazar Hernandez & Gatmaitan Law Offices until he joined the Aboitiz Group in 2007 as Assistant Vice President of the Corporate and Legal Services of ACO. He is a graduate of Bachelor of Arts, major in Economics, and Bachelor of Laws from the University of the Philippines. He has a Master of Laws degree from the University of Michigan, Michigan, U.S.A. He is not connected with any government agency or instrumentality.</p>
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Period in which the Directors Should Serve

The directors shall serve for a period of one year.

Term of Office of a Director

Pursuant to the Amended By-Laws of AboitizPower, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election or for a term of one year and until his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

(2) Significant Employees

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

(3) Family Relationships

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Messrs. Jon Ramon and Mikel Aboitiz are brothers. Messrs. Erramon and Enrique Aboitiz are brothers as well.

(4) Involvement in Certain Legal Proceedings as of March 27, 2015

To the knowledge and/or information of AboitizPower, none of its nominees for election as directors, its present members of the Board, or its executive officers, is presently involved in any legal proceeding or bankruptcy petition or has been convicted by final judgment, or being subject to any order, judgment or decree or has violated the securities or commodities law in any court or government agency in the Philippines or elsewhere, for the past five years and the preceding years until March 27, 2015, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

(5) Certain Relationships and Related Transactions

AboitizPower and its subsidiaries and associates (hereinafter referred to as the Group), in their regular conduct of business, have entered into related party transactions consisting of professional fees, advances and rental fees. These are made on an arm's length basis as of the time of the transactions.

AboitizPower (Parent) has provided support services to its Business Units, such as marketing, trading, billing and other technical services, necessary for the effective and efficient management and operations among and between the Subsidiaries and Associates.

The Group has existing Service Level Agreements (SLA) with its parent company, AEV, for corporate center services, such as human resources, internal audit, legal, information technology, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are always benchmarked on third party rates to ensure competitive pricing and consistency with prevailing industry standards. The SLAs are in place to ensure quality of service.

Energy fees are billed by the Group to related parties, and the Group also purchased power from associates arising from (i) PPA/PSA or ESA (Note 22) and (ii) replacement power contracts (Note 23).

AboitizPower and certain Subsidiaries and Associates are leasing office spaces from Cebu Praedia Development Corporation and Aboitiz Land, Inc. and their Subsidiaries. Rental rates are comparable with prevailing market prices. Additional information on related party transactions is found under the section on Transactions with and/or Dependence on Related Parties.

No other transactions, without proper disclosure, were undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

AboitizPower employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are brought to the attention of the management.

(6) Parent Company

AboitizPower's parent company is AEV. As of March 27, 2015, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of March 27, 2015, 49.35% of the voting shares of AEV.

(b) Resignation or Refusal to Stand for Re-election by Members of the Board of Directors

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

Item 6. Compensation of Directors and Executive Officers

(a) Summary of Compensation of Executive Officers

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

Chief Executive Officer and the Four Most Highly Compensated Officers*	Year	Salary (in Pesos)	Bonus (in Pesos)	Other Annual Compensation (in Pesos)
1. ERRAMON I. ABOITIZ - Chief Executive Officer 2. ANTONIO R. MORAZA - President & Chief Operating Officer 3. JAIME JOSE Y. ABOITIZ - Executive Vice President & Chief Operating Officer - Power Distribution Group 4. LUIS MIGUEL O. ABOITIZ - Senior Vice President - Power Marketing and Trading 5. THOMAS J. SLIMAN, JR. - Executive Director-Projects				
All above named officers as a group	Actual 2014	₱107,370,000.00	₱2,760,000.00	₱20,610,000.00
	Actual 2013	₱96,370,000.00	₱3,930,000.00	₱15,130,000.00
	Projected 2015	₱118,100,000.00	₱3,040,000.00	₱22,670,000.00
All other officers and directors as a group	Actual 2014**	₱53,050,000.00	₱3,830,000.00	₱21,320,000.00
	Actual 2013	₱157,140,000.00	₱9,900,000.00	₱31,150,000.00
	Projected 2015	₱58,560,000.00	₱4,210,000.00	₱23,450,000.00

*The four most highly compensated officers in 2013 are Messrs. Antonio R. Moraza, Jaime Jose Y. Aboitiz, Iker M. Aboitiz and Thomas J. Sliman, Jr.

**The 2014 Amended By-Laws of the Company as approved by the Securities and Exchange Commission on May 16, 2014 defined corporate officers as follows: the Chairman of the Board, the Vice Chairman, the Chief Executive Officer, Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary, and such other officers as may be appointed by the Board of Directors. For the year 2014, the Company's Summary of Executive Compensation covers the compensation of officers as reported under Item 5 (a)(1) of this Information Statement, which are lesser in number than the previous year.

(b) Compensation of Directors**(1) Standard Arrangements**

In 2014, all of AboitizPower's directors received a monthly allowance of ₱100,000.00, except for the Chairman of the Board who received a monthly allowance of ₱150,000.00. In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱100,000.00	₱150,000.00

Type of Meeting	Committee Members	Chairman of the Committee
Committee Meeting	₱80,000.00	₱100,000.00

For 2015, it is proposed that all AboitizPower's directors shall receive a monthly allowance of ₱120,000.00, except for the Chairman of the Board who shall receive a monthly allowance of ₱180,000.00.

	Current Monthly Allowance (as of 2014)	Proposed Monthly Allowance
Chairman of the Board	₱150,000.00	₱180,000.00
Members of the Board	₱100,000.00	₱120,000.00

The proposed increase of monthly allowance of the AboitizPower directors will be submitted for the approval of the stockholders during the 2015 Annual Stockholders' Meeting on May 18, 2015.

(2) Other Arrangements

Other than payment of a director's allowance and the per diem as stated above, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

(c) Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

(d) Warrants and Options Outstanding

To date, AboitizPower has not granted any stock options to its directors or officers.

Item 7. Independent Public Accountant

The accounting firm of SyCip Gorres Velayo & Co. (SGV) has been AboitizPower's Independent Public Accountant for the last 16 years. Ms. Leovina Mae V. Chu has been AboitizPower's audit partner since audit year 2012. AboitizPower complies with the requirements of Section 3(b) (ix) of SRC Rule 68 on the rotation of external auditors or signing partners and the two-year cooling-off period.

Representatives of SGV will be present during the Annual Stockholders' Meeting and will be given the opportunity to make a statement if they so desire. They are also expected to respond to appropriate questions, if needed.

There was no event in the past 16 years wherein AboitizPower and SGV or its handling partner had any disagreement regarding any matter relating to accounting principles or practices, financial statement disclosures or auditing scope or procedures.

In its regular meeting on February 26, 2015, the Board Corporate Governance Committee of AboitizPower approved the inclusion in the agenda of the 2015 Annual Stockholders' Meeting a proposal to delegate to the Board of Directors the authority to appoint the Company's external auditor for 2015. The proposal was intended to give the Board Audit Committee sufficient time to evaluate the different auditing firms that have submitted engagement proposals to act as AboitizPower's external auditor for 2015.

As a matter of policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor. Mr. Carlos C. Ejercito is the Chairman of the Board Audit Committee. The members are Messrs. Romeo L. Bernardo, Alfonso A. Uy, Mikel A. Aboitiz and Antonio R. Moraza.

Item 8. Compensation Plans

No action is to be taken during the Annual Stockholders’ Meeting with respect to any plan pursuant to which cash or non-cash compensation may be paid or distributed.

C. ISSUANCE AND EXCHANGE OF SECURITIES

Item 9. Authorization or Issuance of Securities Other Than for Exchange

No action is to be taken during the Annual Stockholders’ Meeting with respect to authorization or issuance of any securities other than for exchange for outstanding securities.

Recent Issuance of Registered Debt Securities

On June 17, 2014, the Board of Directors of AboitizPower approved the issuance of up to the aggregate amount of ₱10 bn in retail bonds with tenors of seven and twelve years (the “Bonds”). BPI Capital Corporation was appointed as Issue Manager and Lead Underwriter for the issuance of the Bonds. AboitizPower also appointed BPI Asset Management and Trust Group as the Trustee, and Philippine Depository & Trust Corporation (PDTC) as the registry and paying agent for the transaction. The Bonds received the highest possible rating of PRS “Aaa” from the Philippine Rating Services Corporation. The aggregate amount of up to ₱10 bn was subsequently listed with the Philippine Dealing & Exchange Corporation (PDEX) on September 10, 2014.

SEC issued the Order of Registration and a Certificate of Permit to Sell Securities on August 29, 2014. The Bonds were offered to the public on the same day and the offer period ended at close of business day on September 3, 2014. The Bonds were issued in two series, the seven-year bonds with a fixed interest rate of 5.205% per annum, and the 12-year bonds with a fixed interest rate of 6.10% per annum. Interest rate was calculated on a 30/360-day count basis and shall be paid quarterly in arrears starting December 10, 2014 for the first interest payment date and in March 10, June 10, September 10 and December 10 of each year for each subsequent interest payment dates at which the bonds are outstanding.

The Company has the option, but not the obligation, to redeem in whole (and not in part) any series of the outstanding Bonds, on the following dates or the immediately succeeding banking day if such date is not a banking day:

	Early Redemption Option Dates
Series A Bonds	5.25 years from September 10, 2014 (the “Issue Date”)
	6 years from Issue Date
Series B Bonds	7 years from Issue Date
	8 years from Issue Date
	9 years from Issue Date
	10 years from Issue Date
	11 years from Issue Date

AboitizPower has been paying interest to its bond holders since December 10, 2014.

Use of Proceeds

Following the offer and sale of the Bonds, AboitizPower received the aggregate amount of ₱10 bn as proceeds from the said debt raising exercise. Below is the summary of the projected usage of the proceeds of the bond issuance as reported in AboitizPower's prospectus.

	Projected Usage (Per Prospectus) (in Pesos)	Actual Usage (in Pesos)	Unused Proceeds (in Pesos)
400 MW (net) Pulverised Coal-Fired Expansion Unit 3 in Pagbilao, Quezon	₱4,100,000.00	₱993,287.70	₱3,106,712.30
68-MW Manolo Fortich Hydropower Plant Project	3,600,000.00	237,376.25	3,362,623.75
300-MW Cebu Coal Project	500,000.00	506,806.70	(6,806.70)
300-MW Davao Coal Project	500,000.00	1,339,975.52	(839,975.52)
14-MW Sabangan Hydropower Plant Project	1,300,000.00	880,500.00	419,500.00
TOTAL	₱10,000,000.00		₱6,042,053.83

Note: Values for the above table are in thousand Philippine Pesos.

Item 10. Modification or Exchange of Securities

No action is to be taken during the Annual Stockholders' Meeting with respect to modification of any class of securities of AboitizPower, or the issuance or authorization for issuance of one class of securities in exchange for outstanding securities of another class.

Item 11. Financial and Other Information

No action is to be taken during the Annual Stockholders' Meeting with respect to any matter specified in Items 9 or 10.

Item 12. Mergers, Consolidations, Acquisitions and Similar Matters

No action is to be taken during the Annual Stockholders' Meeting with respect to any transaction involving [i] merger or consolidation into or with any other person or of any other person into or with AboitizPower; [ii] acquisition by AboitizPower or any of its security holders of securities of another person; [iii] acquisition of any other going business or of the assets thereof; [iv] sale or other transfer of all or any substantial part of the assets of AboitizPower; or [v] liquidation or dissolution of AboitizPower.

Item 13. Acquisition or Disposition of Property

No action is to be taken during the Annual Stockholders' Meeting with respect to acquisition or disposition of any property of AboitizPower.

Item 14. Restatement of Accounts

No action is to be taken during the Annual Stockholders' Meeting with respect to restatement of any asset, capital or surplus account of AboitizPower.

D. OTHER MATTERS**Item 15. Action with Respect to Reports**

- Approval of the Minutes of the 2014 Annual Meeting of Stockholders dated May 19, 2014 (A summary of the Minutes is attached hereto as Annex "B");
- Approval of the 2014 Annual Report of Management and Financial Statements of the Company; and
- General ratification of the acts of the Board and the Management from the date of the last Annual Stockholders' Meeting up to May 18, 2015. These acts are covered by resolutions of the Board duly adopted during the normal course of trade or business of the Company.

Item 16. Matters Not Required to be Submitted

No action is to be taken with respect to any matter that does not require the submission to a vote of security holders.

Ratification of the acts of the Board, corporate officers and management in 2014 up to May 18, 2015 refers only to acts done in the ordinary course of business and operations of AboitizPower, which have been duly disclosed to the SEC, the PSE and the PDEX, as may be required and in accordance with the applicable laws. Ratification is being sought in the interest of transparency and as a matter of customary practice or procedure, undertaken at every annual meeting of AboitizPower stockholders.

Below is a summary of board resolutions approved during the period May 19, 2014 to March 10, 2015.

Regular Board Meeting, May 19, 2014

- 1) Authority of the Company to Conduct Studies on Possible Fund Raising Options;
- 2) Authority of the Company to Guarantee the Availment by the Following Subsidiaries of the Company's Credit Facilities with Metrobank:
 - (a) Aboitiz Energy Solutions, Inc.; and
 - (b) Adventenergy, Inc.;
- 3) Authority of the Company to Infuse Additional Capital to the following Subsidiaries:
 - (a) Therma Power-Visayas, Inc.;
 - (b) Therma Power, Inc.; and
 - (c) Pagbilao Energy Corporation;
- 4) Authority of the Company to Acquire All the Issued and Outstanding Shares of Lima Utilities Corporation;
- 5) Authority to Enter into a Master Agreement for Products and Services with Navagis Asia Pacific Pte. Ltd.;
- 6) Authority of the Company to Enter into Transactions with BDO Rental, Inc.; and
- 7) Authority of the Company to Give Consent to SN Power Group Restructuring.

Special Board Meeting, June 17, 2014

- 1) Authority of the Company to Offer and Issue up to ₱10,000,000,000.00 Fixed-Rate Retail Bonds;
- 2) Authority of the Company to Delegate the Functions of the Chief Executive Officer to the President and Chief Operating Officer for the Purpose of the Fixed-Rate Retail Bond Offering;
- 3) Authority of the Company to Appoint Philippine Depository and Trust Corporation as Registrar and Paying Agent for the Fixed-Rate Retail Bonds;
- 4) Authority of the Company to List the Fixed-Rate Retail Bonds with the Philippine Dealing & Exchange Corporation;
- 5) Authority of the Company to Allow the Securities and Exchange Commission and its Duly Authorized Representatives to Access, Inspect and Copy the Company's Bank Accounts and that of its Significant Subsidiaries in relation to the Company's Proposed Issuance of the ₱10B Fixed-Rate Retail Bonds;
- 6) Appointment of BPI Capital Corporation as Issue Manager and Lead Underwriter; and
- 7) Authority of the Company to Adopt the Fit and Proper Rule as Required in relation to the Fixed-Rate Retail Bonds.

Regular Board Meeting, July 24, 2014

- 1) Authority of the Company to Provide Parent Support to its Subsidiary, Therma Southern Mindanao, Inc., such as the Availment of the Company's Credit Facilities with The Bank of Tokyo – Mitsubishi UFJ, Ltd. Manila Branch;
- 2) Appointment of Bank of the Philippine Islands as Trustee for the Company's Retail Bond Issuance through its Asset Management & Trust Group;
- 3) Authority of the Company to Open Peso/Dollar Accounts with the Unionbank of the Philippines;
- 4) Revocation of the Authority of Mr. Iker M. Aboitiz as Authorized Representative in the Company's Various Bank Accounts;
- 5) Authority of the Company to Infuse Additional Capital to the following Subsidiaries:
 - a) Therma Power, Inc.; and
 - b) Hedcor Tudaya, Inc.;
- 6) Appointment of the Company's Chief Financial Officer as Authorized Representative and Signatory to the Company's Infusions and Subscriptions in its Subsidiaries and Affiliates;
- 7) Authority of the Company to Issue a Parent Company Guarantee in favor of AP Renewables, Inc.;

- 8) Appointment of External Auditor for the Year 2014;
- 9) Authority to Apply for a Credit Line with L'Fisher Hotel in Bacolod City;
- 10) Authority of the Company to Apply for a Grant from the U.S. Trade and Development Agency;
- 11) Approval of the Amended Manual of Corporate Governance;
- 12) Approval of the 2013 Amendments to the 2012 SEC Annual Corporate Governance Report; and
- 13) Authority of the Company to Purchase Bid Documents and to Take Such Preliminary Actions Necessary to Invest in or Participate in the Bidding of Public and Private Projects.

Regular Board Meeting, September 25, 2014

- 1) Authority of the Company to Avail of Credit Facilities of the Following Banks and Guarantee the Use of such Credit Facilities by its Subsidiaries, Therma Visayas, Inc. and Hedcor Bukidnon, Inc.:
 - (a) Metropolitan Bank & Trust Company, Inc.;
 - (b) BDO Unibank, Inc.;
 - (c) Security Bank Corporation;
 - (d) Bank of the Philippine Islands; and
 - (e) Development Bank of the Philippines;
- 2) Authority of the Company to Provide Parent Support in relation to the Financing Requirements of its Subsidiary, Therma Visayas, Inc., such as but not limited to the Back-Ended Equity Standby Letter of Credit from the Following Banks:
 - (a) Australia and New Zealand Banking Group Limited;
 - (b) The Bank of Tokyo – Mitsubishi UFG Ltd.;
 - (c) CTBC Bank (Philippines) Corp.;
 - (d) Deutsche Bank AG;
 - (e) ING Bank N.V.;
 - (f) The Hongkong and Shanghai Banking Corporation;
 - (g) Maybank Philippines, Inc.;
 - (h) Mizuho Bank Ltd.; and
 - (i) Standard Chartered Bank;
- 3) Authority of the Company to Provide Parent Support in relation to the Financing Requirements of its Subsidiary, Hedcor Bukidnon, Inc., such as but not limited to the Back-Ended Equity Standby Letter of Credit from the Following Banks:
 - (a) ING Bank N.V.;
 - (b) The Hongkong and Shanghai Banking Corporation;
 - (c) Standard Chartered Bank;
 - (d) Mizuho Bank Ltd.; and
 - (e) The Bank of Tokyo – Mitsubishi UFJ Ltd.;
- 4) Authority of the Company to Apply for Tax Clearances, Mayor's and Business Permits in relation to the Company's Liaison Office in Cagayan de Oro City, Philippines; and
- 5) Authority of the Company to Set Up Companies Outside the Philippines.

Regular Board Meeting, November 27, 2014

- 1) Authority of the Company to Provide Parent Support in relation to the Financing Requirements of its Subsidiary, Therma South, Inc., such as but not limited to the Debt Service Reserve Account (DSRA) Standby Letter of Credit from the Following Banks:
 - (a) Mizuho Bank, Ltd.;
 - (b) Standard Chartered Bank; and
 - (c) ING Bank N.V.;
- 2) Authority of the Company to Provide Support in relation to the Financing Requirements of STEAG State Power, Inc. up to the Extent of the Company's Equity Interest;
- 3) Authority of the Company to Provide Parent Support in relation to the Foreign Exchange Hedging of its Subsidiary, Therma Visayas, Inc., with the Following Banks:
 - (a) Metropolitan Bank & Trust Company, Inc.;
 - (b) ING Bank N.V.;
 - (c) The Australia and New Zealand Banking Group Limited; and
 - (d) The Hongkong and Shanghai Banking Corporation;

- 4) Authority of the Company to Provide Parent Support in relation to the Foreign Exchange Hedging of its Subsidiary, Hedcor Bukidnon, Inc., with the Following Banks:
 - (a) Bank of the Philippine Islands;
 - (b) ING Bank N.V.;
 - (c) Unionbank of the Philippines;
 - (d) Rizal Commercial Banking Corporation;
 - (e) The Australia and New Zealand Banking Group Limited; and
 - (f) The Hongkong and Shanghai Banking Corporation;
- 5) Appointment of Mr. Manuel R. Lozano as Additional Signatory for the Company's Accounts Maintained with the Following Banks:
 - (a) Unionbank of the Philippines;
 - (b) Metropolitan Bank & Trust Company, Inc.;
 - (c) Mizuho Bank, Ltd.; and
 - (d) The Hongkong and Shanghai Banking Corporation;
- 6) Authority of the Company to Avail of the Institutional Products, such as Placements with the Following Banks:
 - (a) BDO Private Bank, Inc.;
 - (b) UBP Trust and Investment Corporation; and
 - (c) First Metro Investment Corporation;
- 7) Authority of the Company to Appoint and Designate Ms. Cristina B. Beloria and Mr. Timothy Joseph P. Abay as Signatories to the Electronic Form of BIR Form 2307;
- 8) Authority to Appropriate a Portion of the Unrestricted Retained Earnings of the Company for Various Projects;
- 9) Authority of the Company to Extend Advances to its Subsidiary, Therma South, Inc. Up to the Amount of ₱850,000,000.00 for its Substation Project;
- 10) Authority of the Company to Apply for Accreditation with Metro Dental Clinic;
- 11) Appointment of Donald Lane as Signatory; and
- 12) Approval of the 2014 Amendments to the 2013 SEC Annual Corporate Governance Report.

Regular Board Meeting, January 28, 2015

- 1) Authority of the Company to Conduct Studies on Possible Fund Raising Options;
- 2) Authority of the Company to Provide Parent Support in relation to the Operational Requirements of its Subsidiary, Therma South, Inc., such as Trade Transactions or Letters of Credits with the following banks:
 - (a) Standard Chartered Bank; and
 - (b) The Hongkong and Shanghai Banking Corporation.

Special Board Meeting, February 18, 2015

- 1) Authority of the Company to Provide Parent Support to the Transmission Requirements of Therma Visayas, Inc.'s Project
- 2) Authority of the Company to Provide Parent Support in relation to the Financing Requirements of its Subsidiary, Therma South, Inc.

Special Board Meeting, March 10, 2015

- 1) Renewal of the Delegated Authority to the Board of Directors of the Power to Amend/Repeal the Company's By-Laws or Adopt New By-Laws;
- 2) Approval of the 2014 Audited Financial Statements;
- 3) Declaration of Regular and Special Cash Dividends; and
- 4) Setting the Record Date and Venue for the Company's 2015 Annual Stockholders' Meeting

Item 17. Amendment of Charter, By-Laws or Other Documents

No action is to be taken during the Annual Stockholders' Meeting with respect to the amendment of the Corporation's Charter, By-Laws or other documents.

Item 18. Other Proposed Actions

- (a) *Approval of the 2014 Annual Report and Financial Statements.* The proposal is intended to present to the stockholders the financial position and results of operations of the Company for the year ended December 2014, in accordance with Section 75 of the Corporation Code.
- (b) *Delegation of the Authority to Appoint the Company's External Auditor for 2015 to the Board.* The proposal is intended to give the Board Audit Committee sufficient time to evaluate the different auditing firms that have submitted engagement proposals to act as AboitizPower's external auditor for 2015 before submitting the final list of candidates for external auditor to the Board.
- (c) *Ratification of Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2014 up to May 18, 2015.* The proposal is to allow the stockholders to approve or ratify the acts of the Board of Directors and Officers of the Company in accordance with the Corporation Code. Such acts refer only to acts done in the ordinary course of business and operations of AboitizPower.
- (d) *Renewal of the Delegated Authority to the Board of Directors to Amend or Repeal the Company's By-Laws or Adopt new By-Laws.* The proposal is intended to obtain the consent of the stockholders, thereby allowing the Board of Directors to make timely and necessary changes to the Company's By-Laws in the pursuit of its business.
- (e) *Approval of the Increase of Directors' Monthly Allowance.* The proposal is intended to obtain the consent of the stockholders in order for the Company to adopt a more competitive and reasonable benefits package for its directors, after comparative study of current market rates.

Item 19. Voting Procedures**(a) Votes Required for Matters Submitted for Approval of the Shareholders and Election of Directors**

Section 4, Article I of the Amended By-Laws of AboitizPower states that a quorum for any meeting of stockholders shall consist of the majority of the outstanding capital stock of AboitizPower, and that a majority of such quorum shall decide on any question in the meeting, except those matters in which the Corporation Code requires a greater proportion of affirmative votes.

Regarding the election of members of the Board, nominees who receive the highest number of votes shall be declared elected, pursuant to Section 24 of the Corporation Code.

For the renewal of the delegated authority to the Board of Directors to amend or repeal the Company's By-Laws or adopt new By-Laws, 2/3 votes of the outstanding capital stock of the Company shall be necessary to approve the proposed actions.

For other matters submitted to the stockholders for approval, including the delegation of the authority to appoint the Company's external auditor for 2015 to the Board of Directors, a vote by a majority of the shares entitled to vote present or represented during the meeting shall be necessary to approve the proposed actions.

(b) The Method by which Votes will be Counted

In the election of directors, the top nine nominees with the most number of votes shall be declared elected. If the number of nominees does not exceed the recorded number of directors to be elected, all the shares present or represented at the meeting will be in favor of the nominees. If there is an objection to the motion to elect all the nominees, voting will be done by ballots.

In the election of directors, the stockholder may choose to do any of the following:

- (i) Vote such number of shares for as many person(s) as there are directors to be elected;
- (ii) Cumulate such shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares; or
- (iii) Distribute his shares on the same principle as option (ii) among as many candidates as he shall see fit, provided, that the total number of votes cast by him shall not exceed the number of shares owned by him, multiplied by the whole number of directors to be elected.

The method of counting the votes shall be in accordance with the general provisions of the Corporation Code. The counting of votes shall be done by representatives of the Office of the Corporate Secretary, who shall serve as members of the Election Committee. The voting shall be witnessed and the results shall be verified by the duly appointed Independent Board of Election Inspectors, Luis Cañete and Company, accounting firm.

Other than the nominees' election as directors, no director, executive officer, nominee or associate of the nominees has any substantial interest, direct or indirect, by security holdings or otherwise, in any way in the matters to be taken up during the meeting. AboitizPower has not received any information that an officer, director or stockholder intends to oppose any action to be taken at the Annual Stockholders' Meeting.

This Information Statement in SEC Form 20-IS is given free of charge to the stockholders prior to the Annual Stockholders' Meeting of the Company. AboitizPower stockholders may likewise request for a copy of the Annual Report in SEC Form 17-A which will be given free of charge upon written request. Please write to:

Investor Relations Office
Aboitiz Power Corporation
NAC Tower, 32nd Street
Bonifacio Global City
Taguig City, Metro Manila
1634 Philippines
email: ap_investor@aboitiz.com

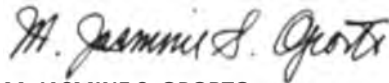
Attention: Mr. Dave Michael V. Valeriano

This Information Statement and the Annual Report in SEC Form 17-A are also posted at AboitizPower's website: www.aboitzpower.com.

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Taguig on April 20, 2015.

ABOITIZ POWER CORPORATION

By:



M. JASMINE S. OPORTO
Corporate Secretary

DEFINITION OF TERMS

Aboitiz Group	ACO and the companies or entities in which ACO has a beneficial interest, over which ACO directly or indirectly exercises management control, including, without limitation, AEV, AboitizPower and their respective Subsidiaries and Affiliates	ASPA	Ancillary Services Procurement Agreement
AboitizLand	Aboitiz Land, Inc.	BEZ	Balamban Enerzone Corporation
AboitizPower, the Company, the Issuer or the Registrant	Aboitiz Power Corporation	BIR	Bureau of Internal Revenue
AboitizPower Group or the Group	AboitizPower and its Subsidiaries	BLGF	Bureau of Local Government Finance
Abovant	Abovant Holdings, Inc.	BOC	Bureau of Customs
ACO	Aboitiz & Company, Inc.	BOI	Board of Investments
AdventEnergy	Adventenergy, Inc.	Bunker C	A term used to designate the thickest of the residual fuels that is produced by blending any oil remaining at the end of the oil-refining process with lighter oil
AESI	Aboitiz Energy Solutions, Inc.	Business Unit	An Affiliate or Subsidiary of AboitizPower
AEV	Aboitiz Equity Ventures, Inc.	CBA	Collective Bargaining Agreement
Affiliate	With respect to any Person, any other Person directly or indirectly controlled or is under common control by such Person	Cebu Energy	Cebu Energy Development Corporation
Aggregator	Refers to a person or entity, engaged in consolidating electric power demand of end-users in the contestable market, for the purpose of purchasing and reselling electricity on a group basis	Chevron	Chevron Geothermal Philippines Holdings, Inc.
Ambuklao-Binga Hydroelectric Power Complex	Refers to SN Aboitiz Power-Benguet's 105-MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet and 125-MW Binga Hydroelectric Power Plant in Itogon, Benguet	CIPDI	Cebu Industrial Park Developers, Inc.
AP Solar	AP Solar Tiwi, Inc.	Cleanergy	Cleanergy, Inc. (formerly, Northern Mini – Hydro Corporation)
APA	Asset Purchase Agreement	COC	Certificate of Compliance
APRI	AP Renewables, Inc.	Cotabato Light	Cotabato Light & Power Company
ARI	Aboitiz Renewables, Inc. (formerly Philippine Hydropower Corporation)	Control	Possession, directly or indirectly, by a Person of the power to direct or cause the direction of the management and policies of another Person whether through the ownership of voting securities or otherwise; provided, however, that the direct or indirect ownership of over 50% of the voting capital stock, registered capital or other equity interest of a Person is deemed to constitute control of that Person; "Controlling" and "Controlled" have corresponding meanings
ARR	Annual Revenue Requirements	CPCN	Certificate of Public Convenience and Necessity
AS	Ancillary Services	CPDC	Cebu Praedia Development Corporation
		CPPC	Cebu Private Power Corporation
		CSEE	Contract for the Supply of Electric Energy

CTA	Court of Tax Appeals	Global Formosa	Global Formosa Power Holdings, Inc.
Davao Light	Davao Light & Power Company, Inc.	Global Power	Global Business Power Corporation of the Metrobank Group
DENR	Department of Environment and Natural Resources	Government	The Government of the Republic of the Philippines
DMSA	Distribution Management Service Agreement	Greenfield Project	Power generation projects that are developed from inception on previously undeveloped sites
DOE	Department of Energy	GRSC	Geothermal Resource Sales Contract
DOLE	Department of Labor and Employment	Guidelines	AboitizPower's Guidelines for the Constitution of the Nomination Committee and the nomination and election of independent directors
Distribution Companies or Distribution Utilities	Refers to BEZ, Cotabato Light, Davao Light, Lima Enerzone, MEZ, SEZ, SFELAPCO, and VECO, collectively; "Distribution Company" or "Distribution Utility" may refer to any one of the foregoing companies	GWh	Gigawatt-hour, or one million kilowatt-hours
EAUC	East Asia Utilities Corporation	HEDC	Hydro-Electric Development Corporation
ECA	Energy Conversion Agreement	Hedcor	Hedcor, Inc.
ECC	Environmental Compliance Certificate	Hedcor Consortium	The consortium comprised of ARI, Hedcor, Hedcor Sibulan and Hedcor Tamugan with an existing PSA with Davao Light for the supply of new capacity to Davao Light
El Paso Philippines	El Paso Philippines Energy Company, Inc.	Hedcor Sibulan	Hedcor Sibulan, Inc.
Enerzone Companies	Refers to BEZ, Lima Enerzone, MEZ and SEZ and other Distribution Utilities of the Aboitiz Group operating within special economic zones	Hedcor Tamugan	Hedcor Tamugan, Inc.
EPC	Engineering, Procurement and Construction	Hedcor Sabangan	Hedcor Sabangan, Inc.
EPIRA	RA 9136, otherwise known as the "Electric Power Industry Reform Act of 2001," as amended from time to time, and including the rules and regulations issued thereunder	Hedcor Tudaya	Hedcor Tudaya, Inc.
EPPA	Electric Power Purchase Agreement	HEPP	Hydroelectric Power Plant
ERC	Energy Regulatory Commission	Hijos	Hijos De F. Escaño, Inc.
ERP	Enterprise Resource Planning	ILP	Interruptible Load Program
FIT	Feed-in-Tariff	IMEM	Interim Mindanao Electricity Market
FIT-All	FIT-Allowance	IPP	Independent Power Producer
FPIC	Free Prior and Informed Consent	IPPA	Independent Power Producer Administrator
GCGI	Green Core Geothermal Incorporated	JPU	Japanese Public Utilities
Generation Companies	Refers to APRI, CPPC, EAUC, Hedcor, Hedcor Sibulan, Hedcor Tamugan, Hedcor Tudaya, Hedcor Sabangan, Hedcor Bukidnon, LHC, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, SPPC, STEAG Power, WMPC, RP Energy, Cebu Energy, TLI, TSI, TVI, TMI, TMO and other generation companies of the Aboitiz Group; "Generation Company" may refer to any one of the foregoing companies.	kV	Kilovolt or one thousand volts
		kW	Kilowatt or one thousand watts
		kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour.
		LGC	Local Government Code
		LHC	Luzon Hydro Corporation
		Lima Enerzone	Lima Enerzone Corporation

SEC FORM 20 - IS (INFORMATION STATEMENT)

LTC	Lima Technology Center
Magat Plant	The 360-MW Magat HEPP of SN Aboitiz Power-Magat located at the border of Isabela and Ifugao provinces
MAP	Maximum Average Price
MCIAA	Mactan-Cebu International Airport Authority
MEPZ I	Mactan Export Processing Zone I
MEPZ II	Mactan Export Processing Zone II
MEZ	Mactan Enerzone Corporation
MORE	Manila-Oslo Renewable Enterprise, Inc.
MW	Megawatt or one million watts
MWh	Megawatt-hour
MVA	Megavolt Ampere
NEA	National Electrification Administration
NGCP	National Grid Corporation of the Philippines
NIA	National Irrigation Authority
NLRC	National Labor Relations Commission
NPC	National Power Corporation
NREB	National Renewable Energy Board
NWRB	National Water Resources Board
Open Access	Retail Competition and Open Access
PA	Provisional Authority
Pacific Hydro	Pacific Hydro Pty. Ltd., an Australian Company which specializes in developing and operating renewable energy projects; the parent company of Pacific Hydro Bakun, Inc.
PBR	Performance-based Rate-setting regulation
PCRM	Pricing and Cost Recovery Mechanism
PDEx	Philippine Dealing & Exchange Corporation
PDTC	Philippine Depository and Trust Corporation
PEC	Pagbilao Energy Corporation
PEMC	Philippine Electricity Market Corporation
Person	An individual, corporation, partnership, association, joint stock company, trust, any unincorporated organization, or a government or political subdivision thereof
PEZA	Philippine Economic Zone Authority
PGPC	Philippine Geothermal Production Company, Inc.

Philippine Pesos or ₱	The lawful currency of the Republic of the Philippines
PIPPA	Philippine Independent Power Producers Association, Inc.
PPA	Power Purchase Agreement
Prism Energy	Prism Energy, Inc.
PSA	Power Supply Agreement
PSALM	Power Sector Assets and Liabilities Management Corporation
PSC	Power Supply Contract
PSE	The Philippine Stock Exchange, Inc.
PSPA	Power Supply and Purchase Agreement
RA	Republic Act
Renewable Energy Act or RE Law	RA 9513, otherwise known as the Renewable Energy Act of 2008
RESC	Renewable Energy Service Contract
RES	Retail Electricity Supplier
RESA	Retail Electricity Suppliers Association of the Philippines, Inc.
RORB	Return-on-Rate Base
RP Energy	Redondo Peninsula Energy, Inc.
RSC	Retail Supply Contract
RSDWR	Rules for Setting Distribution Wheeling Rates
Run-of-river hydroelectric plant	Hydroelectric power plant that generates electricity from the natural flow and elevation drop of a river
SBFZ	Subic Bay Freeport Zone
SBLC	Standby Letters of Credit
SBMA	Subic Bay Metropolitan Authority
SC	The Supreme Court of the Philippines
SCADA	Supervisory Control Data Acquisition
SEC	The Securities and Exchange Commission of the Philippines
SEZ	Subic EnerZone Corporation
SFELAPCO	San Fernando Electric Light & Power Co., Inc.
Sibulan Project	The two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur
SN Aboitiz Power-Benguet	SN Aboitiz Power – Benguet, Inc. (formerly SN Aboitiz Power – Hydro, Inc.)
SN Aboitiz Power-Magat	SN Aboitiz Power – Magat, Inc.

SN Aboitiz Power Group	Refers to MORE and its Subsidiaries, including, SN Aboitiz Power-Benguet, Inc. SN Aboitiz Power-Generation, Inc., SN Aboitiz Power-RES, Inc., SN Aboitiz Power-Magat, Inc.
SN Power	Statkraft Norfund Power Invest AS, a consortium between Statkraft AS and Norfund of Norway
SPPC	Southern Philippines Power Corporation
SRC	RA 8799 or the Securities Regulation Code of the Philippines
STEAG Power	STEAG State Power, Inc.
Subsidiary	In respect of any Person, any entity: (i) over fifty percent (50.00%) of whose capital is owned directly by that Person; or (ii) for which that Person may nominate or appoint a majority of the members of the board of directors or such other body performing similar functions
TCIC	Taiwan Cogeneration International Corporation
TCOIR	Total Cost of Insurable Risk
TeaM Energy	Team Energy Corporation
Team Philippines	Team Philippines Industrial Power II Corporation (formerly Mirant (Phils.) Industrial Power II Corp.)
TLI	Therma Luzon, Inc.
TMI	Therma Marine, Inc.
TMO	Therma Mobile, Inc.
TSI	Therma South, Inc. (formerly Therma Pagbilao, Inc.)

THC	Tsuneishi Holdings (Cebu), Inc.
THI	Tsuneishi Heavy Industries (Cebu), Inc.
Tiwi-Makban Geothermal Facilities	The geothermal facilities composed of eight geothermal plants and one binary plant, located in the provinces of Batangas, Laguna and Albay
TPI or Therma Power	Therma Power, Inc.
TPVI	Therma Power-Visayas, Inc.
TransCo	National Transmission Corporation and, as applicable, the National Grid Corporation of the Philippines (NGCP) which is the Transco concessionaire
TSA	Transmission Service Agreement
TSI or Therma South	Therma South, Inc. (formerly: Therma Pagbilao, Inc.)
Therma Visayas or TVI	Therma Visayas, Inc. (formerly Vesper Industrial and Development Corporation)
ULGPP	Unified Leyte Geothermal Power Plant
US\$ or USD	The lawful currency of the United States of America
VAT	Value Added Tax
VECO	Visayan Electric Company, Inc.
WAM	Work and Asset Management
WCIP	West Cebu Industrial Park
WCIP-SEZ	West Cebu Industrial Park-Special Economic Zone
WESM	Wholesale Electricity Spot Market
WMPC	Western Mindanao Power Corporation

PART I – BUSINESS AND GENERAL INFORMATION

Item 1. Business

(1) Business Development

Incorporated in 1998, AboitizPower is a publicly-listed holding company that, through its subsidiaries and affiliates, is a leader in the Philippine power industry and has interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower as of March 27, 2015.

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired 20% ownership interest in Visayan Electric Company, Inc. (VECO) in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s when Aboitiz & Company, Inc. (ACO) acquired Ormoc Electric Light Company and its accompanying ice plant, Jolo Power Company and Cotabato Light & Power Company (Cotabato Light). In July 1946, the Aboitiz Group strengthened its position in power distribution in Southern Philippines when it acquired Davao Light & Power Company, Inc. (Davao Light), which is now the third largest privately-owned electric utility in the Philippines, in terms of customers and annual GWh sales.

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company to allow these companies to be converted into electric cooperatives, which was the policy being promoted by the government of then-President Ferdinand Marcos. ACO sold these two companies and scaled down its participation in the power distribution business in order to focus on the more lucrative franchises held by Cotabato Light, Davao Light and VECO.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group incorporated Hydro Electric Development Corporation (HEDC). HEDC carried out feasibility studies (including hydrological and geological studies), hydroelectric power installation and maintenance, and also developed hydroelectric projects in and around Davao City. On June 26, 1990, the Aboitiz Group also incorporated Northern Mini-Hydro Corporation (now Cleanergy, Inc.), which focused on the development of mini-hydroelectric projects in Benguet province in northern Luzon. By 1990, HEDC and Cleanergy had commissioned and were operating 14 plants with a combined installed capacity of 36 MW. In 1996, the Aboitiz Group led the consortium that entered into a BOT agreement with the National Power Corporation (NPC) to develop and operate the 70-MW Bakun AC hydroelectric plant in Ilocos Sur.

AboitizPower was incorporated on February 13, 1998 as a holding company for the Aboitiz Group's investments in power generation and distribution. However, in order to prepare for growth in the power generation industry, AboitizPower was repositioned in the third quarter of 2003 as a holding company that owned power generation assets only. The divestment by AboitizPower of its power distribution assets was achieved through a property dividend declaration in the form of AboitizPower's ownership interests in the different power distribution companies. The property dividend declaration effectively transferred direct control over the Aboitiz Group's power distribution business to AEV. Further, in 2005 AboitizPower consolidated its investments in mini-hydroelectric plants in a single company by transferring all of HEDC's and Cleanergy's mini-hydroelectric assets into Hedcor, Inc. (Hedcor).

In December 2006, the Company and its partner, Statkraft Norfund Power Invest AS (SN Power) of Norway, through SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat), submitted the highest bid for the 360-MW Magat hydroelectric plant auctioned by the Power Sector Assets and Liabilities Management Corporation (PSALM). The price offered was US\$530 million (mn). PSALM turned over possession and control of the Magat Plant to SN Aboitiz Power-Magat on April 26, 2007.

In a share swap agreement with AEV on January 20, 2007, AboitizPower issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the following distribution companies, as follows:

- An effective 55% equity interest in VECO, which is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and is the largest distribution utility in the Visayas region;

- 100% equity interest in each of Davao Light and Cotabato Light. Davao Light is the third largest privately owned distribution utility in the Philippines in terms of customers and annual GWh sales;
- An effective 64% ownership interest in Subic EnerZone Corporation (SEZ), which manages the Power Distribution System (PDS) of the Subic Bay Metropolitan Authority (SBMA); and
- An effective 44% ownership interest in San Fernando Electric Light and Power Co., Inc. (SFELAPCO), which holds the franchise to distribute electricity in the city of San Fernando, Pampanga, in Central Luzon and its surrounding areas.

In February 2007, the Company, through its wholly-owned Subsidiary, Therma Power, Inc. (TPI), entered into a Memorandum of Agreement (MOA) with Taiwan Cogeneration International Corporation (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone, called the Subic Coal Project. In May 2007, Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project company that will undertake the Subic Coal Project. In July 2011, Meralco PowerGen Corporation (MPGC), TCIC and TPI entered into a Shareholders' Agreement to formalize their participation in RP Energy. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.

On April 20, 2007, the Company acquired 50% of the outstanding capital stock of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. (El Paso Philippines). EAUC operates a Bunker C-fired plant with a capacity of 50 MW within the Mactan Export Processing Zone I (MEPZ I) in Mactan Island, Cebu. On the same date, the Company also acquired from EAUC 60% of the outstanding common shares of Cebu Private Power Corporation (CPPC). CPPC operates a 70-MW Bunker C-fired plant in Cebu City.

On June 8, 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company agreed to acquire from its Affiliate, Aboitiz Land, Inc. (AboitizLand), 100% interest in Mactan Enerzone Corporation (MEZ), which owns and operates the PDS in MEPZ II in Mactan Island in Cebu, and 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the PDS in West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban, in the eastern part of Cebu. The Company also consolidated its ownership interests in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta) and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a share swap agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the initial public offering (IPO) price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in The Philippine Stock Exchange, Inc. (PSE) on July 16, 2007.

In August 2007, the Company, together with Vivant Energy Corporation (VEC) of the Garcia group, signed a MOA with Global Business Power Corporation (Global Power) of the Metrobank group for the construction and operation of a 3x82-MW coal-fired power plant in Toledo City, Cebu (Cebu Coal Project). The Company and the Garcia group formed Abovant Holdings, Inc. (Abovant) as the investment vehicle of their 44% equity interest in Cebu Energy Development Corporation (Cebu Energy), the project company of the Cebu Coal Project. AboitizPower owns 60% equity interest in Abovant and effectively holds a 26.4% beneficial interest in Cebu Energy.

On November 15, 2007, AboitizPower closed the purchase of the 34% equity ownership in STEAG State Power, Inc. (STEAG Power), owner and operator of a 232-MW coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy the 34% equity from Evonik Steag GmbH (formerly known as Steag GmbH) in August 2007. The total purchase price for the 34% equity in STEAG Power is US\$102 mn, inclusive of interests.

On November 28, 2007, SN Aboitiz Power–Benguet, Inc. (SN Aboitiz Power–Benguet), the then consortium between AboitizPower and SN Power, submitted the highest bid for the Ambuklao-Binga hydroelectric power complex consisting of the 75-MW Ambuklao hydroelectric power plant located in Bokod, Benguet and the 100-MW Binga hydroelectric power plant located in Itogon, Benguet. The price offered was US\$325 mn.

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with the 35% equity in SEZ of AboitizPower's Subsidiary Davao Light, this acquisition brought AboitizPower's total equity in SEZ to 100%.

In 2008, AboitizPower bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (THC) in BEZ for approximately ₱178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

On May 26, 2009, AP Renewables, Inc. (APRI), a wholly-owned Subsidiary of AboitizPower, took over the ownership and operations of the 289-MW Tiwi geothermal power facility in Albay and the 458-MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the "Tiwi-MakBan geothermal facilities") after winning the competitive bid conducted by PSALM on July 30, 2008. The Tiwi-MakBan geothermal facilities have a sustainable capacity of approximately 462 MW.

Therma Luzon, Inc. (TLI), a subsidiary of AboitizPower, won the competitive bid for the appointment of the Independent Power Producer Administrator (IPPA) of the 700-MW contracted capacity of the Pagbilao Coal-Fired Power Plant on August 28, 2009. It assumed dispatch control of the Pagbilao power plant on October 1, 2009, becoming the first IPPA in the country. As IPPA, TLI is responsible for procuring the fuel requirements of, and for selling the electricity generated by, the Pagbilao power plant. The Pagbilao power plant is located in Pagbilao, Quezon.

AboitizPower, through its subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2 on February 6, 2010 and March 1, 2010, respectively, after acquiring the two power barges from PSALM for US\$30 mn through a negotiated bid concluded on July 31, 2009. Each of the barge-mounted diesel powered generation plants has a generating capacity of 100 MW. Mobile 1 and Mobile 2 are moored at Barangay San Roque, Maco, Compostela Valley and Nasipit, Agusan del Norte, respectively. Prior to AboitizPower's acquisition of the barges, Mobile 1 was referred to as Power Barge (PB) 118 while Mobile 2 was referred to as PB 117.

On May 27, 2011, Therma Mobile, Inc. (TMO), a subsidiary of AboitizPower, acquired four barge-mounted floating power plants located at Navotas Fishport, Manila, including their respective operating facilities, from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation. The barge-mounted floating power plants have a total installed capacity of 242 MW. The barges have undergone rehabilitation starting July 2011, and on November 12, 2013, the 100 MW barge-mounted plants started their commercial operations. The plants that are capable of producing the remaining 142 MW are still under rehabilitation as of December 31, 2013.

To meet the demands of the Company's growing business, AboitizPower transferred its corporate headquarters from Cebu to Metro Manila. The transfer to its present principal office address was approved by the stockholders during the May 20, 2013 Annual Stockholders' Meeting and was approved by the SEC on July 16, 2013. AboitizPower's current principal office address is at 32nd Street, Bonifacio Global City, Taguig City.

In 2013, Aboitiz Energy Solutions, Inc. (AESI) won 40 strips of energy corresponding to 40 MW capacity of Unified Leyte Geothermal Power Plant (ULGPP). The notice of award was issued to AESI on January 29, 2014, and this allowed AESI to sell 40 MW of geothermal power from ULGPP beginning January 1, 2015.

Therma Power-Visayas, Inc. (TPVI), a subsidiary of AboitizPower, submitted the highest bid for the privatization of the Naga Power Plant located in Colon, Naga City in the Province of Cebu last March 31, 2014. Salcon Power Corporation, the current operator of the plant, exercised its right to top TPVI's bid under the terms of its agreement with NPC and PSALM.

On May 15, 2014, TPI entered into a joint venture agreement with TPEC Holdings Corporation (TPEC) to form Pagbilao Energy Corporation (PEC). PEC is the project company that will develop, construct and operate the 400-MW Pagbilao Unit III, which will be built in the same location as the existing 700-MW Pagbilao Units I and II coal-fired thermal power plant in Pagbilao Quezon.

On June 19, 2014, AboitizPower acquired 100% ownership interest in Lima Utilities Corporation, now Lima Enerzone Corporation (Lima Enerzone), from Lima Land, Inc. (Lima Land), a wholly-owned subsidiary of AboitizLand. Lima Enerzone is the electricity distribution utility serving the Lima Technology Center (LTC) located in Batangas. Lima Enerzone manages a 50-MVA substation with dual power supply system connected through a 69-KV transmission line of the NPC. The Lima Enerzone substation is directly connected to the grid in Batangas City with an alternate connection to the MakBan Geothermal line.

On August 28, 2014, the Company disposed of 20% of its interest in Therma Visayas, Inc. (TVI) to Vivant Integrated Generation Corporation (VIGC) of the Garcia group.

On August 29 2014, SEC approved AboitizPower's application for the issuance of fixed-rate corporate retail bonds (the "Bonds") with an aggregate principal amount of up to ₱10 bn. The Bonds, which received the highest possible rating of "PRS Aaa" rating from the Philippine Rating Services Corporation, were issued simultaneously in two series, the 10-year bonds with a fixed-interest rate of 5.205% per annum, and the 12-year bonds with a fixed-interest rate of 6.10% per annum. The Bonds are also listed with the Philippine Dealing and Exchange Corporation (PDEX), the fixed-income securities market which provides an electronic trading platform of exchange for fixed-income securities.

In November 2014, the Company, through its holding company for its renewable assets, Aboitiz Renewables, Inc. (ARI), entered into a joint framework agreement with SunEdison, Inc. (SunEdison) to jointly explore, develop, construct and operate utility scale solar photovoltaic power generation projects in the Philippines for the next three years. The projects intends to swiftly bring cost-effective solar energy to the country.

Neither AboitizPower nor any of its Subsidiaries has ever been the subject of any bankruptcy, receivership or similar proceedings.

Neither AboitizPower nor any of its Subsidiaries has been the subject of any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

(2) Business of Issuer

With investments in power generation and distribution companies throughout the Philippines, AboitizPower is considered one of the leading Filipino-owned companies in the power industry. Based on SEC's parameters of what constitutes a significant Subsidiary under Item XX of Annex B (SRC Rule 12), the following are AboitizPower's significant Subsidiaries at present: ARI and its Subsidiaries, TPI and its Subsidiaries, the Distribution Utilities and the Retail Electricity Suppliers. (Please see Annex "C" hereof for AboitizPower's corporate structure.)

(a) Description of Registrant

(i) Principal Products or Services

GENERATION OF ELECTRICITY

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of December 31, 2014, approximately 81% of AboitizPower's net income from business segments is derived from its power generation business. AboitizPower conducts its power generation activities through the following Subsidiaries and Affiliates.

The table below summarizes the Generation Companies' operating results as of December 31, 2014:

Generation Companies	Energy Sold	Energy Sold	Energy Sold	Revenue	Revenue	Revenue
	2014	2013	2012	2014	2013	2012
	(in GWh)			(in mn Pesos)		
APRI	2,772	2,878	3,465	12,397	13,880	15,591
Hedcor	156	160	168	814	838	887
LHC	263	241	37	733	680	416
Hedcor Sibulan	239	232	195	1,352	1,249	1,044
Hedcor Tudaya	32	0	0	165	0	0
SN Aboitiz Power-Magat	754	1,030	871	5,769	9,939	14,019
SN Aboitiz Power-Benguet	844	629	590	6,692	8,448	5,993
TLI	4,706	4,515	4,232	20,093	20,250	21,873

Generation Companies	Energy Sold	Energy Sold	Energy Sold	Revenue	Revenue	Revenue
	2014	2013	2012	2014	2013	2012
	(in GWh)			(in mn Pesos)		
Cebu Energy	1,494	1,477	1,459	8,037	7,699	8,719
STEAG Power	1,207	1,458	1,516	4,298	5,007	6,138
WMPC	597	553	565	1,442	1,373	1,362
SPPC	334	308	311	743	709	707
CPPC	140	164	175	1,704	1,801	2,100
EAUC	123	106	86	1,205	1,066	1,120
TMI	845	843	613	6,844	6,415	5,539
TMO	327	36	0	3,996	387	0
Davao Light*	0	0	0	Revenue neutral	Revenue neutral	Revenue neutral
Cotabato Light*	0	0	0	Revenue neutral	Revenue neutral	Revenue neutral
TOTAL	14,833	14,630	14,283	76,284	79,741	85,508

*Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by Davao Light and Cotabato Light, as the case may be, as approved by the ERC.

Aboitiz Renewables, Inc. (ARI)

Since the start of its operations in 1998, AboitizPower has been committed to developing expertise in renewable energy technologies. AboitizPower's management believes that due to the growing concerns on the environmental impact of power generation using traditional fossil fuel energy sources, greater emphasis should be placed on providing adequate, reliable and reasonably priced energy through innovative and renewable energy technologies such as hydroelectric and geothermal technologies. As such, a significant component of the AboitizPower's future projects is expected to focus on those projects that management believes will allow the Company to leverage its experience in renewable energy and help maintain the AboitizPower's position as a leader in the Philippine renewable energy industry.

As one of the leading providers of renewable energy in the country, AboitizPower holds all its investments in renewable energy through its wholly-owned Subsidiary, ARI. AboitizPower, either directly and/or through ARI, owns equity interests in the following generation companies, among others:

- 100% equity interest in APRI, which owns the 390-MW Tiwi-MakBan geothermal facilities located in Albay, Laguna and Batangas;
- 50% effective interest in SN Aboitiz Power-Magat, which operates the 360-MW Magat HEPP in Isabela in northern Luzon;
- 50% effective interest in SN Aboitiz Power-Benguet, which operates the 231-MW Ambuklao-Binga HEPP complex in northern Luzon;
- 100% equity interest in LHC, which operates the 70-MW Bakun AC HEPP in Ilocos Sur in northern Luzon;
- 100% equity interest in Hedcor, which operates 16 mini-hydroelectric plants (each with less than 10 MW in installed capacity) with a total capacity of 42 MW located in Benguet province in northern Luzon and in Davao City in southeastern Mindanao;
- 100% equity interest in Hedcor Sibulan, which operates the 49-MW Sibulan and Tudaya 1 HEPP in Davao del Sur;
- 100% equity interest in Hedcor Tamugan, which proposes to build the 11.5-MW Tamugan HEPP along Tamugan River in Davao City;
- 100% equity interest in Hedcor Tudaya, which operates the 7-MW Tudaya 2 HEPP in Davao del Sur;
- 100% equity interest in Hedcor Sabangan, which is currently building the 14-MW Sabangan run-of-river HEPP in Sabangan, Mountain Province;
- 100% equity interest in Hedcor Bukidnon, which will build a 68-MW run-of-river HEPP in Manolo Fortich, Bukidnon; and

- 100% equity interest in AP Solar Tiwi, Inc. (AP Solar), the project company established for AboitizPower's solar energy projects.

AP Renewables, Inc. (APRI)

APRI, as a wholly-owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It is one of the country's leading renewable power companies. It acquired the Tiwi-MakBan geothermal facilities located at the municipality of Tiwi, Albay and the municipalities of Bay and Calauan, Laguna and Sto. Tomas, Batangas from Power Sector Assets and Liabilities Management (PSALM) in May 2009. The two complexes have a total potential capacity of 693.2 MW.

As geothermal power plants, Tiwi and MakBan produce clean energy that is reasonable in cost, efficient in operation and environment-friendly. With the continuous advancement in technology, APRI is setting its vision to operate and maintain the Tiwi and MakBan geothermal complexes in accordance with the highest professional standards of world-class independent power producers operating in a merchant market.

APRI has successfully completed the refurbishment activity of the 14 generation units at the Tiwi and MakBan geothermal facilities. In March 2013, APRI completed the testing of the Units 5 and 6 of the MakBan geothermal power plant for 72 hours, at full load, per requirements of the Asset Purchase Agreement (APA) between APRI and PSALM. The successful completion of the performance tests will trigger the return of the Miscellaneous Bond and the assignment of the Geothermal Resource Sales Contract (GRSC) to APRI. Significant improvements in reliability and steam usage efficiency have been realized following the completion of the refurbishment activities.

On May 26, 2013, APRI's steam supply contract with the Philippine Geothermal Production Company (PGPC) shifted to a GRSC. The change is due to an existing provision under the Government's contract with Chevron Geothermal Philippines Holdings, Inc. (Chevron) when the Tiwi-Makban facilities were bidded out under the Government's privatization program. Under the GRSC, the effective steam price payable to PGPC will be at a premium to coal. The contracts of APRI mimic that of coal plants, including the proportion of fuel to total cost of power. The GRSC will continue to be effective until 2021.

On August 13, 2013, APRI and PGPC amended the GRSC to modify the GRSC steam price formula to allow the price of steam to be measured at 50% of the prevailing spot market price at the given hour when spot market prices fall below the computed GRSC rate. This agreement resulted in a lower fuel cost during off-peak hours, thus allowing the company to maximize sales even during this period. The Interim Agreement can be extended by mutual agreement. The parties continue to discuss the merit and feasibility of mutually beneficial steam off-take arrangements.

Through the years, the geothermal facilities have operated at an improved efficiency level through rehabilitation programs to counteract inevitable decline in steam supply and plant maintenance shutdowns.

SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat)

SN Aboitiz Power-Magat is a Subsidiary of MORE, which is 83.3% owned by ARI and 16.7% owned by SN Power Invest Netherlands BV (SN Power Netherlands). Consequently, AboitizPower holds 50% effective interest in SN Aboitiz Power-Magat.

SN Aboitiz Power-Magat is ARI's joint venture with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa and Latin America. On December 14, 2006, SN Aboitiz Power-Magat won the bid for the 360-MW Magat hydroelectric power plant (Magat Plant) conducted by PSALM.

The Magat Plant, which is located at the border of Isabela and Ifugao in northern Luzon, was completed in 1983. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is ideally suited to act as a peaking plant with opportunities to capture the significant upside potential that can arise during periods of high demand. This hydroelectric asset has minimal marginal costs, granting it competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs.

The Magat reservoir has the ability to store water equivalent to 17 days of 24 hours of full generating capacity. The flexibility of Magat Plant operation allows for the generation and sale of electricity at the peak demand hours of the day. Magat Plant's source of upside - water as a source of fuel and the ability to store it - is also its source of limited downside. SN Aboitiz Power-Magat is an accredited provider of much needed Ancillary Services (AS) to the Luzon grid. It sells significant portion of its available capacity to the System Operator (SO) of the Luzon grid. SN Aboitiz Power-Magat's remaining capacity is sold as electric energy to the spot market through the WESM and to load customers through bilateral contracts.

In September 2007, SN Aboitiz Power-Magat obtained a US\$380-mn loan from a consortium of international and domestic financial institutions which include the International Finance Corporation, Nordic Investment Bank, BDO–EPCI, Inc., Bank of the Philippine Islands, China Banking Corporation, Development Bank of the Philippines, The Hongkong and Shanghai Banking Corporation Limited, Philippine National Bank and Security Bank Corporation. The US\$380-mn loan consists of a dollar tranche of up to US\$152 mn, and a peso tranche of up to ₱10.1 billion (bn). The financing agreement was hailed as the region's first-ever project finance debt granted to a merchant power plant. It won Project Finance International's Power Deal of the Year and Asset's Best Project Finance Award as well as Best Privatization Award. The loan was used to partially finance the deferred balance of the purchase price of the Magat Plant under the APA with PSALM. Part of the loan proceeds was also used to pay SN Aboitiz Power-Magat's US\$159-mn loan from AEV and the advances it made from its shareholders that were used to acquire the Magat Plant. In 2012, SN Aboitiz Power-Magat secured top-up financing of ₱5 bn for its recapitalization requirements and general corporate purposes.

As a hallmark of innovation in revenue generation, SN Aboitiz Power-Magat garnered an AS contract on October 12, 2009 with the NGCP, a first for a privately-owned plant. These services are necessary to maintain power quality, reliability and stability of the grid.

SN Aboitiz Power-Magat obtained the BOI approval of its application as new operator of the Magat Plant with a pioneer status, which approval entitles it to an income tax holiday (ITH) until July 12, 2013. On November 16, 2012, the BOI approved SN Aboitiz Power-Magat's application for a one-year extension of its ITH holiday until July 11, 2014. After the lapse of SN Aboitiz Power-Magat's ITH, it becomes subject to income tax.

SN Aboitiz Power-Magat completed the half-life refurbishment of the last unit of the Magat HEPP (Unit 1) in June 2014. In 2009, SN Aboitiz Power-Magat began the refurbishment project with Unit 2. Work on Unit 4 followed in November 2010 and was completed in 2011, while the refurbishment of Unit 3 was completed in August 2013. The projects involved the replacement of power transformers and related equipment, as well as automation of its control systems. These aimed to overhaul the plant's electro-mechanical equipment and avert operational inefficiencies that usually come after more than 25 years of operation. Half-life refurbishment is good industry practice to ensure that the power plant remains available through out its life span.

SN Aboitiz Power-Magat's sold capacity decreased by 19% in 2014 compared to 2013 mainly due to a 42% decrease in water inflow. AS sold capacity, however, was slightly higher by 2.2% in 2014 compared to 2013.

SN Aboitiz Power-Magat was re-certified as AS provider in November 2014. In March 2013, SN Aboitiz Power-Magat and NGCP signed an AS Procurement Agreement (ASPA) for firm contracted capacities covering regulating and contingency reserves at 155 MW. The ASPA also provides for additional AS for the balance of SN Aboitiz Power-Magat Plant's capacity and is valid for three years from the issuance of a provisional or final approval by the Energy Regulatory Commission (ERC). The ERC issued a Provisional Authority (PA) in relation to the new ASPA, paving the way for the implementation thereof starting July 26, 2013. SN Aboitiz Power-Magat filed a Motion for Reconsideration for the Magat ASPA which remains unresolved while the final approval is still pending.

SN Aboitiz Power Group's Greenfield Development Program aims to grow its renewable portfolio by looking at potential hydro projects in the Philippines, primarily within its current host communities in northern Luzon.

On December 2, 2013, SN Aboitiz Power-Greenfield, Inc. (SN Aboitiz Power-Greenfield) has secured Renewable Energy Service Contracts (RESCs) from the Department of Energy (DOE) for its proposed 6-MW Maris South Canal and 1.75-MW Maris North Canal mini-hydropower projects. The Maris projects are located downstream of the National Irrigation Administration (NIA)-owned and operated Maris dam and reservoir. The Maris dam and reservoir, which form the tailwater of the Magat HEPP, is situated at the boundary of Alfonso Lista, Ifugao and Ramon, Isabela. SN Aboitiz Power-Greenfield is currently waiting for the DOE approval on the assignment of the above RESCs to SN Aboitiz Power-Magat. NIA and SN Aboitiz Power-Magat signed a Memorandum of Understanding to develop both projects.

On July 24, 2014, one of SN Aboitiz Power Group's project companies, SN Aboitiz Power-Ifugao, Inc., also secured RESCs for its proposed 350-MW hydropower complex project in Ifugao. This project is composed of three facilities: the 100-MW Alimit hydropower plant, the 240-MW Alimit pumped storage facility, and the 10-MW Olilicon hydropower plant. Both the Maris and Alimit projects are in the feasibility study stage.

On November 4, 2014, SN Aboitiz Power-Magat and NIA held the ground-breaking ceremony for the optimization of the Maris Reservoir. Maris Optimization is a project of NIA with SN Aboitiz Power-Magat as its project partner. It aims to raise the Maris Reservoir by adding a set of stoplogs about three meters high. The project is expected to add some

eight million cubic meters of storage, and will also entail refurbishment and improvements to the Maris dam structure for better irrigation water delivery and safety. Work is scheduled to begin in January 2015 and targeted for completion by first quarter of 2016.

The Magat Plant passed the Certificated Audit for the second cycle of the ISO 18001 Environmental Management System in June 2014. It also maintained certification of its Quality Management System (ISO 9001) and Occupational Health & Safety Management System (OHSAS 14001) by passing the respective certification audits in September 2014.

In 2014, SN Power and its affiliates (SN Power Group) underwent restructuring leading to the transfer by SN Power Holding Singapore Pte. Ltd. (SN Power Singapore) of its interests in SN Aboitiz Power Group to its affiliate, SN Power Netherlands. The restructuring of the SN Power Group was completed in October 2014 with respect to the SN Aboitiz Power Group. Consequently, SN Power Netherlands now holds interests in the SN Aboitiz Power-Magat, replacing SN Power Singapore.

SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet)

SN Aboitiz Power-Benguet is a Subsidiary of MORE, which is 83.3% owned by ARI and 16.7% owned by SN Power Netherlands. Consequently, AboitizPower holds 50% effective interest in SN Aboitiz Power-Benguet.

On November 28, 2007, SN Aboitiz Power-Benguet submitted the highest bid to PSALM for the Ambuklao-Binga hydroelectric power complex, which consisted of the then 75-MW Ambuklao Plant and the formerly 140-MW Binga Plant. The Ambuklao-Binga hydroelectric power complex was turned over to SN Aboitiz Power-Benguet on July 10, 2008.

In August 2008, SN Aboitiz Power-Benguet signed a US\$375-mn loan agreement with a consortium of local and foreign banks where US\$160 mn was taken up as US Dollar financing and US\$215 mn as peso financing. Proceeds from the loan were used to partially finance the purchase price, rehabilitate the power plant complex and refinance SN Aboitiz Power-Benguet's existing advances from shareholders with respect to the acquisition of assets.

Also in 2008, SN Aboitiz Power-Benguet began a massive rehabilitation project that restored Ambuklao Plant to operating status and increased its capacity from 75 MW to 105 MW. Ambuklao Plant had been decommissioned since 1999 due to siltation and technical issues as a result of the massive earthquake in 1990. Rehabilitation was completed in 2011. On the other hand, the Binga Plant also underwent refurbishment which began in 2010 and was completed in 2013. This refurbishment increased its capacity to 125 MW. It is now capable of generating up to 132 MW.

The Binga Plant obtained an ITH extension from the BOI in 2014, which is effective until August 2015. The Ambuklao Plant also obtained an ITH extension on March 13, 2013, which is valid until July 2016.

The Ambuklao Plant re-operated in 2011 as a 105-MW power plant following its rehabilitation and upgrading from 2008 to 2011. The plant had been shut down and put under preservation since 1999 due to damage from the 1990 earthquake.

Ambuklao Plant generated 328,682 MWh in 2014 and had a forced outage of 162.3 hours. Binga Plant, operating a full year after the completion of its refurbishment in 2013, generated 276,524 MWh and had a forced outage of only 32.78 hours.

Even with lower water inflow in 2014, Binga Plant's sold capacity increased by 26% (14.2% increase in spot energy generation and 31% increase in AS) from 2013 mainly due to improved water resource management. The capability of the Binga Plant as AS provider was re-certified in May 2014. Last year, the Binga Plant delivered 760.5 GWh of AS. On the other hand, the sold capacity factor of the Ambuklao Plant slightly decreased by 8% even if the water inflow to the reservoir decreased by 21%.

In March 2013, SN Aboitiz Power-Benguet and NGCP signed an ASPA involving the Ambuklao Plant for firm contracted capacities covering regulating and contingency reserves at 95 MW. The ASPA also provides for additional ancillary reserved services for the balance of the Ambuklao Plant's capacity. The ASPA is valid for three years from the issuance of a provisional or final approval by the ERC. Although a PA from the ERC has been obtained, the ASPA involving the Ambuklao Plant was not implemented due to some tests that need to be completed prior to the provision of AS at low loads. To date, the ERC has not yet issued a Final Approval on both Binga and Ambuklao ASPAs.

Both Ambuklao and Binga Plants maintained their certifications for Quality Management System (ISO 9001), Environmental Management System (ISO 14001), and Occupational Health and Safety Management System (OHSAS 18001) through successful surveillance audits in 2014.

In 2014, SN Power Group underwent restructuring leading to the transfer by SN Power Singapore of its interests in SN Aboitiz Power Group to its affiliate, SN Power Netherlands. The restructuring of the SN Power Group was completed in October 2014 with respect to the SN Aboitiz Power Group. Consequently, SN Power Netherlands now holds interests in the SN Aboitiz Power-Benguet, replacing SN Power Singapore.

Luzon Hydro Corporation (LHC)

Up until May 10, 2011, LHC was ARI's joint venture with Pacific Hydro of Australia, a privately-owned Australian company that specializes in developing and operating power projects that use renewable energy sources, principally water and wind power. At present, LHC, a wholly-owned Subsidiary of ARI, is effectively 100% owned by AboitizPower.

On March 31, 2011, ARI, LHC and Pacific Hydro signed a MOA to give ARI full ownership over LHC. Effective May 10, 2011, ARI assumed full ownership and control of LHC upon fulfillment of certain conditions in the MOA.

LHC operates and manages the 70-MW Bakun AC run-of-river hydropower plant located in Amilongan, Alilem, Ilocos Sur (Bakun Plant). The hydropower plant was constructed and is being operated under the Government's BOT scheme. Energy produced by Bakun Plant, approximately 254 GWh annually, is delivered and taken up by NPC pursuant to a PPA (Bakun PPA) and dispatched to the Luzon grid through 230-KV Bauang-Bakun transmission line of the NGCP. Under the terms of the Bakun PPA, all of the electricity generated by Bakun Plant will be purchased by NPC for a period of 25 years from February 2001. The Bakun PPA also requires LHC to transfer the Bakun Plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC. Amlan Power Holdings Corporation was awarded the IPPA contract for the Bakun Plant following a competitive bidding process conducted by PSALM.

After securing consent from NPC, the Bakun Plant was shut down of approximately 900 meters of unlined tunnel. The rehabilitation was completed in September 2012.

Hedcor, Inc. (Hedcor)

Hedcor, a wholly-owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It was originally incorporated on October 10, 1986 by ACO as the Baguio-Benguet Power Development Corporation. ARI acquired ACO's 100% ownership interest in Hedcor in 1998.

In 2005, ARI consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, in Hedcor. Hedcor currently owns, operates and/or manages run-of-river hydropower plants in northern Luzon and Davao with a combined installed capacity of 42 MW. The electricity generated from Hedcor's hydro plants are taken up by NPC, APRI, Davao Light and Benguet Electric Cooperative (BENECO) pursuant to Power Purchase Agreements (PPAs) with the said off-takers, and the rest are sold through the WESM.

During the full years 2013 and 2014, Hedcor's hydropower plants generated a total of 160 GWh and 156 GWh of electricity, respectively.

Northern Luzon's climate is classified as having two pronounced seasons - dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in northern Luzon, are typically lower during the first five months of each year.

Hedcor used to have 50% equity interest in LHC until it transferred its equity stake to its parent company, ARI, through a property dividend declaration in September 2007.

Hedcor Sibulan, Inc. (Hedcor Sibulan)

Hedcor Sibulan's capital stock is held by ARI and AboitizPower at 94% and 6%, respectively, resulting in AboitizPower's 100% effective interest therein. It is the project company for the Sibulan hydropower project (Sibulan Project). The Sibulan Project, which broke ground on June 25, 2007, entailed the construction of two run-of-river hydropower plants, Sibulan A and Sibulan B, harnessing the Sibulan and Baroring rivers in Santa Cruz, Davao del Sur. The 26-MW Sibulan B hydropower plant started commercial operations in March 2010. The 16.5-MW Sibulan A hydropower plant was completed in September 2010.

Hedcor Sibulan is part of a consortium that won the competitive bidding for the 12-year PSA to supply new capacity to Davao Light. All the energy generated by Hedcor Sibulan power plants are supplied to Davao Light pursuant to the PSA

signed on March 7, 2007. The Sibulan Project is registered as a Clean Development Mechanism (CDM) project with the United Nations Framework Convention on Climate Change (UNFCCC) under the Kyoto Protocol. The Sibulan Project was issued 136,000 tons of carbon credits which will eventually be sold in the carbon market.

Hedcor Sibulan is also the project company of the 6.7-MW Tudaya 1 hydropower plant (Tudaya 1). Tudaya 1 is now commercially operating after receiving the Certificate of Compliance (COC) from the ERC. The energy produced by Tudaya 1 is sold to Davao Light through a PSA signed in 2007.

Hedcor Tamugan, Inc. (Hedcor Tamugan)

Hedcor Tamugan, as a wholly-owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It is the project company organized to build the proposed Tamugan run-of-river hydropower project. In 2010, Hedcor Tamugan entered into a compromise agreement with the Davao City Water District to settle the dispute on the Tamugan water rights. Originally planned as a 27.5-MW run-of-river facility, Hedcor Tamugan proposed the construction of a 12-MW hydropower plant. After Hedcor Tamugan secures all the required permits, the two-year construction period will commence.

Hedcor Tudaya, Inc. (Hedcor Tudaya)

Hedcor Tudaya's capital stock is held by ARI and AboitizPower at 50% and 50%, respectively, resulting in AboitizPower's 100% effective interest therein.

Hedcor Tudaya is the project company organized to build the 7-MW Tudaya 2 run-of-river hydropower plant in Astorga, Santa Cruz, Davao del Sur. The project is now commercially operating. The plant, which is intended to sell through the Feed-in-Tariff (FIT) mechanism, obtained its FIT eligibility certificate. A composite team from the DOE validated the eligibility of Tudaya 2 as a FIT-eligible plant. Upon issuance of the FIT-Eligible COC from the ERC, Hedcor Tudaya will sell to Davao del Sur Electric Cooperative through FIT mechanism.

Hedcor Sabangan, Inc. (Hedcor Sabangan)

Hedcor Sabangan's capital stock is held by ARI and AboitizPower at 16% and 84%, respectively, resulting in AboitizPower's 100% effective interest therein.

Hedcor Sabangan is the project company organized to build the proposed 14-MW run-of-river hydropower project in Sabangan, Mountain Province. As part of the process of getting Free, Prior and Informed Consent (FPIC) for the project required under the Indigenous Peoples' Rights Act of 1997 (IPRA), Hedcor Sabangan signed a MOA with the indigenous peoples of Barangays Namatec and Napua, the municipality of Sabangan and the Mountain Province in February, March and July 2011.

The project broke ground in June 2013, after it was granted all the permits and licenses in the first quarter of 2013. The estimated cost for this project is ₱1.7 bn. Hedcor Sabangan intends to avail of the FIT mechanism.

The project was awarded the Confirmation of Commerciality as FIT Eligible plant by the DOE under Department Circular 2013-05-0009 pursuant to the RE Law. Hedcor Sabangan intends to avail of the FIT mechanism.

The plant is scheduled to be tested and commissioned in March 2015.

Hedcor Bukidnon, Inc. (Hedcor Bukidnon)

Hedcor Bukidnon's capital stock is held by ARI and AboitizPower at 10% and 90%, respectively, resulting in AboitizPower's 100% effective interest therein.

Hedcor Bukidnon is the project company for the proposed 68-MW Manolo Fortich hydropower plant project. The Project is composed of the 43-MW Manolo Fortich 1 and the 25-MW Manolo Fortich 2 plants which shall be located in the province of Bukidnon. Both plants are expected to produce at least 300 mn kWh annually. The estimated total project cost is at ₱13 bn. The construction of the Manolo Fortich project has already begun in 2014 and is expected to be concluded by the end of 2016.

AP Solar Tiwi, Inc. (AP Solar)

On November 12, 2014, ARI signed a joint framework agreement with SunEdison, Inc. (SunEdison) to jointly explore, develop, construct and operate up to 300 MW of utility-scale solar photovoltaic power generation projects in the Philippines over the next few years. AP Solar is the first project company that will undertake this project. Originally incorporated as a wholly-owned Subsidiary of ARI, the parties are currently negotiating an agreement to allow SunEdison to join ARI to realize the parties' vision of bringing cost effective solar energy to the Philippines.

Therma Power, Inc. (TPI)

TPI is a wholly-owned Subsidiary of AboitizPower and is the latter's holding company for its non-renewable energy projects. AboitizPower, either directly and/or through TPI, has equity interests in the following generation companies, among others:

- 100% equity interest in TLI, the IPPA of the 700-MW contracted capacity of the Pagbilao Plant in Quezon Province;
- 100% equity interest in TMI, owner and operator of 100-MW Mobile 1 barge-mounted power plant in Maco, Compostela Valley and 100-MW Mobile 2 barge-mounted power plant in Nasipit, Agusan del Norte;
- 100% equity interest in TMO, owner and operator of Mobile 3–6 barge-mounted power plants in Navotas Fishport, Manila, with a total generating capacity of 242 MW;
- 100% equity interest in TSI, which is currently building a 300-MW circulating fluidized bed (CFB) coal-fired plant in Toril, Davao City;
- 80% equity interest in TVI, which is currently building a 300-MW coal-fired power plant in Toledo City, Cebu;
- 26.4% effective interest in Cebu Energy, which operates a 3x82-MW coal-fired power plant in Toledo City, Cebu;
- 50% equity interest in PEC, which is currently building a 420-MW coal-fired power plant in Pagbilao, Quezon Province;
- 25% equity interest in RP Energy, which proposes to build and operate a 600 MW coal-fired power plant in Redondo Peninsula in the SBFZ; and
- 100% equity interest in TPVI, the project company that bid for the privatization of the Naga power plant, located in Naga City, Cebu.

Therma Luzon, Inc. (TLI)

TLI, as a wholly-owned Subsidiary of TPI, is effectively 100% owned by AboitizPower. TLI submitted the highest offer in the competitive bidding conducted by PSALM for the appointment of an IPPA for the 700-MW contracted capacity of Pagbilao coal-fired thermal power plant located in Pagbilao, Quezon (Pagbilao Plant).

On October 1, 2009, TLI became the first IPPA in the country when it assumed the role of the registered trader of the contracted capacity of the Pagbilao Plant. As IPPA, TLI is responsible for procuring the fuel requirements of and selling the electricity generated by the Pagbilao Plant. The Pagbilao Plant is being operated by TeaM Energy under a BOT scheme with NPC/PSALM.

The IPPA Agreement includes the obligation of TLI to pay to PSALM monthly payments based on the bid and energy fees equivalent to the amount paid by NPC to the Independent Power Producer. Under the IPPA Agreement, TLI has the right to receive the transfer of the existing two units of the Pagbilao Plant at the end of the IPPA Agreement. As such, the company acquired substantial risks and rewards incidental to the IPPA Agreement. Accordingly, the company accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM. The power plant is depreciated over its estimated useful life as there is reasonable certainty that the company will obtain ownership by the end of the lease term.

Over the past two years, TLI's capacity was contracted to various cooperatives, private distribution utilities, directly-connected customers, and an affiliated RES, AESI. AESI, in turn, sells the power to contestable customers under the Open Access regime. The diversification of the customer base spreads the risk of TLI. Most of these bilateral contracts have terms ranging between three to 20 years. A significant number of TLI's Open Access customers consume most of their energy during off-peak periods. This results in a customer mix with a high load factor. A high load factor customer base is operationally easier to provide for due to the minimal fluctuation of plant production and the very predictable fuel consumption, and therefore easier fuel procurement.

On February 26, 2010, the BOI approved TLI's application as a New IPPA of the 700-MW Pagbilao Coal Fired Thermal Power Plant Project under Energy with Non-Pioneer Status under the Omnibus Investments Code of 1987. On April 21, 2010, the BOI granted TLI's request for the adjustment of the commencement of its ITH availment period from February 26, 2010 to January 1, 2010. Among other incentives, the BOI granted the company an ITH for a period of four years without extension from January 1, 2010 or actual start of operation, whichever is earlier but in no case earlier than the date of registration. The ITH incentives shall be limited only to the sales/revenue generated from the sale of electricity of the power plant. Based on this schedule, TLI will be subject to a 30% corporate income tax beginning January 2014.

In March 2013, TLI signed an ASPA with NGCP covering firm contracted capacities for contingency reserves at 60 MW during off-peak hours for the Pagbilao plant. The ASPA is valid for five years from the issuance of a provisional or final approval by the ERC. A PA from the ERC has been obtained, paving the way for the implementation of TLI's new ASPA for the Pagbilao Plant starting July 26, 2013. Nominations and acceptance of nominations is subject to renewal of the accreditation of the Pagbilao Plant as an ancillary service provider.

Therma Marine, Inc. (TMI)

TMI, as a wholly-owned Subsidiary of TPI, is effectively 100% owned by AboitizPower. It owns and operates Power Barges Mobile 1 (previously known as PB 118) and Mobile 2 (previously known as PB 117), which have a total generating capacity of 200 MW. Mobile 1 is currently moored at Barangay San Roque, Maco, Compostela Valley, while Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte.

TMI assumed ownership of Mobile 1 and Mobile 2 from PSALM on February 6, 2010 and March 1, 2010, respectively, after the successful conclusion of the US\$30 mn negotiated bid for the barges on July 31, 2009. After acquisition, TMI signed a one-year ASPA with NGCP with respect to each barge for the supply of ASconsisting of contingency reserve, dispatchable reserve, reactive power support and blackstart capacity for the Mindanao grid. The ASPA involving the power barges is for the supply of 50-MW firm ancillary power to NGCP. The contracts were extended for another year and expired on February 5, 2012 and March 1, 2012 for Mobile 1 and Mobile 2, respectively. The 192.2-MW dependable capacities of TMI are currently being fully contracted and sold to various cooperatives, industrial and commercial customers in Mindanao under Energy Supply Agreements (ESAs), all of which were approved by the ERC. All ESAs are still outstanding and the new expiry dates will be in 2016 to 2017 with the recent contract extensions. Some contract extensions are still pending with ERC for approval.

TMI was registered with BOI effective May 28, 2010 with a four-year ITH. The ITH validity expired last May 27, 2014. Upon the expiration of the BOI registration, all benefits granted to TMI expired, thus making TMI subject to regular tax rates.

Therma Mobile, Inc. (TMO)

TMO's capital stock is held by TPI and AboitizPower at 77% and 23%, respectively, resulting in AboitizPower's 100% effective interest therein. TMO acquired four barge-mounted floating power plants located at Navotas Fishport, Manila on May 27, 2011. The barge-mounted floating power plants have an installed generating capacity of 242 MW.

The barges have undergone rehabilitation starting July 2011, and commercial operations began on November 12, 2013 at a capacity of 100 MW. The current dependable capacity of 200 MW was attained and proven in a successful capacity test in April 2014.

Therma South, Inc. (TSI)

TSI's capital stock is held by TPI and AboitizPower at 94% and 6%, respectively, resulting in AboitizPower's 100% effective interest therein. Incorporated on November 18, 2008, TSI is the project company for the construction of the 300-MW CFB coal-fired power plant in Barangay Binugao, Toril District, Davao City and Barangay Inawayan, Sta. Cruz, Davao del Sur.

Through TSI's close engagement and consultation with key stakeholders, including the conduct of dialogues, road shows and information drives, the company has carefully explained the urgent need to build the plant in order to alleviate the worsening power supply situation in Davao City and the entire Mindanao. It also gave firm assurances that the construction and operations of the plant will meet stringent national and international emission standards. These efforts led to the strong support for the project by the host barangays, business, professional organizations and civic groups. Ultimately, the project received the overwhelming endorsement of the LGUs in the city of Davao and the municipality of Sta. Cruz in Davao del Sur.

On September 9, 2011, the Department of Environment and Natural Resources – Environmental Management Bureau (DENR – EMB) issued the ECC for the power plant project. In August 2011, TSI acquired the land where the plant will be located. On February 15, 2012, the Department of Agrarian Reform released the Conversion Order for the land.

On April 10, 2012, upon receipt of all necessary permits, the site preparation contractor began clearing the site. In June 2012, the EPC contracts were executed with the Power Island contractor and the Balance of Plant contractor with an effective project start date of June 1, 2012.

As of December 2014, the construction progress of the above-mentioned power plant continues to be on track. The overall project is approximately 94% complete, with on-going commissioning activities since the second quarter of 2014 and back-feed power beginning January 2015. Construction staff is 1,300, many of whom are residents of the local communities around the plant site. The construction of the first plant (with capacity of 150MW) is on schedule and is expected to become operational in the first quarter of 2015. The second plant (with capacity of 150MW) will be operational within three months thereafter.

On October 16, 2013, TSI secured a ₱24-bn loan from a consortium of banks to finance the construction and operation of the plant. BDO Capital & Investment Corporation acted as Issue Manager and Lead Arranger, while BDO Unibank, Inc. - Trust and Investments Group was appointed as Trustee and Facility Agent.

On March 18, 2014, Davao City's legislative council has approved a resolution that will allow TSI to expand its capacity from 300 MW to 645 MW.

Therma Visayas, Inc. (TVI)

TVI is 42% directly owned by TPI and 38% directly owned by AboitizPower. Consequently, AboitizPower holds 80% effective interest in TVI.

TVI is the project company of the 2x150 CFB coal-fired power plant in Barangay Bato, Toledo City, Cebu. It was incorporated on October 15, 1997 as Vesper Industrial & Development Corporation, a joint venture company of A. Soriano Corporation (Anscor) and Tokuyama Corporation (Tokuyama).

In December 2011, AboitizPower through its Subsidiary, TPI, acquired all shares of Anscor and Tokuyama, and thereafter renamed the company to Therma Visayas, Inc. Vivant group acquired 20% interest in TVI through subscriptions from its increase in authorized capital stock which was approved by the Securities and Exchange Commission (SEC) on December 23, 2014.

The project aims to address the increasing power demand of the Visayas grid with provisions for the future addition of a third generating unit. Commercial operation of the first unit is expected to start by the last quarter of 2017 with the second unit following three months thereafter.

In 2013, TVI received the ECC for the project and completed a Grid Impact Study which has been approved by the NGCP. It also completed the collection of physical data at the project site in late 2012, including topography, hydrography, onshore and offshore subsurface investigations, and other tests.

In May 2014, TVI signed an EPC contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc. TVI has also issued a limited Notice to Proceed to perform design engineering and detailed physical data collection in preparation for the construction plant. TVI plans to issue the full Notice to Proceed by March 2015 in order to have a guaranteed completion date by the last quarter of 2017.

Abovant Holdings, Inc. (Abovant) and Cebu Energy Development Corporation (Cebu Energy)

Incorporated on November 28, 2007, Abovant is a joint venture company formed to hold investments in Cebu Energy. Abovant is 60% owned by TPI and 40% owned by VIGC of the Garcia group.

Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation of the Metrobank group and Formosa Heavy Industries, Inc., formed Cebu Energy to own, operate and maintain a 3x82 MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu. Abovant has a 44% stake in Cebu Energy, while Global Formosa owns the remaining 56% stake. Consequently, AboitizPower holds 26.4% effective interest in Cebu Energy.

In 2012, the Cebu Energy power plant in Toledo City completed its first full year of commercial operations. The first 82-MW unit was commissioned in February 2010; while the second and third units were commissioned in the second and fourth quarter of 2010, respectively. The said power plant provides the much-needed security of the power supply of the province of Cebu and its neighboring province, Bohol. Cebu Energy also supplies power to Global Energy Supply Corporation, a RES that supplies electricity to Taiheiyu Cement Philippines, Inc.

Pagbilao Energy Corporation (PEC)

PEC is 50% owned by TPI and 50% owned by TPEC Holdings Corporation. Consequently, AboitizPower holds 50% effective interest in PEC.

TPI and TeaM Energy entered into a Joint Development Agreement, effective May 31, 2012, to develop, own and operate a third generating unit with a net capacity of 400 MW within the Pagbilao Plant facilities which already provided for the possibility of this new unit. PEC was formed as a separate vehicle for the third unit (Pag3) and is intended to be a separate entity from TLI. PEC is not covered by either TLI's IPPA with PSALM, or TeaM Energy's BOT contract with NPC/PSALM. An Environment Compliance Certificate (ECC) was issued by the DENR-EMB on June 18, 2013.

In May 2014, PEC entered into an EPC contract with a consortium comprised of Mitsubishi Hitachi Power Systems Ltd., Daelim Industrial Co. Ltd., DESCO Inc. and Daelim Philippines Inc. for the project. PEC also signed an Omnibus Agreement to finance the construction of Pag3 with a consortium of lender-banks to obtain loans and credit accommodations in the amount of up to ₱33.31 bn. Site construction activities are in progress in line with PEC's target commercial operations within 2017.

Redondo Peninsula Energy, Inc. (RP Energy)

RP Energy is 25% owned by TPI resulting in AboitizPower's 25% effective interest therein. Incorporated on May 30, 2007, RP Energy was originally a joint venture between AboitizPower and TCIC. On July 22, 2011, MPGC acquired a majority interest in RP Energy by virtue of a share purchase agreement with TPI, a wholly-owned Subsidiary of AboitizPower. AboitizPower and TCIC retained an equal ownership interest of 25% less one share each. In view of increasing power demand in the Luzon grid and with the entry of MPGC, RP Energy expanded its original proposal to build and operate a 300-MW coal-fired power plant on Redondo Peninsula of Subic Bay within the SBFZ into a 2x300-MW (net) power plant.

RP Energy has completed the voluntary relocation of all affected residents in the site in accordance with existing Philippine rules and regulations and accepted international standards. In November 2011, RP Energy designated the suppliers of the CFB boilers, steam turbines, generators and supporting auxiliaries that ultimately will be engaged as subcontractors by the selected engineering, procurement and construction (EPC) contractor.

Several milestones were achieved by RP Energy in the year 2012. The company's discussions with the SBMA on certain improvements of the key provisions of the Lease Development Agreement (LDA) have been substantially completed. The BOI also issued a Notice of Approval in favor of RP Energy for its application for registration with incentives, subject to RP Energy's acceptance of certain conditions set by the BOI. To date, RP Energy has submitted its concurrence to such conditions and is awaiting the formal registration of the project with the BOI.

On November 15, 2012, RP Energy was issued an amended ECC to cover two high-efficiency 300-MW (net) units with main steam reheat systems. Site preparation was substantially completed. The EPC contract has been awarded to Hyundai Engineering and Construction Co. Ltd. (Hyundai) with Foster Wheeler Ltd. (Foster Wheeler) and Toshiba Corporation (Toshiba) as major subcontractors/suppliers of the CFB boilers and turbines, respectively. Hyundai has not been notified to proceed with the works, however, because of the filing with the Supreme Court of a Petition for Writ of Kalikasan and Environmental Protection Order by an ad hoc group of individuals and organizations. The Petition was remanded to the Court of Appeals (CA) for a hearing. The CA denied the issuance of Writ of Kalikasan for lack of merit, but nonetheless, nullified RP Energy's ECC and land lease with SBMA's on the grounds of DENR's non-compliance with procedural requirements and SBMA failure to secure approvals and endorsements from relevant local government units (LGUs). The CA decision became the subject of three Petitions for Review on Certiorari filed by RP Energy, DENR and SBMA with the Supreme Court. In view of this legal dispute, the commercial operation of the power plant became dependent on the final resolution of these Petitions by the Supreme Court.

On February 3, 2015, the SC dismissed the Writ of Kalikasan Case for insufficiency of evidence and upheld the validity of the December 22, 2008 ECC issued by the DENR in favor of RP Energy, as well as its July 8, 2010 first amendment and the May 26, 2011 second amendment. The SC also upheld the validity of the Lease and Development Agreement between SBMA and RP Energy dated June 8, 2010.

RP Energy received three major awards from Philippine Quill Awards and bagged the Anvil Awards for its corporate social responsibility and public relations initiatives for its stakeholders in 2012.

STEAG State Power, Inc. (STEAG Power)

Incorporated on December 19, 1995, STEAG Power is the owner and operator of a 232-MW (gross) coal-fired power plant located in PHIVIDEK Industrial Estate in Misamis Oriental, Northern Mindanao. The coal plant was built under a BOT arrangement and started commercial operations on November 15, 2006. The coal plant is involved in a 25-year PPA with the NPC, which is backed by a Performance Undertaking issued by the Republic of the Philippines.

On November 15, 2007, AboitizPower closed the sale and purchase of 34% equity ownership in STEAG Power from Evonik Steag GmbH (now STEAG GmbH or STEAG), Germany's fifth largest power generator. STEAG and La Filipina Uy Gongco Corporation currently holds the remaining 51% and 15% equity, respectively, in STEAG Power.

STEAG Power was registered with the BOI as a pioneer enterprise with a six-year ITH incentive. The incentive expired on November 14, 2012. STEAG Power's COC, on the other hand, was renewed by the ERC and is now effective until May 2016.

East Asia Utilities Corporation (EAUC)

EAUC was incorporated on February 18, 1993. It has been operating a Bunker C-fired power plant (with an installed capacity of 50 MW) within MEPZ I in Mactan Island, Cebu since 1997. Pursuant to the Electric Power Purchase Agreement (EPPA) with the PEZA, which took effect on April 26, 2011, PEZA shall purchase from EAUC 22 MW electric power. EAUC also signed an EPPA with BEZ for the supply of power equivalent to 5.255 MW for a period of five years, starting May 25, 2011 until May 25, 2016. On December 26, 2010, EAUC started supplying power through the WESM.

AboitizPower acquired its 50% ownership interest in EAUC from El Paso Philippines on April 20, 2007. El Paso Philippines still owns the remaining 50% interest in EAUC.

Cebu Private Power Corporation (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates a 70-MW Bunker C-fired power plant, one of the largest diesel powered plants in the island of Cebu. Commissioned in 1998, the CPPC plant was constructed pursuant to a BOT contract to supply 62 MW of power to VECO.

AboitizPower acquired 60% interest in CPPC from EAUC on April 20, 2007. VEC holds the remaining 40% of the outstanding common shares in CPPC, while VECO owns all of CPPC's redeemable preferred shares. VEC and AboitizPower are the major shareholders of VECO. CPPC is imbedded inside the franchise area of VECO.

On December 26, 2010, CPPC started selling its excess capacity through the WESM.

On July 16, 2013, CPPC and VECO filed an application for a new PSA with the ERC, which contemplates a slightly lower electricity rate than its existing rate. It shall take effect upon approval of the ERC and shall expire ten years thereafter.

Southern Philippines Power Corporation (SPPC)

SPPC is a joint venture among AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore), Pte. Ltd. AboitizPower has 20% equity interest in SPPC, which owns and operates a 55-MW Bunker C-fired power plant in Alabel, Sarangani, a town located outside General Santos City in Southern Mindanao (SPPC Plant).

The SPPC Plant was developed by SPPC on a build-own-operate basis under the terms found in its Energy Conversion Agreement (ECA) with NPC. Under the ECA, NPC is required to deliver and supply to SPPC the fuel necessary to operate the SPPC Plant during an 18-year cooperation period, which ends in 2016. NPC is also required to take all the electricity generated by the SPPC Plant during the cooperation period and pay SPPC on a monthly basis, capital recovery, energy, fixed operations and maintenance (O&M), and infrastructure fees as specified in the ECA. During this cooperation period, SPPC is responsible, at its own cost, for the management, operation, maintenance and repair of the SPPC Plant.

Aside from providing the much needed capacity to southwestern Mindanao area, the SPPC Plant also performs the role of voltage regulator for General Santos City, ensuring the availability, reliability and quality of power supply in the area.

Western Mindanao Power Corporation (WMPC)

Like SPPC, WMPC is also a joint venture among AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore), Pte. Ltd. AboitizPower has 20% equity interest in WMPC, which owns and operates a 100-MW Bunker C-fired power station located in Zamboanga City, Zamboanga Peninsula in Western Mindanao (WMPC Plant).

The WMPC Plant was developed by WMPC on a build-own-operate basis under the terms found in its ECA with NPC. Under the ECA, NPC is required to deliver and supply to WMPC the fuel necessary to operate the WMPC Plant during an 18-year cooperation period which ends in 2015. NPC is also required to take all the electricity generated by the WMPC Plant during the cooperation period and pay WMPC on a monthly basis, capital recovery, energy, fixed O&M, and infrastructure fees as provided in the ECA. During this cooperation period, WMPC is responsible, at its own cost, for the management, operation, maintenance and repair of the WMPC Plant.

Aside from providing the much needed capacity to Zamboanga Peninsula, the WMPC Plant also performs the role of voltage regulator for Zamboanga City, ensuring the availability, reliability and quality of power supply in the area.

Other Generation Assets

Two of AboitizPower's distribution utilities, Davao Light and Cotabato Light, each has its own stand-by power plant. Davao Light currently maintains the Bunker C-fired Bajada stand-by power plant, which is capable of supplying 19% of Davao Light's requirements. Cotabato Light maintains a stand-by Bunker C-fired power plant capable of supplying approximately 36% of its requirements.

Future Projects

Before undertaking a new power generation project, the Company conducts an assessment of the proposed project. Factors taken into consideration include the proposed project's land use requirements, access to a power grid, fuel supply arrangements (if relevant), availability of water, local requirements for permits and licenses, acceptability of the project to the communities and peoples it will affect, ability of the project to generate electricity at a competitive cost, and the existence of potential purchasers of the electricity generated. For the development of a new power project, the Company, its partners and suppliers are required to obtain all national and local permits and approvals before the commencement of construction and commercial operations, including those related to the project site, construction, the environment, land use planning/zoning, operations licenses, and similar approvals.

Notwithstanding the comprehensive review and evaluation process that the Company's management conducts in relation to any proposed project, acquisition or business, there can be no assurance that the Company will ultimately develop a particular project, acquire a particular generating facility, implement or acquire projects, or conduct businesses in the manner planned at or below their estimated costs. In addition, there can be no assurance that a project, if implemented, or an acquisition, if undertaken, will be successful.

DISTRIBUTION OF ELECTRICITY

The Aboitiz Group has more than 80 years of experience in the Philippine power distribution sector and has been known for innovation and efficient operations.

With ownership interests in eight Distribution Utilities, AboitizPower is currently one of the largest electricity distributors in the Philippines. AboitizPower's Distribution Utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Luzon, Visayas and Mindanao.

As of December 31, 2014, approximately 19% of AboitizPower's net income from business segments is derived from its power distribution business. The Distribution Utilities had a total customer base of 843,802 in 2014, 809,087 in 2013 and 766,988 in 2012.

The table below summarizes the key operating statistics of the Distribution Utilities for 2014 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MW)			No. of Customers		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Davao Light	1,981,258	1,770,738	1,680,477	344	324	295	331,998	315,886	303,135
Cotabato Light	119,571	121,231	117,538	23	25	23	36,297	35,137	33,931
VECO	2,527,846	2,417,353	2,300,959	459	433	412	380,851	366,606	341,611
SFELAPCO	537,544	523,789	493,565	99	99	90	91,504	88,464	85,405
SEZ	451,448	388,562	403,250	96	91	90	2,946	2,881	2,797
MEZ	123,207	118,252	122,660	22	21	21	82	80	78
BEZ	107,253	113,708	124,299	28	33	33	34	33	31
Lima Enerzone	126,524	-	-	22	-	-	90	-	-
Total	5,974,651	5,453,633	5,242,748	1,093	1,026	964	843,802	809,087	766,988

Visayan Electric Company, Inc. (VECO)

VECO is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 674 square kilometers in the island of Cebu with a population of approximately 1.7 mn. To date, VECO has 20 power substations and one mobile substation that serve the electrical power needs of the cities of Cebu, Mandaue, Talisay and Naga, the municipalities of Minglanilla, San Fernando, Consolacion and Liloan and the 232 barangays in the island and province of Cebu. As of December 2014, VECO's peak demand was recorded at 459 MW and is serving a total of 380,851 customers.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. In the early 1900s, the predecessors-in-interest of the Aboitiz Group acquired a 20% interest in VECO's predecessor-in-interest, the Visayan Electric Company, S.A. Since that time, the Aboitiz Group's ownership interest in VECO has increased from 20% to its current ownership interest of 55.25%, which is held by AboitizPower.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act (RA) 6454 for an additional 25 years starting 1978 and was conditionally renewed for another 25 years from December 2003, subject to the resolution of an intra-corporate dispute involving AEV and Vivant Corporation (Vivant), which is the holding company of the Garcia family. In September 2005, the Philippine Congress passed RA 9339, which extended VECO's franchise to September 2030. VECO's application for the extension of its Certificate of Public Convenience and Necessity (CPCN) was approved by the ERC on January 26, 2009.

In April 2004, AEV and Vivant entered into a Shareholders' Cooperation Agreement that sets out guidelines for VECO's day-to-day operations and the relationship among VECO's shareholders, including restrictions on share transfers (the grant of rights of first refusal in the event of a transfer to a third party and rights to transfer to Affiliates, subject to certain conditions), board composition and structure, proceedings of directors and shareholders, minority shareholder rights, dividend policy, termination and non-compete obligations. Under the terms of the agreement, day-to-day operations and management of VECO were initially assumed by AEV, and by AboitizPower after it acquired AEV's ownership interest in VECO in January 2007. AboitizPower and Vivant were each required to place in escrow 5% of the shares in VECO registered in their names to guarantee compliance with their respective obligations under the Shareholders' Cooperation Agreement. The escrow shares will be forfeited in the event that a shareholder group violates the terms of the Shareholders' Cooperation Agreement. The Shareholders' Cooperation Agreement was adopted as a result of the then dispute between AEV and Vivant with respect to the management of VECO. Relations between the shareholders of VECO since then have been amicable.

VECO is part of the third group (Group C) of private distribution utilities to shift to performance-based rate-setting regulation (PBR). The ERC issued its final determination on VECO's application for approval of its annual revenue requirements and Performance Incentive Scheme (PIS) under the PBR for the regulatory period July 1, 2010 to June 30, 2014. Such determination became final in May 2010.

In March 2013, VECO filed with the ERC an application for the approval of its proposed translation into distribution rates to the different customer classes for the fourth regulatory year. The five-month recovery due to the delay of the implementation in the third regulatory year is included in the application for the fourth regulatory year. The application was approved by the ERC on July 10, 2013 and VECO was able to implement the new distribution rates on time. The approved distribution rates for the fourth regulatory year were to be applicable only for July 2013 up to June 2014 billings. In the first quarter of 2014, VECO was scheduled to undergo the PBR reset process to ensure that the new rates would be approved and can be applied by July 2014. However, the ERC has since put on hold all PBR reset processes. VECO has since continued to apply the rates approved for the fourth regulatory period even beyond June 2014.

VECO's 120-MW Contract for the Supply of Electric Energy (CSEE) with the NPC/PSALM expired on December 25, 2014. NPC/PSALM privatized its Unified Leyte Geothermal Plants (ULGP) and turned over the power supply to its new owners starting December 26, 2014. As a replacement for the expired NPC/PSALM contract, VECO contracted 57 MW of base load from the new owners of the power output of the ULGP. An additional 30 MW of peaking supply was contracted from 1590 Energy Corporation, a diesel power plant located in the province of La Union in Luzon.

Davao Light & Power Company, Inc. (Davao Light)

Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customers and annual kWh sales. With a franchise covering Davao City, areas of Panabo City, and the municipalities of Carmen, Dujali and Santo Tomas in Davao del Norte, Davao Light serves a population of approximately 1.8 mn and a total area of 3,561 square kilometers. As of December 2014, Davao Light's peak demand was recorded at 344 MW, and is serving a total of 331,998 customers.

Although Davao Light was organized on October 11, 1929, the Aboitiz Group acquired its ownership only in 1946. Currently, AboitizPower owns 99.93% of the shares in Davao Light. Davao Light's original franchise, which covered Davao City, was granted in November 1930 by the Philippine Legislature and was for a period of 50 years. In September 2000, the Philippine Congress passed RA 8960, which granted Davao Light a franchise over its current franchise area for a period of 25 years, or until September 2025.

Davao Light has a 150-MVA and a 2x50-MVA substation drawing power at 138 kV. In 1998, it entered into a ten-year PPA with NPC, which was further extended until 2015 by a separate contract entered into by the parties in 2005. The PPA with NPC allows the delivery of most of Davao Light's power requirements through its 138-kV lines. As a result, in taking delivery of electricity from NPC, Davao Light is able to bypass the NGCP connection assets, thus avoiding the payment of the corresponding wheeling fees to NGCP. This allows the company to cut its operating costs.

In February 2007, Davao Light awarded a 12-year supply contract of new capacity to Hedcor Consortium, the consortium of ARI, Hedcor, Hedcor Sibulan and Hedcor Tamugan. There was a notable price differential between Hedcor Consortium's winning bid price of ₱4.09 per kWh and the next lowest bid price of approximately ₱1.01 per kWh. Over the life of the supply contract, the differential will amount to approximately ₱4.9 bn at current peso value, representing significant savings for Davao Light customers. Davao Light decided to secure the new supply contract in anticipation of the full utilization of the existing contracted energy supply under the ten-year contract with NPC for 1,363,375 MWh and the 12-year contract with Hedcor Consortium.

Davao Light's approach to helping local economies sustain robust growth is by ensuring power reliability. It plows back a significant percentage of its annual earnings to prudent investments that upgrade its distribution network in order to meet the increasing power demand of its franchise area.

The precarious power supply situation remains to be a huge concern for Mindanao consumers especially during the first semester of 2014. Davao Light had to implement rotating power interruptions due to generation deficiency within the Mindanao transmission grid. It started with an unscheduled shutdown of the STEAG Coal Plants in Villanueva, Misamis Oriental that brought total darkness to the island.

Contingencies designed to respond to energy deficiency, which were tested during the 2010 Mindanao power crisis, were utilized. These included tapping of embedded generators directly connected to the distribution facilities, which are synchronized to the grid. In the event of a power crisis, Davao Light's Bunker C-fired standby plant, with an initial installed capacity of 63.4 MW, can provide an average of 40 MW on a sustaining basis. Its capacity has since decreased to 58.7 MW as a result of derating. The standby plant is capable of supplying 19% of Davao Light's electricity requirement.

The power supply from Hedcor Sibulan's 49-MW and Hedcor's 4-MW Talomo hydroelectric plants in the area likewise augmented the power requirements of Davao Light.

The Bunker C-fired plant and the Hedcor Sibulan and Talomo hydroelectric plants are embedded in the Davao Light franchise. Thus, the power generated from these facilities is dispatched directly into the Davao Light distribution network without passing through the NGCP transmission lines.

Additional power supply from TMI power barges was also optimized. On March 21, 2011, Davao Light entered into a Power Service Contract (PSC) with TMI for 15 MW, which was approved by the ERC on May 30, 2011. Subsequently, Davao Light signed an additional 15-MW PSC with TMI.

Davao Light also implemented the Interruptible Load Program (ILP) especially during the peak demand periods. When advised by the utility, ILP participating companies use their own generator sets so that the smaller residential and commercial customers may utilize available power.

To keep pace with the rising demand for power and to support the uptrend of growing economies within its franchise, Davao Light signed a 100-MW PSA with TSI on October 25, 2012.

Cotabato Light and Power Company (Cotabato Light)

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao, with a land area of 191 square kilometers. As of December 2014, Cotabato Light's peak demand was recorded at 23 MW and is serving a total of 36,297 customers.

Cotabato Light was formally incorporated in April 1938. Its original 25-year franchise was granted in June 1939 by the Philippine Legislature. In 1961, the Philippine Congress passed RA 3217, which was further amended by RA 3341, extending Cotabato Light's franchise until June 1989. In August 1989, the Philippine Legislature extended Cotabato Light's franchise for another 25 years or until August 2014. Cotabato Light's franchise was further renewed upon the President's signing of RA 10637 on June 16, 2014.

As of 2014, Cotabato Light has three substations of 10 MVA, 12 MVA and 15 MVA, backed up by another 10 MVA power transformer. It is served by one 69-kV transmission line. Cotabato Light's distribution voltage is 13.8 kV. These lines can be remotely controlled using the Supervisory Control Data Acquisition (SCADA).

Cotabato Light maintains a standby 8.1-MW Bunker C-fired plant capable of supplying approximately 36% of its franchise area requirements. The existence of a standby power plant, capable of supplying electricity in cases of supply problems with PSALM or NGCP and for the stability of voltage whenever necessary, is another benefit to Cotabato Light's customers.

Although a relatively small utility, Cotabato Light's corporate relationship with its Affiliate, Davao Light, allows the former to immediately implement benefits from the latter's system developments. Davao Light likewise provides ready technical assistance to Cotabato Light whenever necessary.

To sustain a below cap systems loss, Cotabato Light is continuously innovating its systems and processes. As of December 2014, its systems loss stands at 8.26%, lower than the systems loss cap of 8.5%, as implemented by the ERC.

Cotabato Light is part of the second batch (Group B) of private utilities to enter PBR and is currently under the four-year regulatory period starting April 1, 2013. Cotabato Light's second Regulatory Period ended on March 31, 2013. A reset process should have been initiated 18 months prior to the start of the third regulatory period covering April 1, 2013 to March 31, 2017. The reset process, however, has been delayed due to the issuance of an Issues Paper on the Implementation of PBR for Distribution Utilities under the Rules for Setting Distribution Wheeling Rates (RDWR) by the ERC in 2013. This paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

Cotabato Light utilizes the most up-to-date systems such as the Customer Care and Billing, Enterprise Resource Planning (ERP) and soon, the Work and Asset Management (WAM). Cotabato Light constantly looks for ways in order to provide its customers with safe and reliable power and operate as a low cost service provider.

San Fernando Electric Light & Power Co., Inc. (SFELAPCO)

Incorporated on May 17, 1927, SFELAPCO was a grantee of a municipal franchise in 1927. In 1961, the Philippine Congress passed RA 3207, which granted SFELAPCO a franchise to distribute electricity for a period of 50 years, or until June 2011. Prior to the expiration of its legislative franchise, or on February 6, 2010, RA 9967 lapsed into law extending the franchise of SFELAPCO for another 25 years from March 24, 2010.

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 78,514 square kilometers with approximately 314.21 circuit-kilometers on its 13.8-kV and 608.21 circuit-kilometers on its 240-volt distribution lines. As of December 2014, SFELAPCO's peak demand was recorded at 99 MW and is serving a total of 91,504 customers.

There are 35 barangays in the City of San Fernando that are currently being supplied by SFELAPCO under its existing franchise. SFELAPCO likewise serves barangays San Isidro and Cabalantian in Bacolor, Pampanga. SFELAPCO also serves 25 barangays in the municipality of Floridablanca and two barangays in Guagua, Pampanga. This area consists of 125,000 square kilometers with approximately 89.24 circuit-kilometers of 13.8-kV and 144.69 circuit-kilometers on its 240-volt distribution lines.

SFELAPCO is part of the fourth batch (Group D) of private utilities to enter PBR and is currently under the four-year regulatory period starting October 1, 2011. For SFELAPCO's second regulatory year covering October 1, 2012 to September 30, 2013, it was able to implement the new rate schedule starting April 2013. Consequently, the resulting under-recoveries from the lag starting from October 1, 2012 were included by SFELAPCO as under-recoveries in its rate filing in the third regulatory year. The said application is still pending review by ERC.

AboitizPower has an effective interest of 43.78% in SFELAPCO.

Subic EnerZone Corporation (SEZ)

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to SBMA and to operate the SBFZ power distribution system for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta and Pampanga Sugar Development Company (PASUDECO) to undertake the management and operation of the SBFZ power distribution system. On October 25, 2003, SEZ was formally awarded the contract to manage SBFZ's power distribution system, and it officially took over the operations of the power distribution system on the same day. As of December 2014, SEZ's peak demand was recorded at 96 MW and is serving a total of 2,946 customers.

SEZ's authority to operate SBFZ's power distribution system was granted by SBMA pursuant to the terms of The Bases Conversion and Development Act of 1992 (RA 7227), as amended. As a company operating within the SBFZ, SEZ is not required to pay the regular corporate income tax of 30% and instead pays a preferential tax of 5% on its gross income in lieu of all national and local taxes.

Following the acquisition by AboitizPower in January 2007 of AEV's 64.3% effective ownership interest in SEZ, AboitizPower entered into another agreement on June 8, 2007 to acquire the combined 25% equity stake in SEZ of AEV, SFELAPCO, Okeelanta and PASUDECO. On December 17, 2007, AboitizPower bought the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with Davao Light's 35% equity in SEZ, this acquisition brought AboitizPower's total equity in SEZ to 100%.

SEZ is part of the fourth batch (Group D) of private utilities to enter PBR. On July 6, 2011, ERC released its final determination on SEZ's application for approval of its maximum average price (MAP), Annual Revenue Requirement (ARR), and Performance Incentive Scheme (PIS) for the period October 2011 to September 2015. The approved MAP for the first regulatory year, as translated into new rates per customer class, was implemented in January 2012.

SEZ has seen a smooth transition in implementing new PBR power rates in 2012. In July 2012, ERC certified SEZ as a Local RES.

For SEZ's second regulatory year covering October 1, 2012 to September 30, 2013, SEZ was able to implement the new rate schedule starting January 2013. Consequently, the resulting under-recoveries from the lag starting from October 1, 2012 were included by SEZ as under-recoveries in its rate filing in the third regulatory year.

The approved recalculated MAP and distribution rates for the third regulatory year covering October 2013 to September 2014 was implemented in the May 2014 billing.

Mactan Enerzone Corporation (MEZ)

MEZ was incorporated in January 2007 when AboitizLand spun off the power distribution system of its MEPZ II project. The MEPZ II project, which was launched in 1995, was operated by AboitizLand under a BOT agreement entered into with the Mactan-Cebu International Airport Authority (MCIAA).

On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ, representing 8,754,443 common shares. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in MEZ valued at ₱609.5 mn, in exchange for AboitizPower's common shares issued at the IPO price of ₱5.80 per share.

MEZ sources its power from NPC pursuant to a Contract to Supply Electric Energy. Under the said contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by MEPZ II locators under their respective PSCs with MEZ. As of December 2014, MEZ's peak demand was recorded at 22 MW and is serving a total of 82 customers.

Balamban Enerzone Corporation (BEZ)

BEZ was incorporated in January 2007 when Cebu Industrial Park Developers, Inc. (CIPDI), a joint venture between Aboitiz Land, Inc. (AboitizLand) and Tsuneishi Holdings (Cebu), Inc. (THC), spun off the power distribution system of the WCIP-SEZ. WCIP-SEZ is a special economic zone for light and heavy industries owned and operated by CIPDI. CIPDI, located in Balamban, Cebu, is home to the shipbuilding and ship repair facilities of THC, as well as to the modular fabrication facility of Metaphil International, Inc. and recently, to Austal Philippines Pty. Limited.

On May 4, 2007, CIPDI declared property dividends to its stockholders in the form of equity in BEZ. On June 8, 2007, AboitizPower entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ, represented by 4,301,766 common shares of BEZ. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in BEZ valued at ₱266.9 mn, in exchange for AboitizPower's common shares issued at the IPO price of ₱5.80 per share.

On March 7, 2008, AboitizPower purchased THI's 40% equity in BEZ. The acquisition brought AboitizPower's total equity in BEZ to 100%.

In January 2011, BEZ secured firm contracts from various power suppliers such as Green Core Geothermal Incorporated (GCGI), Cebu Energy and EAUC to ensure sufficient power supply to the different industries within the WCIP-SEZ. In the same period, BEZ became a direct member of the PEMC to avail of the power available at the WESM. As of December 2014, BEZ's peak demand was recorded at 28 MW and is serving a total of 34 customers.

Lima Enerzone Corporation (Lima Enerzone)

Lima Enerzone was incorporated as Lima Utilities Corporation on June 5, 1997 to serve and provide locators within the LTC with a reliable and stable power supply. It is a wholly owned subsidiary of Lima Land. With the acquisition by AboitizLand of the interests of the Alsons and Marubeni groups in Lima Land in 2013 and 2014, respectively, the company became a wholly-owned subsidiary of AboitizLand.

Subsequently, in mid 2014, AboitizLand divested its interests in Lima Utilities through the sale of its shares to AboitizPower. The acquisition was completed on July 7, 2014. Following the change of ownership of the company, the new shareholder of the company, AboitizPower, then sought approval to change its corporate name to Lima Enerzone, which was approved by the SEC on October 14, 2014.

Lima Enerzone manages a 50-MVA substation with dual power supply system connected through a 69-kV transmission line of NPC. The Lima Enerzone substation is directly connected to the grid in Batangas City, with an alternate connection to the MakBan geothermal line.

Lima Enerzone's responsive interface ensures that customers receive power that fully meets their business requirements. As asset manager of the electrical infrastructure constructed at the LTC, Lima Enerzone has the sole responsibility of providing clean, reliable and uninterrupted power supply to enable the multinational manufacturing companies to produce quality products at international standards. As such, Lima Enerzone has an on-going project of an additional 50 MVA power transformer to serve the increasing demand for future locators and expansions. This project will also

provide power supply reliability and flexibility at the LTC. As of December 2014, Lima Enerzones's peak demand was recorded at 22 MW and is currently serving a total of 90 customers.

RETAIL ELECTRICITY AND OTHER RELATED SERVICES

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. With the start of commercial operations of Retail Competition and Open Access (Open Access), large-scale customers will be allowed to obtain electricity from RES licensed by the ERC.

Aboitiz Energy Solutions, Inc. (AESI)

On November 9, 2009, AESI, a wholly-owned Subsidiary of AboitizPower, was granted a license to act as a RES, which license was renewed on October 29, 2012 for another five years. With the start of commercial operations of Open Access in June 26, 2013, AESI is initially serving 42 customers, with a total average consumption of 107,942 MWh per month. This customer base provided a stable off-take market for the steady expansion of AESI market share in the Contestable Market leading to its delivery of 1,197,380 MWh for the year 2014.

In December 2014, PSALM formally turned-over the management and dispatch for the 40 MW strips of energy from the ULGPP which AESI won in the November 2013 IPPA bid. With the implementation of the January 2015 billing cycle, AESI is expected to formally issue its first power bill to its sole distribution utility off-taker for the 40 MW strips contracted under a PSA.

Prism Energy, Inc. (Prism Energy)

Prism Energy was incorporated in March 2009 as a joint venture between AboitizPower and Vivant. It was granted a five-year RES license by the ERC on May 22, 2012 until May 22, 2017. Prism Energy is envisioned to serve contestable customers in the Visayas Region. As a retail electricity supplier, Prism Energy will provide its customers with contract options for electricity supply to be based on their operating requirements.

As the power supply situation in the Visayas is being stabilized, Prism Energy is projected to begin formal operations upon procurement of generation supply contracts from generation companies that will operate in the region. It will provide retail electricity supply to end-users qualified by the ERC to contract for retail supply.

Adventenergy, Inc. (AdventEnergy)

Incorporated in August 2008, AdventEnergy is a licensed RES, duly authorized by the ERC to sell, broker, market, or aggregate electricity to end-users including those within economic zones. AdventEnergy's RES license was renewed by the ERC on June 18, 2012 and is valid until June 18, 2017. The company was specifically formed to serve contestable customers who are located in economic zones.

AdventEnergy differentiates itself from competition by sourcing electricity from a 100% renewable source. With this competitive advantage, more and more companies are opting to source a part, if not the majority, of their electricity supply from AdventEnergy as an environmental initiative.

At present, AdventEnergy has Retail Supply Contracts with ten customers operating inside a PEZA zone. A total of 17 customers is currently under contract with AdventEnergy which has supplied a total of 306,440 MWh for the year 2014.

SN Aboitiz Power - Res, Inc. (SN Aboitiz Power-RES)

SN Aboitiz Power-RES, Inc. (SN Aboitiz Power-RES) is the retail electricity supplier arm of the SN Aboitiz Power Group, the group of companies formed out of the strategic partnership between AboitizPower and SN Power. SN Aboitiz Power-RES caters to contestable customer sector and electricity consumers using an average of at least 1 MW in the last 12 months across all industries under Open Access. It offers energy supply packages tailored to the customers' needs and preferences.

Its vision is to become the leading RES in the country through profitable growth, excellence in business processes, and innovative ideas. It also aims to supply the energy requirements of its customers in a fair and equitable manner

and to contribute to the vibrant local power market that supports the country's development. SN Aboitiz Power-RES harnesses the synergy from the partnership of SN Power Group, an international hydropower expert, and AboitizPower Group, a local power industry leader.

As of December 31, 2014, SN Aboitiz Power-RES contributed to 12% to the SN Aboitiz Power Group's bilateral contract volume or 11% to its sales revenue.

In view of the restructuring of the SN Power Group in 2014, 40% of the outstanding capital stock of SN Aboitiz Power – RES was transferred by SN Power Singapore to its affiliate, SN Power Netherlands.

(ii) Sales

The operations of AboitizPower and its Subsidiaries and Affiliates are based only in the Philippines.

Comparative amounts of revenue, profitability and identifiable assets are as follows:

	2014	2013	2012 (As Restated)
Gross Income	86,759	72,055	62,153
Operating Income	22,351	19,477	20,456
Total Assets	216,761	193,939	163,105

Note: Values are in Million Pesos. Operating income is operating revenue net of operating expenses.

Comparative amounts of revenue contribution by business group are as follows:

	2014		2013		2012	
Power Generation	47,790	49%	45,521	58%	47,779	74%
Power Distribution	39,976	41%	28,067	36%	15,850	25%
Retail Electricity Supply	9,703	10%	4,373	5%	-	-
Services	908	0%	610	1%	658	1%
Total Revenue	98,377	100%	78,571	100%	64,287	100%
Less: Eliminations	(11,618)		(6,516)		(2,134)	
Net Revenue	86,759		72,055		62,153	

Note: Values are in Million Pesos.

(iii) Distribution Methods of the Products or Services

The Generation Companies sell their electricity either through the WESM or through bilateral PSAs with the NPC, private distribution utilities, electric cooperatives, retail electricity suppliers or other large end-users.

Currently, each of SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet has ASPAs with the NGCP as AS providers to the Luzon grid. As part of its contract, SN Aboitiz Power-Benguet, through its Binga plant, offers its available off-peak capacity for AS to the NGCP (System Operator). This is confirmed by a notice provided by NGCP to SN Aboitiz Power-Benguet containing the AS schedule. In March 2013, SN Aboitiz Power-Magat signed an ASPA with NGCP covering firm contracted capacities for both regulating and contingency reserves at 155 MW.

Another Affiliate, TLI, also signed an ASPA with the NGCP on March 14, 2013 for both firm and non-firm contracted capacities for contingency reserve at 60 MW during off-peak and 60 MW during peak hours. TLI's ASPA with NGCP is valid for a period of five years from the date of approval by ERC.

Majority of AboitizPower's Generation Companies have transmission service agreements with NGCP for transmission of electricity to the designated delivery points of their customers, while others built their own transmission lines to directly connect to their customers. In some instances, where the off-taker is NPC, NPC takes electricity from the generation facility itself.

On the other hand, AboitizPower's Distribution Utilities have exclusive distribution franchises in the areas where they operate. Each of the Distribution Companies has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified in different voltage levels based on their electricity

consumption and demand. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV, 23 kV and 69 kV while smaller industrial, commercial and residential customers receive electricity at 240 V or 480 V.

All of AboitizPower's Distribution Utilities have entered into transmission service contracts with the NGCP for the use of the NGCP's transmission facilities to receive power from their respective IPP, and NPC/PSALM for distribution to their respective customers. VECO owns a 138-kV tie-line that connects to Cebu Energy's power plant. All customers that connect to the Distribution Utilities' distribution lines are required to pay a tariff approved by the ERC.

AboitizPower's wholly-owned RES companies, AdventEnergy and AESI, have existing electricity supply contracts with their respective customers. In 2013, AdventEnergy supplied to five companies under the NET Group, a developer of officer towers in Bonifacio Global City, and delivered a total of 24.9 mn kWhs. As of March 31, 2014, AdventEnergy supplied renewable energy to 11 companies with a total power demand of 32.3 MW.

To ensure continuous supply of power to its customers, AdventEnergy has existing power supply contracts with renewable power generation companies.

AESI has a total of 45 customers under Retail Electricity Supply Contracts with terms ranging from three to ten years. In 2013, AESI delivered a total of 640.8 mn kWhs to its customers. As of March 31, 2014, AESI registered a total power demand of 150 MW.

AESI entered into contracts with various power generation companies to ensure reliable and continuous supply of power to its customers.

The above RES companies follow a pricing strategy which allows customer flexibility. The power rates are calculated using a fixed formula pricing arrangement based on customer load curves, resulting in either a peak-off-peak or capacity load-based competitive rate.

(iv) New Products/Services

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AboitizPower's Generation Companies, AboitizPower and its Subsidiaries do not have any publicly announced new product or service to date.

(v) Competition

Generation Business

With the privatization of the NPC-owned power generation facilities, the establishment of the WESM and the implementation of Open Access, AboitizPower's generation facilities located in Luzon, Visayas and Mindanao continue to face competition from other power generation plants that supply electricity to the Luzon, Visayas and Mindanao grids.

In particular, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, APRI and TLI face competition from leading multinationals such as AES Corporation, TeM Energy, GN Power and Korea Electric Power Corporation, as well as power generation facilities owned or controlled by Filipino-owned companies, such as Global Business Power Corporation, Trans-Asia Power Generation Corporation, AC Energy Holdings Corporation, First Gen Corporation, DMCI Holdings, Inc. and San Miguel Energy Corporation. With the commencement of Open Access, these foreign and local generation companies have already set up their own RES businesses. Despite the suspension of the issuance of RES licenses in May 2013, aggressive competition from those with existing licenses is still expected. Additional competition for Open Access customers can come from entities that may not generate power but have RES operations by acting as demand aggregators. In addition, RES licenses have been in existence for two years. At this stage, contracts entered into by these RES are expiring. AboitizPower now faces both challenges and opportunities brought forth by these expiring contracts across the industry. AboitizPower's quality of delivery will be measured by its ability to retain contracts and to obtain quality contracts from competition.

AboitizPower is facing competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition in financing these activities. The improving performance of the Philippine economy, the presence of a market to sell, such as the WESM, and the potential shortfall in energy supply have attracted many potential competitors, including multinational development groups and equipment suppliers, to explore opportunities in electric power generation projects in the Philippines. Also, the new guidelines for FIT limit the total installed capacity for each renewable technology eligible for FIT rates. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

As a Group, with a portfolio of different types of energy sources, AboitizPower is also facing challenges on how to sell its additional capacity without affecting the Group's existing share in the market. For instance, developing an energy source with lower cost may lead customers to shift to this source while freeing up the capacity of other plants within the Group. These challenges lead the Group to continuously look for better ways to market its capacity in line with its mission of ensuring sustainable energy for its customers.

Distribution Business

Each of AboitizPower's Distribution Utilities currently has an exclusive franchise to distribute electricity in the areas covered by its franchise.

Under Philippine law, the franchises of the Distribution Utilities may be renewed by the Congress of the Philippines provided that certain requirements related to the rendering of public services are met. Each Distribution Utility intends to apply for the extension of its franchise upon expiration. Distribution Utilities may face competition or opposition from third parties in connection with the renewal of their franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain a CPCN from the ERC, which requires that such party proves that it has the technical and financial competence to operate a distribution franchise, and that there is a need for such franchise. Ultimately, the Philippine Congress has absolute discretion in determining whether to issue new franchises or to renew existing franchises. The acquisition by competitors of any of the Distribution Utilities' franchises could adversely affect the results of the Company's operations. However, with the commencement of Open Access in Luzon and Visayas, the supply segment of the distribution business has become a contestable market, initially for customers with at least an average of 1 MW monthly demand.

(vi) Sources of Raw Materials and Supplies

Generation Business

AboitizPower's hydroelectric facilities harness the energy from the flow of water from neighboring rivers to generate electricity. Some of these facilities have impounding dams allowing the storage of water for later use. The hydroelectric companies on their own, or through the NPC as in the case of LHC, possess water permits issued by the National Water Resources Board (NWRB), which allow them to utilize the energy from a certain volume of water from the applicable source of the water flow.

Under the APA between APRI and PSALM for the Tiwi-MakBan geothermal facilities, the management and operation of the geothermal fields, which supply steam to the power generation units, remain with Chevron. The terms of the steam supply are governed by a GRSC under which price of steam is ultimately indexed to the Newcastle Coal Index and the Japanese Public Utilities (JPU) coal price. The effectivity of GRSC commenced on May 26, 2013.

AboitizPower's oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC get fuel supplies from the NPC pursuant to the terms of their respective ECAs with the NPC. Each of EAUC and CPPC has a fuel supply agreement with Petron, while TMI has existing fuel supply agreements with Shell and Petron for Mobile 1 and Mobile 2, respectively. Likewise, TMO has existing fuel supply agreements with Shell and Petron. The fuel prices under these agreements are pegged to the Mean of Platts Singapore (MOPS) index.

STEAG Power has existing long-term coal supply agreements with PT Jorong Barutama Greston of Indonesia and Samtan Co. Ltd. of Korea. Cebu Energy also has long-term coal supply agreements with Semirara Mining Corporation, OT Adaro Indonesia and Coal Orbis AG to ensure adequate supply of coal to operate its power plants. TLI has entered into long-term coal supply contracts for the Pagbilao Plant's annual coal requirements. TLI is continuously looking at and evaluating alternative sources to ensure security of supply.

Distribution Business

Most of AboitizPower's Distribution Utilities have bilateral agreements with the NPC for the purchase of electricity, which set the rates for the purchase of the NPC's electricity. The following table sets out material terms of each of the Distribution Utility's bilateral agreements with the NPC:

Distribution Company	Term of Agreement with NPC	Contract Energy (MWh per year)	Take or Pay	Pricing Formula
VECO	Expired on December 25, 2014	834,055*	Yes	ERC approved NPC rate plus ERC approved adjustments
Davao Light	Extended; expiring in December 2015	1,569,478	Yes	ERC approved NPC rate plus ERC approved adjustments
Cotabato Light	Extended; expiring in December 2015	126,353	Yes	ERC approved NPC rate plus ERC approved adjustments
MEZ	Extended; expiring in September 2015	125,500	Yes	ERC approved NPC rate plus ERC approved adjustments

*Prior to the expiration of the Agreement with NPC on December 25, 2014.

The rates at which Davao Light and SFELAPCO purchase electricity from AboitizPower's Generation Companies are established pursuant to the bilateral agreements that are executed after the relevant Generation Company has successfully bid for the right to enter into a PPA with either Davao Light or SFELAPCO. These agreements are entered into on an arm's-length basis, on commercially reasonable terms and are approved by the ERC. The ERC's regulations currently restrict AboitizPower's Distribution Utilities from purchasing more than 50% of their electricity requirements from Affiliated Generation Companies. Hedcor Sibulan supplies Davao Light with electricity generated from its Sibulan plants pursuant to the Hedcor Consortium's 12-year PSA. To add to its power reserve capacity, Davao Light has entered into a three-year power supply contract with TMI for 15 MW last March 21, 2011, and this was provisionally approved by the ERC on May 30, 2011. On February 29, 2012, Davao Light and TMI filed a Joint Manifestation with the ERC stating that they agreed to supplement and modify their supply contract to 30 MW. Contract energy of 30 MW was made available to Davao Light starting March 1, 2012. Davao Light and Cotabato Light entered into 25-year power supply contracts with TSI for 100 MW and 5 MW, respectively, which will commence in 2016. The agreement between Cotabato Light and TSI is pending with the ERC for approval.

VECO has entered into a PPA for the purchase of electric energy from CPPC for a period of 15 years starting from the commercial operation date of the latter. In 2013, the said contract with CPPC was extended for another 10 years. On October 16, 2009, VECO entered into an EPPA with Cebu Energy for the supply of 105 MW for 25 years to address VECO's long-term power supply requirement. VECO also signed a five-year contract for the supply of power from GCGI for 60 MW at 100% load factor. GCGI started supplying VECO on December 26, 2010. On October 23, 2014, VECO and GCGI amended the PSA extending the term for ten years at a reduced price. VECO entered into a second and third PPA with GCGI for the supply of 15 MW starting December 25, 2011 and additional 15 MW starting December 25, 2012. This supply of power replaced NPC's reduction of supply of power under its contract with VECO.

On December 25, 2014, the CSEE between VECO and PSALM expired. Consequently, VECO entered into a PSA with AESI and Vivant Energy Solutions for 40 MW and 17 MW baseload supply, respectively. Peaking requirement will be partially sourced from 1590 Energy Corporation which entered into an agreement with VECO for the supply of 30 MW covering six months starting December 2014.

VECO secured the supply of 150 MW starting in 2018 for its long term capacity requirement through the 15-year contract between VECO and TVI.

The provisions of the Distribution Utilities' PPAs are governed by the ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract. Under the current ERC regulations, the Distribution Utilities can purchase up to 90% of their electricity requirements using bilateral contracts.

Transmission Charges

SFELAPCO has an existing Transmission Service Agreement (TSA) with the NGCP for the use of the latter's transmission facilities in the distribution of electric power from the grid to its customers. All other TSAs of the Distribution Utilities with the NGCP have expired. The Distribution Utilities have negotiated agreements with the NGCP in connection with the amount and form of security deposit that they will provide to the NGCP to secure their obligations under their TSAs.

(vii) Major Customers

Out of the total electricity sold by AboitizPower's Generation Companies, 86% are covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, NPC, industrial and commercial companies. The remaining 14% is sold by the Generation Companies through the WESM.

Most of AboitizPower's Distribution Companies, on the other hand, have wide and diverse customer bases. As such, the loss of any one customer will have no material adverse impact on AboitizPower. The Distribution Companies' customers are categorized into four principal categories:

- (a) *Industrial customers.* Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls.
- (b) *Residential customers.* Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes.
- (c) *Commercial customers.* Commercial customers include service-oriented businesses, universities and hospitals.
- (d) *Other customers.*

Government accounts for various government offices and facilities are categorized as either commercial or industrial depending on their load. Each distribution utility monitors government accounts separately and further classifies them to local government accounts, national government account, special government accounts like military camps. Street Lights have a different rate category and are thus monitored independently.

(viii) Transactions with and/or Dependence on Related Parties

AboitizPower and its Subsidiaries, in their regular conduct of business, have entered into related party transactions consisting of professional and technical services, rental, money market placements, and power sales and purchases. These are made on an arm's length basis and at current market prices at the time of the transactions.

AEV, the parent company of AboitizPower, and certain associates have service level agreements with AboitizPower for corporate center services rendered, such as human resources, internal audit, legal, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. The parent company maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are priced on an arm's length basis, and covered with Service Level Agreements to ensure quality of service.

AboitizPower and its Subsidiaries enter into transactions with its parent, associates and other related parties.

Details of the significant account balances of the foregoing related party transactions, retirement fund and compensation of the Board and key management personnel of the Group can be found in Note 33 of the attached Audited Financial Statements of the Company.

(ix) Patents, Copyrights and Franchises

Generation Business

Power generation is not considered a public utility operation under the EPIRA. Thus, a franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate a generation facility. A COC is valid for a period of five years from the date of issuance.

A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Philippine Grid Code and Philippine Distribution Code. The ERC has also issued Resolution 17 Series of 2013 "A Resolution Adopting and Approving the Rules and Procedures to Govern the Monitoring of Reliability Performance of Generating Units and Transmission System", which adopts the reliability performance indicators for generation companies and transmission system. Included in the Rules is the reporting requirement of generation companies.

Additionally, a generation company must meet the minimum financial capability standards set out in the Guidelines for the Financial Standards of Generation Companies issued by the ERC. Under the said guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the same guidelines require the submission to the ERC of, among other things, comparative audited financial statements, schedule of liabilities and a five-year financial plan. For the duration of the COC, these guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. Failure by a generation company to submit the requirements so prescribed by the guidelines may be a ground for the imposition of fines and penalties.

AboitizPower's Distribution Utilities, Davao Light and Cotabato Light, have their own generation facilities and are required under the EPIRA to obtain a COC from the ERC for its generation facilities.

An IPPA such as TLI is not required to obtain a COC, it is nevertheless required, along with all entities owning and operating generation facilities, to comply with technical, financial and environmental standards provided by existing laws and regulations for their operations.

AboitizPower's Generation Companies, which operate hydroelectric facilities, are also required to obtain water permits from the NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the Generation Companies can use for their hydroelectric generation facilities, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and generally are not terminated by the Government as long as the holder of the permit complies with the terms of the permit regarding the use of the water flow and the allowable volume.

Under Department Circular No. 2010-03-0003 dated February 26, 2010 of the DOE, generation companies are enjoined to ensure the availability of its generation facilities at all times subject only to technical constraints duly communicated to the system operator in accordance with existing rules and procedures. For this purpose, generation companies shall have, among others, the following responsibilities:

- (a) All generation companies shall operate in accordance with their maximum available capacity which shall be equal to the registered maximum capacity of the (aggregate) unit less: (1) forced unit outages, (2) scheduled unit outages, and (3) de-rated capacity due to technical constraints which include: (i) plant equipment related failure and ambient temperature, (ii) hydro constraints which pertain to limitation on the water elevation/turbine discharge and megawatt output of the plant, and (iii) geothermal constraints which pertain to capacity limitation due to steam quality, steam pressure and temperature variation, well blockage and limitation on steam and brine collection and disposal system;
- (b) Oil-based generation companies shall maintain an adequate in-country stocks of fuel equivalent to at least 15 days of running inventory which includes shipments in transit;
- (c) Coal power plants shall ensure the required 30-day coal running inventory which includes shipments in transit;
- (d) During scheduled maintenance of the Malampaya natural gas facilities, all affected generation companies shall maintain at least 15 days of running inventory of alternative fuel and shall operate at full capacity;
- (e) All generation companies with natural gas-fired, geothermal and hydroelectric generating plants shall submit to the DOE a monthly report on the current status and forecast of the energy sources of its generating plants;
- (f) All generation companies must notify and coordinate with the system operator of any planned activity such as the shutdown of its equipment;
- (g) All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and
- (h) Generation companies shall seek prior clearance from the DOE regarding any plans for deactivation or mothballing of existing generating units or facilities critical to the reliable operation of the grid.

SEC FORM 20 - IS (INFORMATION STATEMENT)

The Generation Companies, Davao Light and Cotabato Light possess COCs for their generation businesses, details of which are as follows:

Title of Document	Issued under the name of	Power Plant					Date of Issuance
		Type	Location	Capacity	Fuel	Years of Service	
COC No. 08-11-GXT 33-0033L	Hedcor, Inc.	Hydro	Irisan 3 – Tadiangan, Tuba, Benguet	1.20 MW	Hydro	10	November 5, 2013
		Hydro	Bineng 1 – Bineng, La Trinidad, Benguet	3.2 MW	Hydro	10	
		Hydro	Bineng 2 – Bineng, La Trinidad, Benguet	2.0 MW	Hydro	10	
		Hydro	Bineng 2B – Bineng, La Trinidad, Benguet	0.75 MW	Hydro	10	
		Hydro	Bineng 3 – Bineng, La Trinidad, Benguet	5.625 MW	Hydro	10	
		Hydro	Ampohaw – Banengbeng, Sablan, Benguet	8.00 MW	Hydro	10	
		Hydro	Sal-angan – Ampucao, Itogon, Benguet	2.40 MW	Hydro	10	
COC No. 12-04-GN 268-19259L	Hedcor, Inc.	Hydro	Irisan 1- Tadiangan, Tuba, Benguet	3.896 MW	Hydro	25	April 30, 2012
COC No. 11-05-GXT 286b-0331M	Hedcor, Inc. (Talomo Hydroelectric Power Plant)	Hydro	Talomo 1 – Calinan, Davao City	1,000 kW	Hydro	20	May 9, 2011
		Hydro	Talomo 2 – Mintal Proper, Davao City	600 kW	Hydro	20	
		Hydro	Talomo 2A – Upper Mintal, Davao City	650 kW	Hydro	20	
		Hydro	Talomo 2B – Upper Mintal, Davao City	300 kW	Hydro	20	
		Hydro	Talomo 2 – Catalunan, Pequeño Davao City	1,920 kW	Hydro	20	
COC No. 08-11-GXT 32-0032L	Hedcor, Inc.	Hydro	FLS Plant – Poblacion, Bakun, Benguet	5.90 MW	Hydro	10	November 5, 2013
		Hydro	Lower Labay, Ampusongan, Bakun, Benguet	2.40 MW	Hydro	10	
		Hydro	Lon-Oy – Poblacion, Bakun, Benguet	3.60 MW	Hydro	10	
COC No. 11-07-GXT 17273-17584M	Hedcor Sibulan Darong	Diesel Engine	Brgy. Darong, Sta. Cruz, Davao del Sur	363 kW	Diesel	15	July 7, 2011
COC No. 11-07-GXT 17272-17583M	Hedcor Sibulan Tibolo	Diesel Engine	Brgy. Tibolo, Sta. Cruz, Davao del Sur	323 kW	Diesel	15	July 7, 2011
COC No. 11-07-GXT 17269-17580M	Hedcor, Inc. Talomo 2	Diesel Engine	Proper Mintal, Davao City	20 kW	Diesel	15	July 7, 2011
COC No. 11-07-GXT 17271-17582L	Hedcor, Inc. La Trinidad (Beckel)	Diesel Engine	214 Beckel, La Trinidad, Benguet	216 kW	Diesel	15	July 7, 2011

Title of Document	Issued under the name of	Power Plant					Date of Issuance
		Type	Location	Capacity	Fuel	Years of Service	
COC No. 11-07-GXT 17270-17581M	Hedcor, Inc. Talomo 3	Diesel Engine	Brgy. Catalunan, Pequeño, Davao City	20 MW	Diesel	15	July 7, 2011
COC No. 10-08-GN-56-16881	Hedcor Sibulan, Inc. Hydroelectric Power Plant A	Hydro	Brgy. Sibulan, Sta. Cruz, Davao del Sur	16.328 MW	Hydro	25	August 9, 2010
COC No. 10-05-GN 54-16816	Hedcor Sibulan, Inc. (Plant B)	Hydroelectric	Brgy. Sibulan, Sta. Cruz, Davao del Sur	26, 257 kW	Hydro	25	May 24, 2010
COC No. 14-03-GN 346-20102M	Hedcor Sibulan, Inc. (Tudaya 1)	Hydro	Sitio Tudaya, Brgy. Sibulan, Sta. Cruz, Davao del Sur	6.65 MW	Hydro	15	March 10, 2014
COC No. 08-07-GXT 17-0017	LHC	Hydro	Amilongan, Alilem, Ilocos Sur	74.80 MW	Hydro	25	July 22, 2013
		Standby Power	Amilongan, Alilem, Ilocos Sur	280 kW	Diesel	15	July 7, 2011
COC No. 14-04-GN 349-20137M	Hedcor Tudaya, Inc.	Hydro	Brgy. Astorga, Sta. Cruz, Davao del Sur	8.14 MW	Hydro	25	April 11, 2014
COC No. 10-12-GXT 13701-13728M	Davao Light	Bunker C- Fired	J.P. Laurel Ave., Bajada, Davao City	58.7 MW	Blended Fuel	25	December 1, 2010
		Blackstart Generator Sets	J.P. Laurel Ave., Bajada, Davao City	105.60 kW	Diesel	25	
		Diesel Engine	J.P. Laurel Ave., Bajada, Davao City	80 kW	Diesel	25	
		Diesel Engine	J.P. Laurel Ave., Bajada, Davao City	80 kW	Diesel	25	
		Diesel Engine	J.P. Laurel Ave., Bajada, Davao City	41.6 kW	Diesel	25	
COC No. 11-12-GXT 15911-16153M	Cotabato Light	Bunker C-Fired Diesel Engine	CLPCI Compound, Sinsuat Ave., Cotabato City	9.927 MW	Diesel / Bunker C	25	December 5, 2011
		Blackstart	CLPCI Compound, Sinsuat Ave., Cotabato City	10 kW	Diesel	25	
COC No. 013-06-GXT2-0002V	EAUC	Bunker C-Fired Power Plant	Barrio Ibo, Mactan Export Processing Zone 1, Lapu-Lapu City, Cebu	49.60 MW	Bunker C	16	June 10, 2013
COC No. 13-05-GXT1-0001V	CPPC	Bunker C-Fired Power Plant	Old VECO Compound, Brgy. Ermita, Cebu City	70.65 MW	Bunker C	25	May 27, 2013
COC No. 13-08-GXT20-0020M	WMPC	Bunker C-Fired Power Plant	Malasugat, Brgy. Sangali, Zamboanga City	112 MW	Bunker C	24	August 5, 2013
		Blackstart	Malasugat, Brgy. Sangali, Zamboanga City	160 MW	Diesel	24	

SEC FORM 20 - IS (INFORMATION STATEMENT)

Title of Document	Issued under the name of	Power Plant					Date of Issuance
		Type	Location	Capacity	Fuel	Years of Service	
COC No. 13-08-GXT21-0021M	SPPC	Bunker C- Fired Power Plant	Brgy. Baluntay, Alabel, Sarangani	61.72 MW	Bunker C / Diesel	18	August 5, 2013
COC No. 10-11-GXT 286O-13433L	SN Aboitiz Power – Magat (Magat Hydroelectric Power Plant)	Hydroelectric	Magat River, Brgy. Aguinaldo, Ramon, Isabela	360 MW	Hydro	23	November 22, 2010
		Blackstart Generator Set	Magat River, Brgy. Aguinaldo, Ramon, Isabela	320 kW	Diesel	23	
COC No. 13-07 GXT 309-19969L	SN Aboitiz Power – Benguet	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon, Benguet	125.8 MW	Hydro	50	July 29, 2013
COC No. 10-11 GXT 286M-13429L	(Binga Hydroelectric Power Plant)	Blackstart Generator Set	Brgy. Tinongdan, Itogon, Benguet	355.4 kW	Diesel	5	November 15, 2010
COC No. 11-08-GN 87-17671L	SN Aboitiz Power – Benguet (Ambuklao Hydroelectric Power Plant)	Hydroelectric	Brgy. Ambuklao, Bokod, Benguet	104.55 MW	Hydro	50	August 31, 2011
		Blackstart	Brgy. Ambuklao, Bokod, Benguet	2.28 MW	Diesel	20	
COC No. 11-05 GN 16-15880M	STEAG Power	Coal fired	Park V, Phividec, Industrial Estate, Balacanas, Villanueva, Misamis Oriental	232 MW	Coal	50	May 31, 2011
		Emergency Generating Set	Park V, Phividec, Industrial Estate, Balacanas, Villanueva, Misamis Oriental	1.25 MW	Diesel	25	
COC No. 10-05-GXT 286e-7833	APRI (Mak-Ban Geothermal Power Plant)	Geothermal	Brgy. Bitin, Bay, Laguna	Plant A 126.40 MW	Geothermal Steam	20	May 31, 2010
			Brgy. Bitin, Bay, Laguna	Plant D 40 MW		20	
			Brgy. Limao, Tamlong, Calauan, Laguna	Plant B 126.40 MW		20	
			Brgy. Limao, Tamlong, Calauan, Laguna	Plant C 126.40 MW		20	
			Brgy. Sta. Elena, Sto. Tomas, Batangas	Plant E 40 MW		20	
COC No. 10-12-GXT 286r-13736L	APRI (Tiwi Geothermal Power Plant)	Geothermal	Brgy. Cale, Tiwi, Albay	Plant A 234 MW	Steam	10	December 1, 2010
COC No. 06-04-GXT 286aa- 14632	Ormat – MakBan Binary GPP	Geothermal	Brgy. Sta. Elena, Sto. Tomas, Batangas/ Brgy. Bitin Bay, Laguna/ Brgy. Tamlong Calauan, Laguna	15.73 MW	Geothermal Brine	14	April 6, 2006*

*Plant is currently not operational but considered for possible future commissioning. Renewal of the COC is put on hold.

Title of Document	Issued under the name of	Power Plant					Date of Issuance
		Type	Location	Capacity	Fuel	Years of Service	
COC No. 11-04-GXT 286gg-15074M	Therma Marine, Inc. [Mobile 1 (M1)]	Bunker C -Fired	Brgy. San Roque, Maco, Compostela Valley	100.33 MW	Bunker C / Diesel	30	April 4, 2011
		Blackstart	Brgy. San Roque, Maco, Copostela Valley	1.75 MW	Diesel	30	
COC No. 11-04-GXT 286bb-14632M	Therma Marine, Inc. [Mobile 2 (M2)]	Bunker C -Fired	Nasipit, Agusan del Norte	100.33 MW	Bunker C / Diesel	30	April 4, 2011
		Blackstart	Nasipit, Agusan del Norte	1.75 MW	Diesel	30	

Distribution Business

Under the EPIRA, the business of electricity distribution is a regulated public utility business that requires a national franchise that can be granted only by the Congress of the Philippines. In addition to the legislative franchise, a CPCN from the ERC is also required to operate as a public utility. Except for Distribution Utilities operating within ecozones, all Distribution Utilities possess franchises granted by Philippine Congress.

All Distribution Utilities are required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems) and the performance standards set out in the implementing rules and regulations of the EPIRA.

Shown below are the respective expiration periods of the Distribution Utilities' legislative franchises:

Distribution Company	Expiration Date
VECO	2030
Davao Light	2025
Cotabato Light	2039
SFELAPCO	2035
SEZ ⁹	2028

MEZ, BEZ and Lima Enerzone, which operate the power distribution utilities in MEPZ II, WCIP and LTC, respectively, are duly registered with PEZA as Ecozone Utilities Enterprises. Cotabato Light's franchise was renewed for another 25 years upon the President's signing of RA 10637 on June 16, 2014.

Supply Business

For a time, the business of supplying electricity was being undertaken solely by franchised distribution utilities. However, on July 26, 2013, the implementation of Open Access commenced in Luzon and Visayas. Like power generation, the business of supplying electricity under Open Access is not considered a public utility operation under the EPIRA. However, it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. With the implementation of Open Access, AboitizPower's Subsidiaries, AESI, AdventEnergy and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator.

TRADEMARKS

AboitizPower and its Subsidiaries own, or have pending applications for the registration of intellectual property rights for various trademarks associated with their corporate names and logos. The following table sets out information regarding the trademark applications the Company and its Subsidiaries have filed with the Philippine Intellectual Property Office (IP Office).

⁹Pursuant to the Distribution Management Service Agreement (DMSA) with the Subic Bay Metropolitan Authority.

SEC FORM 20 - IS (INFORMATION STATEMENT)

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Cleanergy (Class No. 42)	Aboitiz Power Corporation	October 19, 2001	4-2001-007900 January 13, 2006	Application for trademark "Cleanergy"	Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006. The 5th year Anniversary Declaration of Actual Use (DAU) was filed last December 27, 2011 with the IP Office. 10th year Anniversary DAU or application for renewal of registration is due for filing on January 13, 2016.
Cleanergy and Device (Class No. 42)	Aboitiz Power Corporation	July 30, 2002	4-2002-006293 July 16, 2007	Application for trademark "Cleanergy and Device" with the representation of a light with bulb with three leaves attached to it, with the words "CLEANERGY" and a small "ABOITIZ" diamond logo below it.	Original Certificate of Registration No. 4-2002-006293 was issued on July 16, 2007. The 5th year Anniversary DAU was filed last July 15, 2013 with the IP Office. 10th year Anniversary DAU or application for renewal of registration is due for filing on July 16, 2017.
A BetterFuture (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004383 November 11, 2010	Application for trademark "A BetterFuture"	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU is due for filing on November 11, 2016.
Better Solutions (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004384 November 11, 2010	Application for trademark "Better Solutions"	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU is due for filing on November 11, 2016.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Cleanergy Get it and Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004381 November 11, 2010	Application for trademark "Cleanergy Get it and Device". The word "Cleanergy" with the phrase "get it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th Anniversary year DAU is due for filing on November 11, 2016.
Aboitiz Power word mark (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004385 November 11, 2010	Application for "AboitizPower" word mark.	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU is due for filing on November 11, 2016.
Cleanergy got it & Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004382 November 11, 2010	Application for trademark "Cleanergy got it & device". The word "Cleanergy" with the phrase "got it" below it with both words enclosed by a representation of a thumbs up sign. The whole mark is rendered in two shades of green.	Original Certificate of Registration was issued on November 11, 2010. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year DAU is due for filing on November 11, 2016.
AboitizPower Spiral Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004380 February 10, 2011	Application for trademark "AboitizPower Spiral and Device". The representation of a spiral rendered in blue.	Original Certificate of Registration was issued on February 10, 2011. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU is due for filing on February 10, 2017.
AboitizPower and Device (Class No. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004379 February 10, 2011	Application for trademark "AboitizPower and Device". The words "Aboitiz" and "Power" rendered in two shades of blue with the representation of a spiral above the words "A BetterFuture" below it.	Original Certificate of Registration was issued on February 10, 2011. The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office. The 5th year Anniversary DAU is due for filing on February 10, 2017.

SEC FORM 20 - IS (INFORMATION STATEMENT)

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Alterspace (Class No. 9, 39 and 40)	Aboitiz Power Corporation	April 6, 2011	4-2011-003968 February 24, 2012	Application for "ALTERSPACE" word mark.	Original Certificate of Registration was issued on February 24, 2012. The 3rd year Anniversary DAU was filed on May 20, 2014 with the IP Office. The 5th year Anniversary DAU is due for filing on February 24, 2018.
Alterspace and Device (Class No. 9, 39 and 40)	Aboitiz Power Corporation	May 31, 2011	4-2011-006291 December 22, 2011	Application for trademark "Alterspace and Device". A globe with the words "alter" and "space" inside an arrow circling the globe and separating the words. The globe is rendered in forest green, while the words and arrow are rendered in lime green.	Original Certificate of Registration was issued on December 22, 2011. The 3rd year Anniversary DAU was filed on May 20, 2014 with the IP Office. The 5th year Anniversary DAU is due for filing on December 22, 2017.
Aboitiz Energy Solutions and Device (w/ color claim) (Class No. 42)	Aboitiz Energy Solutions, Inc.	January 25, 2007	4-2007-000784 September 3, 2007	Application for trademark ABOITIZ ENERGY SOLUTIONS and Device with color claim.	Original Certificate of Registration was issued on September 3, 2007. The 3rd year Anniversary DAU was filed with the IP Office on February 4, 2010. The 5th year DAU was filed with the IP Office on August 30, 2013. The 10th year DAU or application for renewal of registration is due for filing on September 3, 2017.
iEngage (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	4-2014-001638 August 28, 2014	Application for "iEngage" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on February 7, 2017.
iEngage My Portal (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	04-2014-001637 August 28, 2014	Application for "iEngage MyPortal" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on February 7, 2017.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
iEngage MyBill (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	4-2014-001636 August 28, 2014	Application for "iEngage MyBill" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on February 7, 2017.
iEngage MyTax (Class No. 39, 40 and 42)	Aboitiz Power Corporation	February 7, 2014	4-2014-001635 August 28, 2014	Application for "iEngage MyTax" word mark.	Original Certificate of Registration was issued on August 28, 2014. The 3rd year Anniversary DAU is due for filing on February 7, 2017.
Subic EnerZone Corporation and Logo (plain only) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007305 August 20, 2007	Trademark Application for Subic EnerZone Corporation wordmark and logo (gray). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words.	Original Certificate of Registration was issued on August 20, 2007. The 3rd year Anniversary DAU was filed with the IP Office on January 6, 2010. The 5th year Anniversary DAU was filed with the IP Office on June 5, 2013. The 10th year Anniversary DAU or application for renewal of registration is due for filing on August 20, 2017.
Subic EnerZone Corporation and Logo (with color claim) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007306 August 20, 2007	Trademark application for Subic EnerZone Corporation and Logo (blue and yellow). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, rendered in cobalt medium blue color, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	Original Certificate of Registration was issued on August 20, 2007. The 3rd year Anniversary DAU was filed with the IP Office on July 6, 2009. The 5th year Anniversary DAU was filed with the IP Office on June 5, 2013. The 10th year Anniversary DAU or application for renewal of registration is due for filing on August 20, 2017.

Trademarks	Applicant	Date Filed	Registration No./Date Issued	Certificate of Description	Status
Subic EnerZone Corporation (wordmark) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007304 June 4, 2007	Trademark Application for Subic EnerZone Corporation (wordmark).	Original Certificate of Registration was issued on June 4, 2007. The 3rd Year Anniversary DAU was filed with the IP Office on July 6, 2009. The 5th year Anniversary DAU was filed with the IP Office on June 4, 2013. The 10th year Anniversary DAU or application for renewal of registration is due for filing on June 4, 2017.

(x) Government Approvals

The discussion on the need for any government approval for any principal products or services of the Company and its Subsidiaries, including COCs obtained by the Generation Companies and franchises obtained by the Distribution Utilities, is included in item (ix) Patents, Copyrights and Franchises.

(xi) Effect of Existing or Probable Government Regulations on the Business

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Among the provisions of the EPIRA which have had or will have considerable impact on AboitizPower’s businesses relate to the following:

Wholesale Electricity Spot Market (WESM)

The WESM is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to provide the mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity by (a) establishing the merit order dispatch instructions for specific time periods; (b) determining the market clearing price for such time periods; (c) reflecting accepted economic principles; and (d) providing a level playing field to all electric power industry participants.

The WESM provides an avenue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Where there are such bilateral contracts, these contracts are nevertheless declared in the market but only to determine the appropriate merit order of generators. Settlement for bilateral contracts between the contracting parties will, however, occur outside the market. Traded electricity not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods.

An amended Joint Resolution No. 2 was issued by DOE, ERC and PEMC on December 27, 2013 adjusting the WESM Offer Price Cap. In this resolution, the Offer Price Ceiling of ₱62,000.00 per MWh as set by the WESM Tripartite Committee was reduced to ₱32,000.00 per MWh. This price cap is provisional in nature and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, the ERC issued an urgent resolution which established a mechanism to impose an interim secondary price cap of ₱6,245.00 per MWh in the WESM. In December 2014, the ERC adopted a permanent pre-emptive mitigation measure, where the price cap of ₱6,245.00 per MWh would be imposed in the event the average spot price in WESM would exceed ₱9,000.00 per MWh over a rolling seven-day period. The Philippine Independent Power Producers Association, Inc. (PIPPA) has filed in the Regional Trial Court of Pasig City a petition for declaratory relief on the ground that the resolutions establishing the interim secondary price cap and the permanent pre-emptive mitigation measure are invalid and void.

Interim Mindanao Electricity Market (IMEM)

The DOE issued DC No. 2013-01-0001 on January 9, 2013 establishing the Interim Mindanao Electricity Market (IMEM). The IMEM intends to address the supply shortage in Mindanao through transparent and efficient utilization of available capacities. However, there were some deficiencies on the processes of the IMEM that led to its inability to collect from customers and to pay the generators. Though the IMEM started in December 2013, it has been suspended indefinitely after three months of operation.

Retail Competition and Open Access (Open Access)

The EPIRA provides for a system of Open Access to transmission and distribution wires, whereby Transco, its concessionaire, the NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of Open Access are as follows:

- Establishment of the WESM;
- Approval of unbundled transmission and distribution wheeling charges;
- Initial implementation of the cross subsidy removal scheme;
- Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

As provided in the EPIRA, Open Access shall be implemented in phases. The WESM began operations in Luzon in June 2006 and in Visayas in December 2010.

In 2011, the ERC *motu proprio* initiated proceedings to determine whether Open Access may already be declared in Luzon and Visayas. Following various public hearings, the ERC declared December 26, 2011 as the Open Access Date when full operations of the competitive retail electricity market in Luzon and Visayas should commence. All electricity end-users with an average monthly peak demand of one MW for the 12 months preceeding December 26, 2011, as certified by the ERC to be contestable customers, were given the right to choose their own electricity suppliers. However, on October 24, 2011, upon the request of MERALCO, Private Electric Power Operators Association and Philippine Rural Electric Cooperatives Association, Inc. for re-evaluation of the feasibility of the December 26, 2011 Open Access Date, the ERC declared the deferment of the implementation of Open Access in Luzon and Visayas by reason of the inadequacy of rules, systems, preparations and infrastructure required therefor.

In 2012, the ERC, together with the DOE and PEMC, worked on the development of the Transitory Rules to govern the initial implementation of Open Access, which rules were finalized and issued by the ERC in December 2012. Under the said rules, the ERC declared December 26, 2012 as the Open Access Date, while the period from December 26, 2012 to June 25, 2013 was declared as the Transition Period during which the required systems, processes and information technology structure relating to Open Access will be developed and finalized, and registration of retail electricity suppliers and contestable customers into the WESM database will be instituted. The period from June 26, 2013 to December 25, 2013 will cover the initial commercial operation of Open Access. From December 26, 2013 onwards, full retail competition will be implemented, with PEMC assigned to perform the functions of the Central Registration Body tasked to undertake the development and management of the required systems, processes and information technology structure and the settlement of transactions in the WESM relating to Open Access.

In Mindanao, a truly competitive environment required by Open Access is not expected in the near future because the largest generating asset owned by NPC in Mindanao has yet to be privatized. In December 2013, however, the IMEM commenced operations to address the supply shortfall in the grid through the utilization of available resources such that all registered generating facilities are mandated to fully account for their capacities in the market.

In December 2013, ERC issued revised licensing regulations for RES operating in the retail supply segment. In the ERC revised rules, no RES licenses will be issued to generating companies, IPPA and affiliates of distribution utilities during a transition period or until the ERC deems appropriate in consideration of market conditions. Additional restrictions were provided such as: (1) including the contracted capacity of the RES in the grid limitations imposed on the total capacity controlled by its affiliate generation companies; (2) limiting the supply by a RES to its affiliate end-users up to 50% of the RES' capacity; and (3) limiting the supply by a generation company to its affiliate RES up to 50% of the generation requirements of such RES. The Retail Electricity Suppliers Association of the Philippines, Inc. (RESA) has filed in the Regional Trial Court of Pasig City a petition for declaratory relief with an urgent application for an injunction on the ground that the revised rules are unconstitutional and invalid.

On October 22, 2014, the ERC issued Resolution No. 17, Series of 2014, which holds in abeyance the evaluation of RES license applications and suspends the issuance of RES licenses pending the ERC's promulgation of the amended RES License Rules.

Unbundling of Rates and Removal of Subsidies

The EPIRA mandated the unbundling of distribution and wheeling charges from retail rates, with such unbundled rates reflecting the respective costs of providing each service. It also mandated the removal of cross subsidies other than the lifeline rate for marginalized end-users which shall subsist for a period of 20 years, unless extended by law. The lifeline rate is a socialized pricing mechanism set by ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity.

Implementation of the Performance-based Rating-setting Regulation (PBR)

On December 13, 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RSDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the Return-on-Rate Base (RORB) mechanism, which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by ERC and used by ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by ERC, such as the: (1) average duration of power outages; (2) average time of restoration to customers; and (3) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on March 31, 2013, while that of VECO and Davao Light ended on June 30, 2014. A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for Cotabato Light, and July 1, 2014 to June 30, 2018 for VECO and Davao Light. The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under RSDWR. Said paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

For SEZ and SFELAPCO's third regulatory year covering October 1, 2013 to September 30, 2014, SEZ was able to implement the new rate schedule in April 2014 while SFELAPCO's implementation began in September 2014. In October and November 2014, SFELAPCO and SEZ, respectively, filed their rate translation application for the fourth regulatory year. Said applications are still pending review with the ERC.

Compliance with the Philippine Distribution Code and the Philippine Grid Code

Each of AboitizPower's Distribution Utilities has submitted to ERC a Compliance Monitoring Report based on a self-assessment of a distribution utility's compliance with the Philippine Distribution Code. These Compliance Monitoring Reports were accompanied by Compliance Plans, which outline the activities and projects to be undertaken by a distribution utility to fully comply with the prescribed technical, performance and financial standards of the Philippine Distribution Code.

Similarly, APRI, TMI and Hedcor have submitted to the ERC their respective Grid Compliance Monitoring Reports based on self-assessments of their compliance with all prescribed technical specifications and performance standards of the Philippine Grid Code. Reliable and attainable Compliance Plans accompanied these reports to outline the activities and projects that will cause compliance by a generation company with the requirements of the Philippine Grid Code.

Reduction of Taxes and Royalties on Indigenous Energy Resources

EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity

of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, former President Gloria Macapagal-Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

Proposed Amendments to the EPIRA

Since the enactment of the EPIRA, members of Congress have proposed various amendments to the law and its implementing rules and regulations. A summary of the significant proposed amendments are as follows:

- Classification of power projects as one of national significance and imbued with public interest;
- Exemption from VAT of the sale of electricity by generation companies;
- Modification of the definition of the term "Aggregator," which is proposed to mean a person or entity engaged in consolidating electric power demands of end-users of electricity in the contestable market, for the purpose of purchasing, reselling, managing for optimum utilization of the aggregated demand, or simply pooling the tendering process in looking for a supply of electricity on a group basis;
- Requirement for distribution utilities to conduct public and competitive selection processes or Swiss challenges for the supply of electricity and to fully or adequately contract their future and current energy and demand requirements;
- Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
- Exclusion of the following items from the rate base charged by Transco and distribution utilities to the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a condition for rendition and continuation of service;
- Regulation of generation, transmission, distribution and supply rates to allow RORB up to 12%;
- Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
- Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials or directors within the fourth civil degree of consanguinity;
- Prohibition against or restriction on distribution utilities from sourcing electric power supply requirements, under bilateral electric power supply contracts, from a single generation company or from a group of generating companies wholly-owned or controlled by the same interests;
- Lowering of the allowable extent of ownership, operation and control of a company or related groups as determined from the installed generating capacity of the grid and/or nationally installed generating capacity;
- Exemption or deferral of the privatization of some assets of NPC, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes and Angat Dam;
- Expansion of the definition of host communities to include all barangays, municipalities, cities and provinces or regions where hydro generation facilities are located and where waterways or water systems that supply water to the dam or hydroelectric power generating facility are located;
- Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
- Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
- Grant of authority for NPC to generate and sell electricity from remaining assets;
- Removal of the requirement of a joint congressional resolution before the President may establish additional power generating capacity in case of imminent shortage of supply of electricity; and
- Creation of a consumer advocacy office under the organizational structure of the ERC.

The Renewable Energy Act of 2008 (RE Law)

The RE Law was signed into law by Former President Arroyo on December 16, 2008 and became effective in January 2009.

Among the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy (RE) resources to (a) reduce the country's dependence on fossil fuels, thereby minimizing exposure to price fluctuations in the international markets, and (b) reduce or prevent harmful emissions and promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of the gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power, except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Proceeds from micro-scale projects for communal purposes and non-commercial operations, not exceeding 100 kW, and proceeds from the development of biomass resources will not be subject to the said government share.

The RE Law offers fiscal and non-fiscal incentives to RE developers, including developers of hybrid systems, subject to certification by the DOE in consultation with the BOI. These incentives include an ITH for the first seven years of commercial operations; duty-free importations of RE machinery, equipment and materials effective within ten years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in RE facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered RE developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent VAT on sale of fuel or power generated from RE sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of RE facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

All fiscal incentives apply to all RE capacities upon the effectivity of the RE Law. RE producers from intermittent RE resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the grid. Qualified and registered RE generators with intermittent RE resources shall be considered “must dispatch” based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from RE resources for the generator’s own consumption and/or for free distribution to off-grid areas is exempt from the universal charge. The RE Law further provides financial assistance from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

Pursuant to Department Circular No. DO2009-05-008 dated May 25, 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR and the Department of Finance shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified RE developers. However, as of this date, no specific guidelines or regulations have been issued by the relevant implementing agencies. Such being the case, the RE companies of AboitizPower, such as APRI, LHC, Hedcor Sibulan, Hedcor Tamugan, SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet, filed on August 6, 2010 a request before the BIR Law Division for a ruling on the application of zero-rated value-added tax on all its local purchases of goods and services needed for the development of RE plant facilities, exploration and development of RE sources and their conversion into power. To date, the said request is still pending with the BIR Law Division.

In Resolution No. 10, Series of 2012, the ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar and wind resources:

	FIT Rate (PhP/kWh)	Degression Rate
Wind	8.53	0.5% after year 2 from effectivity of FIT
Biomass	6.63	0.5% after year 2 from effectivity of FIT
Solar	9.68	6% after year 1 from effectivity of FIT
Hydro	5.90	0.5% after year 2 from effectivity of FIT

Acting upon the application of Transco, as Fund Administrator of the FIT Allowance (FIT-All), the ERC provisionally approved the FIT-All of ₱0.0406 per kWh, which may be collected from all On-Grid electricity consumers beginning January 2015.

In early 2014, the ERC issued the guidelines on the collection of the FIT-All and the disbursement of the FIT-All Fund by Transco. The FIT-All shall be a uniform charge to be collected for the guaranteed payment of the FIT for electricity generator from emerging renewable energy technologies and actually delivered to the transmission and/or distribution network by RE developers. The distribution utilities and RES entities will start collecting the FIT-All from their respective customers in February 2015.

Similarly, in 2013, the ERC had issued the rules enabling the net metering program for RE. The rules, among others, seek to encourage end-users to participate in RE generation by requiring distribution utilities, upon the request of a distribution end-user with an installed RE system, to enter into a net metering agreement with such end-user, subject to technical considerations and without discrimination.

The National Renewable Energy Board (NREB) is presently in the process of preparing the Renewable Portfolio Standards which, under the RE Law, shall be a market-based policy requiring electricity suppliers to source an agreed portion of their energy supply from eligible RE resources.

ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008, the actual recoverable systems losses of distribution utilities was reduced from 9.50% to 8.50%. The new systems loss cap was implemented in January 2010.

Under this regulation, actual company use of electricity shall be treated as an expense of the distribution utilities, particularly, as an O&M expense in the PBR applications.

In December 2009, VECO and Cotabato Light filed separate petitions in the ERC for the deferment of the implementation of the systems loss cap of 8.50%, citing circumstances peculiar to their respective franchises and beyond the control of VECO and Cotabato Light that affect the systems loss incidence in their areas. Although these petitions remain pending before the ERC, unaccounted systems losses of VECO and Cotabato Light as of the end of 2014 stood at 7.83% and 8.26%, respectively.

Proposed Power Supply Agreement (PSA) Rules

In October 2013, ERC introduced the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered into by Distribution Utilities for the Supply of Electricity to their Captive Market". In the proposed rules, a distribution utility is required to undertake a competitive selection process before contracting for supply of electricity to its captive market, and ERC shall establish a benchmark rate that shall serve as reference price to assess the price that a generation company may offer. The draft rules also provide that the ERC's decision on a power supply agreement shall be binding on the parties and any termination or "walk-away" clause shall not be allowed. AboitizPower submitted its position paper to the ERC stating that the proposed rules will violate the equal protection clause of the 1987 Philippine Constitution and the mandate and intent of the EPIRA in connection with the ERC's regulatory power. As of date, public consultations on the proposed rules were concluded and the Company is still awaiting the final rules from the ERC.

Pricing and Cost Recovery Mechanism (PCRM)

Reserves are forms of ancillary services that are essential to the management of power system security. The provision of reserves facilitates the orderly trading, and ensures the quality of electricity.

As provided in the WESM Rules, when reasonably feasible, the Market Operator, in coordination with the System Operator, shall establish and administer a spot market for the purchase of certain reserve categories. The reserve categories that shall be traded in the WESM are regulating, contingency and dispatchable reserves as well as interruptible loads in lieu of reserves.

The WESM Reserve PCRM is intended to supplement the WESM Price Determination Methodology for purposes of providing the details of formula and procedures by which reserve trading amounts and reserve cost recovery charges for the categories of reserve that will be traded in the WESM are calculated. Once approved by the ERC, this Reserve PCRM will apply to all reserve categories traded in the WESM and will supersede, to this extent, the Ancillary Services Cost Recovery Mechanism of the Transco.

The Reserve PCRM covers the determination of (1) reserve trading amounts of reserve providers; (2) reserve cost recovery charges; and (3) administered reserve prices and reserve cost recovery charges. As of date, the Reserve PCRM is the subject of an application by the Market Operator, which is pending the approval of the ERC.

On December 2, 2014, DOE Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves, was issued. The Circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

Proposed Joint Resolution for the Establishment of Additional Generating Capacity

On September 12, 2014, President Benigno S. Aquino III requested the House of Representatives and the Senate for authority to establish additional generating capacity. The President cited the DOE's report and projection of a critical electricity situation in the summer of 2015 in Luzon arising from the expected effects of the El Niño phenomenon, the 2015 Malampaya turnaround, increased and continuing outages of power plants, and anticipated delays in the commissioning of committed power projects.

After due deliberation, the Philippine House of Representatives ("House") approved House Joint Resolution No. 21, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Provide for the Establishment of Additional Generating Capacity as Mandated by Republic Act No. 9136, also known as the "Electric Power Industry Reform Act (EPIRA)", to Effectively Address the Projected Electricity Shortage in the Luzon Grid from March 1, 2015 to July 31, 2015." On the other hand, the Philippine Senate ("Senate") approved Senate Joint Resolution No.12, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Address the Projected Electricity Imbalance in the Luzon Grid and Providing the Terms and Conditions Therefor." A bicameral conference committee was constituted to reconcile the provisions of said House and Senate versions of the Joint Resolution. However, as of date, no bicameral conference committee version has been approved.

The Joint Resolution aims to address the projected critical power supply situation in Luzon through the expansion of the ILP, acceleration of power projects and implementation of energy efficiency programs.

(xii) Amount Spent on Research and Development Activities

AboitizPower and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by AboitizPower's Subsidiaries and Affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

(xiii) Costs and Effects of Compliance with Environmental Laws

AboitizPower's generation and distribution operations are subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These laws and regulations address concerns relating to, among other things, air emissions; wastewater discharges; the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste; workplace conditions; and employee's exposure to hazardous substances. Standard laws and regulations that govern business operations include the Ecological Solid Waste Management Act (RA 9003), Clean Water Act (RA 9275), Toxic Chemical Substances and Hazardous Waste Act (RA 6969) and Philippine Environmental Impact Statement System (PD 1586). The Renewable Energy Act of 2008 (RA 9513) added new and evolving measures that must be complied with. These laws usher in new opportunities for the Company and set competitive challenges for businesses covered by these laws. Additional regulations such as Energy Regulation 1-94 requires companies to allocate funds for the benefit of host communities for the protection of the natural environment and also for the benefit of the people living within the area.

Each of AboitizPower Generation Companies and Distribution Utilities has incurred, and expects to continue to incur, operating costs and capital expenditures to comply with safety, health and environmental laws and regulations. An example is AboitizPower's hydropower companies allocating a budget for watershed management system in the watersheds where their projects are located. Designated pollution control officers in the different business units closely monitor compliance to the requirements of the above laws.

In 2014, AboitizPower and its Subsidiaries and Affiliates did not incur any major sanctions for violation of environmental standards and law.

Specifically, the APRI MakBan geothermal power plant and the APRI Tiwi geothermal power plant have incurred environmental section expenses amounting to ₱2,779,106.35 and ₱2,972,000.00, respectively. Both plants are in compliance with all environmental legal requirements.

Hedcor and its Subsidiaries incurred a total expense of ₱1,052,993.28 for environmental compliance. On the other hand, TSI's environmental cost amounts to ₱1,152,321.56. CPPC has adopted and implemented a total compliance budget of ₱10,069,000.00. Hedcor and its Subsidiaries, Therma South and CPPC are all in compliance with environmental legal requirements.

Also, in 2014, SN AboitizPower-Magat and SN AboitizPower-Benguet obtained their ISO 14001 certifications for their Magat and Binga plants, respectively. SN Aboitiz Power-Benguet acquired an ISO 14001 certification for its Ambuklao plant. It is also worth mentioning that all three plants are in compliance with all environmental legal requirements. Moreover, the Magat plant has enhanced its hazardous waste storage system.

TMI's Mobile 1 plant has generally been in compliance with all environmental legal requirements. Although there is a need for further improvement in TMO's and TMI's Mobile 2 plants, said facilities have been generally compliant with all environmental legal requirements.

AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to prevent adverse impacts to the environment or affected ecosystems.

(xiv) Employees

On the parent company level, AboitizPower has a total of 262 employees as of March 27, 2015 composed of executive, supervisory, rank and file staff, and contractual employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

As of March 27, 2015, the Company, VECO, SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, EAUC and MORE employed a total of 921 employees.

The following table provides a breakdown of total employee headcount on a per company basis, according to employees' function, as of March 27, 2015:

Business Unit	Number of Employees						Unionized Employee	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Contractual		
Aboitiz Power	262	55	46	43	116	2	N/A	N/A
AESI	2	0	0	0	2	0	N/A	N/A
BEZ	6	0	0	1	4	1	N/A	N/A
MEZ	7	1	0	1	4	1	N/A	N/A
Lima Enerzone	8	0	1	0	6	1	N/A	N/A
ARI	0	0	0	0	0	0	N/A	N/A
APRI	257	7	15	44	191	0	57	February 28, 2017
CPPC	112	0	2	12	33	65	N/A	N/A
EAUC	99	2	2	14	29	52	N/A	N/A
LHC	37	0	2	8	23	4	N/A	N/A
MORE	79	11	14	26	26	2	N/A	N/A
SEZ	35	2	3	4	25	1	N/A	N/A
SN Aboitiz Power-Generation	18	0	3	2	5	8	N/A	N/A
SN Aboitiz Power-Magat	42	1	3	16	17	5	N/A	N/A
SN Aboitiz Power-Benguet	60	1	4	24	31	0	N/A	N/A
STEAG Power	200	3	17	42	136	2	N/A	N/A
WMPC	91	0	7	18	62	4	N/A	N/A
SPPC	67	0	4	14	41	8	N/A	N/A
Davao Light	326	10	23	63	225	5	131	June 15, 2016
Cotabato Light	64	1	2	14	46	1	39	June 30, 2014*

Business Unit	Number of Employees						Unionized Employee	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Contractual		
Hedcor, Inc.	586	12	46	46	365	117	142	September 19, 2017
VECO	379	7	21	45	292	14	177	December 31, 2016
SFELAPCO	263	2	14	5	61	181	61	May 9, 2019
TOTAL NO. OF EMPLOYEES	3,000	115	229	442	1,740	474	607	

*Under negotiation.

The Company does not anticipate any increase in manpower within the next 12 months unless new development projects and acquisitions would materially require an increase.

On October 28, 2010, the Visayan Electric Company Employees Union-ALU-TUCP (the Union) filed a Notice of Strike against VECO on grounds of unfair labor practice for alleged illegal dismissal of the union president and officers and alleged failure to observe the grievance procedure in the CBA. The Secretary of Labor assumed jurisdiction over the strike and remanded the illegal dismissal case of the union president to the National Labor Relations Commission (NLRC) for compulsory arbitration.

On June 30, 2011, the NLRC dismissed the charge of unfair labor practice against VECO for lack of merit, and declared legal the dismissal from employment of the union president. The Union moved to reconsider the adverse decision of the NLRC, but the motion was denied. Consequently, on October 18, 2011, the Union filed a petition for certiorari, which was dismissed by the Court of Appeals (CA) for being filed out of time. On March 14, 2013, the Union filed a petition for certiorari before the Supreme Court questioning the decision of the CA.

VECO filed its comments to the petition last July 1, 2013. The Union was ordered to file its reply pursuant to a resolution by the Supreme Court dated September 16, 2013. Despite the aforementioned Supreme Court resolution, no reply has been filed by the Union. The petition has already been submitted for resolution.

(xv) Major Risk/s Involved in the Business

An integral part of AboitizPower’s Enterprise Risk Management efforts is to anticipate, understand and address the risks that the Company may encounter in the businesses it is involved in.

Reputation Risk

AboitizPower recognizes that its reputation is its single most valuable asset. It is a competitive advantage that enables the Company to earn the trust of its stakeholders. The Company is cognizant of the fact that the reputation it has today took generations to strengthen and it is therefore something that the Company wants to protect, build and enhance continuously.

Today’s world of higher corporate governance standards coupled with the rise of civil society groups, social media and greater scrutiny from key stakeholders, has created a new environment where corporate reputation has become a differentiating asset as well as the number one risk.

Managing AboitizPower’s reputation requires understanding of its reputational terrain, which includes all its stakeholders - team members, shareholders, lenders, communities in which it operates, non-governmental organizations, regulators, advocacy groups, traditional media and social media, and general public.

AboitizPower manages reputational risk, which could be the effect of the occurrence of another risk, through:

- building organization capability through a formalized governance structure and intelligence process;
- assessing and mitigating risks;
- identifying and engaging all stakeholders through information and education campaigns;

- implementing anticipatory issues management;
- developing and implementing a Group-wide social media policy and strategy;
- developing brand champions and brand advocates among its team members through effective corporate communication and engagement programs;
- ensuring brand integrity by establishing reputation metrics; and
- integrating sustainable practices across the value chain to promote inclusive growth.

In 2014, AboitizPower engaged the services of an external research group to conduct a Reputation Survey for the Aboitiz Group to get a baseline reading of the stakeholders' perception and insights, and to determine the Group's reputation level.

The survey revealed that the stakeholders had a very positive perception of the Group's overall reputation, with its Corporate Social Responsibility rated the most excellent among the seven reputation dimensions covered.

Competition Risk

AboitizPower will be facing pivotal changes in the power industry in the next few years. Its investments, as well as those of its competitors, in Greenfield and Brownfield projects are starting to pour in, with new players coming into the game. The power industry is now moving into a situation where there will be adequate or even, as some fear, an oversupply of electricity across all grids.

The Company's strength lies in its diversified portfolio of generation assets. Over the next several years, AboitizPower intends to expand its portfolio of generation assets by implementing various Greenfield and Brownfield projects.

To mitigate risks, projected capacities from these projects are contracted ahead of commercial operations to ensure that plant operations are optimized and to protect the revenue and cash flow streams.

AboitizPower continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off. The Company is also keen on participating in PSALM's public auction for IPPA contracts, which involves the transfer of the management and control of the total energy output of power plants under contract with the NPC to an IPPA.

Open Access and Retail Competition

Under Open Access, eligible contestable customers-end-users with a monthly average peak demand of at least 1 MW in the preceding 12 months-will have the option to source their electricity from eligible suppliers that have secured a RES license from the ERC. This affects the protected franchises of the Group, but the Group resolves to sharpen its competitive edge and bank on its grasp of the industry to offer better power solutions that will differentiate it from its competitors. AboitizPower has two wholly-owned Subsidiaries, AESI and AdventEnergy, that are licensed RES. These Subsidiaries can enter into contracts with eligible contestable customers. Moreover, AboitizPower's generation assets that have uncontracted capacities will be able to have direct access to these customers through AboitizPower's licensed RES.

Trading Risks

Power spot prices are subject to significant volatility from supply and demand changes. Both long-term and short-term power prices may also fluctuate substantially due to factors outside of AboitizPower's control. These factors include forced outages, transmission constraints, disruptions in the delivery chain, weather conditions, and changes in fuel price. These have caused and are expected to cause fluctuation or instability in the operating results of the generation companies, particularly those that sell substantial portions of the electricity they generate to the WESM.

AboitizPower plans to manage these risks by having a balanced portfolio of contracted and spot capacity. In particular, it intends to contract a majority of its base load and diesel capacity under price-stable bilateral contracts and offer most of its hydroelectric capacity for peaking and ancillary services.

In addition, following the WESM price spike at end of 2013, WESM operator, PEMC, has established a secondary cap aimed at controlling price spikes in the energy spot market. This reduces further the WESM spot prices exposure in the event the Group's power generation assets are unavailable - particularly on the contracts which require purchase of replacement power.

Regulatory Risk

AboitizPower's generation and distribution businesses are subject to constantly evolving regulations. Regulators are tightening their scrutiny, and the public has become more vigilant and involved in the power debate.

To respond proactively to potential fundamental changes that can impact its businesses, AboitizPower's regulatory team works very closely with its Generation and Distribution Companies and maintains open lines of communication with regulatory agencies. The regulatory team actively participates in consultative processes that lead to the development of new rules and policies covering the power industry.

The Company's regulatory team has also developed a strategy anchored on long-term views of expected or anticipated changes in the regulatory field. Its approach integrates understanding how regulations will affect its businesses, and planning and preparing for expected changes in regulation, rather than waiting for regulations to be imposed.

Business Interruption due to Natural Calamities and Critical Equipment Breakdown

Loss of critical functions and equipment caused by natural calamities such as earthquakes, windstorms, typhoons and floods could result in a significant interruption of the businesses within the Aboitiz Group.

Interruption may also be caused by other factors such as major equipment failures, software, network, and applications failures, fires and explosions, hazardous waste spills, workplace fatalities, product tampering, terrorism and other serious risks.

Regular preventive maintenance of the facilities and technological infrastructure and systems of the Aboitiz Group is being strictly observed, and loss prevention controls are continually being evaluated and strengthened. In 2015, as part of the Asset Management Program for the Generation Companies, maintenance, inspection data, and repair histories will be automated with the Maximo system going live.

Group insurance facilities that leverages on the company's portfolio of assets, supported by risk modelling and quantification, are in place. Business Interruption Insurance has also been procured to cover the potential loss in gross profits in the event of a major damage to the Aboitiz Group's critical facilities and assets. This has resulted to the Company having the best fit insurance solutions as we continue efforts to achieving the optimal balance between retaining and transferring risks and lower the Total Cost of Insurable Risk (TCOIR).

To ensure the continuity of operations in the event of a business interruption, AboitizPower and its Subsidiaries have completed the development of Business Continuity Plans and have tested majority of these plans in 2014. As part of continuous improvement, these plans will be reviewed, tested and enhanced. New business continuity scenarios will also be developed to stay abreast with the changing risks and issues our business face.

Financial Risks

In the course of the Company's operations, it is exposed to financial risks. These are:

- a. interest rate risks resulting from movements in interest rates that may have an impact on outstanding long-term debt;
- b. credit risks involving possible exposure to counter-party default on its cash and cash equivalents, Available-For-Sale investments and trade and other receivables;
- c. liquidity risks in terms of the proper matching of the type of financing required for specific investments; and
- d. foreign exchange (forex) risks in terms of forex fluctuations that may significantly affect its foreign currency-denominated placements and borrowings.

A Financial Risk Management framework which includes commodity risks will be developed in 2015 to help improve existing capabilities in managing and reducing uncertainty relating to certain commodities.

Fuel Supply and Price Risk

AboitizPower has several thermal plants – TLI that use coal, and CPPC, EAUC, TMI and TMO that use Bunker-C fuel. These fuel types are subject to significant fluctuation in fuel prices and supply issues.

The global price decline of oil and coal prices in 2014 is being monitored closely. Currently, the exposure is limited as a result of the deliberate shift to capacity-based contracts for the bulk of its PSAs. Such contracts come with a provision for the full pass-through of fuel costs, indexed versus the commodity markets for oil and coal for the energy generated by the Business Units.

On the supply side, the Business Units using Bunker-C fuel, namely CPPC, EAUC, TMI and TMO, enter into or renew its medium-term supply contracts with the biggest oil companies in the country who have consistently delivered on their contractual commitments. At the same time, the Group continuously scans the supply spectrum for better opportunities.

Likewise, TLI has long term coal supply agreements with different suppliers of performance and blending coal, and it continuously evaluates other coals to establish more sources in order to ensure stability of supply.

Project Risks

In 2014, TMO has completed the rehabilitation efforts on the facilities of the four power barges in Navotas. On the other hand, Hedcor Tudaya completed its rehabilitation efforts of its run-of-river HEPs in Davao del Sur. The Company has also made significant progress on its Greenfield coal plant projects in Davao City; and Hedcor Sabangan on its run-of-river hydro project in Mt. Province.

Between 2015 and 2019, the Company have lined up Greenfield and Brownfield projects across the country that will yield potential capacity opportunities of over 2,000 MW. Aside from increasing its generation capacity, the Company will continue to pursue development and other suitable opportunities both local and abroad in the various energy sectors such as solar, geothermal, hydro, natural gas, coal and wind.

2015 will clearly be a point of inflection with the completion of the Greenfield projects and transition from construction to operations. This is a big shift that comes with a whole new set of risks that need to be managed.

In order to manage these risks, the Company makes the effort to select the right partners, engage reputable contractors and third party suppliers, obtain insurance, and implement a project risk management framework, which includes identifying, assessing and managing risks at various stages of the project lifecycle – pre-development, development and during execution. A regular review of the project risk management plans is also being performed to monitor implementation of risk control measures.

Item 2. Properties

The Company's head office is located at the 32nd Street Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party. As a holding company, the Company does not utilize significant amounts of office space.

The Company plans to continually participate in future biddings and projects that become available to it. To date, the Company is currently participating in a number of bidding processes conducted by PSALM for privatization. In addition to this, the Company is also participating in private and public biddings.

On a consolidated basis, in 2014, AboitizPower's Property, Plant and Equipment were valued at around ₱119.65 bn as compared to ₱106.75 bn for 2013. The breakdown of the Company's Property, Plant and Equipment as of December 31, 2014 and December 31, 2013 is as follows:

Property, Plant and Equipment	2014	2013
Land	₱1,301,343	₱1,079,468
Buildings, Warehouses and Improvements	3,280,262	3,239,327
Powerplant, Equipment and Streamfield Assets	87,239,294	84,148,750
Transmission, Distribution and Substation Equipment	12,715,286	10,886,448
Transportation Equipment	944,230	903,676
Office Furniture, Fixtures and Equipment	274,486	342,447
Leasehold Improvements	647,403	621,144
Electrical Equipment	2,459,261	2,433,283
Meter and Laboratory Equipment	1,169,042	1,076,246

Property, Plant and Equipment	2014	2013
Tools and Others	590,776	533,276
Construction in Progress	32,568,672	20,662,391
Less: Accumulated Depreciation and Amortization	23,543,415	19,171,705
TOTAL	₱119,646,640	₱106,754,751

Note: Values for the above table are in thousand Philippine Pesos.

Locations of Principal Properties and Equipment of the Company's Subsidiaries are as follows:

SUBSIDIARY	DESCRIPTION	LOCATION/ADDRESS	CONDITION
Cotabato Light	Industrial land, buildings/ plants, equipment and machineries	Sinsuat Avenue, Cotabato City	In use for operations
Davao Light	Industrial land, buildings/ plants, equipment and machineries	P. Reyes Street, Davao City and Bajada, Davao City	In use for operations
VECO	Industrial land, buildings/ plants, equipment and machineries	Jakosalem Street, Cebu City and J. Panis Street, Cebu City	In use for operations
Hedcor	Hydropower plants	Kivas, Banengneng, Benguet; Beckel, La Trinidad, Benguet; Bineng, La Trinidad, Benguet; Sal-angan, Ampucao, Itogon, Benguet; and Bakun, Benguet	In use for operations
Hedcor Sibulan	Hydropower plant	Santa Cruz, Davao del Sur	In use for operations
CPPC	Bunker-C thermal power plant	Cebu City, Cebu	In use for operations
APRI	Geothermal power plants	Tiwi, Albay, Bay and Calauan, Laguna, and Sto. Tomas, Batangas	In use for operations
TMI	Barge-mounted diesel power plants	Nasipit, Agusan del Norte and Barangay San Roque, Maco, Compostela Valley	In use for operations
TMO	Barge-mounted diesel power plants	Navotas Fishport, Manila	In use for operation
TSI	Land	Davao City and Davao del Sur	For plant site
TVI	Land	Bato, Toledo City, Cebu	For plant site

Item 3. Legal Proceedings

Material Pending Legal Proceedings

VECO vs. Roy Salubre, et. al.

Civil Case No. CEB-36172

RTC Branch 16, Cebu City

CA-GR CEB Sp. No. 05752

Court of Appeals

SC GR No. 210517

Supreme Court

This case was filed by VECO against the Province of Cebu to question the legality of the assessment of delinquency in the payment of real property taxes on VECO's electric posts and transformers located in Consolacion, Cebu.

It is VECO's position that its electric poles and transformers are exempt from real property taxes on the ground that these are not real properties. VECO also maintains that it is exempt from paying real property tax on electric posts and transformers by virtue of its legislative franchise (RA 9339). VECO's position was upheld by the Regional Trial Court (RTC). The Province of Cebu contested the decision of the lower court and elevated the case to the CA.

On June 19, 2013, the CA dismissed the appeal of the Province of Cebu on the ground that appeal was the wrong mode to assail the decision of the lower court. The Province of Cebu filed a Motion for Reconsideration. The CA denied the

Motion of Reconsideration, saying that the Province of Cebu “did not raise any new or substantial reason that would merit upturning of our findings in the assailed Decision.”

The Province of Cebu filed on January 15, 2014 a Petition for Certiorari before the Supreme Court to contest the decision of the CA. On April 22, 2014, the Province of Cebu filed its Motion for Reconsideration, which was denied by the Supreme Court. On December 4, 2014, VECO received a Notice from the Supreme Court that such decision has become final and executory on August 20, 2014.

**In The Matter Of The Assessed Real Property Tax On Electric Posts And Transformers Located Within The Municipalities Of Minglanilla, Consolacion and Lilo-an, Province of Cebu
Local Board of Assessment Appeals-Province of Cebu
September 23, 2008**

On July 25, 2008, the Provincial Assessor of Cebu issued a Notice of Assessment for the electric poles and transformers owned by VECO located in the Municipalities of Minglanilla, Consolacion and Lilo-an. The Provincial Assessor, motu proprio, declared for tax purposes for the first time the said properties under Tax Declaration Nos. 39178 to 39193 (for Minglanilla), 39135 to 39166 (for Consolacion) and 54445 to 54458 (for Liloan). On August 27, 2008, VECO received a letter from the Provincial Treasurer demanding payment of approximately ₱32 mn as real property tax due on the supposed real properties computed from year 1992 up to 2008, including penalties, to the three municipalities.

On September 23, 2008, VECO filed a Notice of Appeal and Memorandum of Appeal before the Local Board of Assessment Appeals (LBAA) of the Province of Cebu questioning the demand letter and refuting the assessment on the following grounds: (1) VECO is exempt from paying real property tax on poles, wires and transformers by virtue of its legislative franchise (RA 9339); (2) poles and transformers are not real properties; (3) the valuation is erroneous and excessive; (4) it includes assessments which have already prescribed; (5) the municipalities did not give VECO the opportunity to present controverting evidence; (6) it did not consider depreciation cost of the assets; (7) the assessment violates due process for it did not comply with Section 223 of the Local Government Code of 1991 (LGC); (8) the Provincial Assessor erred in giving retroactive effect to the assessment in violation of Section 221 of the LGC; and (9) the assessments are null and void for lack of ordinance on the schedule of market values and lack of publication of the same.

To date, VECO has not received any resolution or order relating to the aforesaid Notice of Appeal and Memorandum of Appeal.

The case is still pending with LBAA-Cebu.

**Luzon Hydro Corporation vs. The Province Of Benguet, The Provincial Treasurer Of Benguet And Hon. Imelda I. Macanes In Her Capacity As Provincial Treasurer Of La Trinidad, Province Of Benguet
Civil Case No. 08-CV-2414
RTC Branch 10, La Trinidad, Benguet
March 7, 2008**

On October 11, 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax for the years 2002 to 2007 in the approximate amount of ₱40.40 mn, inclusive of surcharges and penalties. LHC filed a protest letter with the Provincial Treasurer on December 2007 on the ground that LHC is not a grantee of any legislative franchise on which basis franchise taxes may be imposed. On February 8, 2008, the Provincial Treasurer, through the Provincial Legal Officer, denied LHC’s protest. On March 7, 2008, LHC filed before the RTC of Benguet a petition against the Provincial Treasurer of Benguet for the annulment of the franchise tax assessment.

On February 18, 2014, the RTC rendered a Decision in favor of LHC declaring the franchise tax assessment ineffective for lack of sufficient evidence that LHC is holding a special or secondary franchise to operate its plant in Benguet. The Province of Benguet filed a Motion for Reconsideration, a copy of which was received by LHC on March 13, 2014. LHC filed its Opposition on March 31, 2014. The RTC set the hearing on the Province’s motion on August 13, 2014.

During the hearing, the Province asked for 10 days to file its Reply to LHC’s Opposition and LHC requested for a similar period within which to file its Rejoinder. LHC received the Reply on September 3, 2014 and filed its Rejoinder on September 15, 2014. To date, the court has not yet resolved the Motion for Reconsideration.

Hedcor Inc. vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer
Civil Case No. 08- CV-2398
RTC Br. 63, La Trinidad, Benguet
January 4, 2008

On October 22, 2007, Hedcor received a franchise tax assessment from the Provincial Treasurer of the Province of Benguet requiring Hedcor to pay the alleged unpaid franchise taxes of HEDC and Cleanergy (formerly, Northern Mini Hydro Corporation) in the approximate amount of ₱30.9 mn, inclusive of surcharges and penalties, for the fourth quarter of 1995 up to 2007. Hedcor filed a protest letter on the basis that HEDC and Cleanergy are not required to pay franchise taxes. Hedcor's protest was denied by the Provincial Treasurer in a letter dated November 27, 2007.

Pursuant to Section 195 of the LGC, Hedcor filed a petition on January 4, 2008 against the Provincial Treasurer before the RTC to annul the assessment of the franchise tax. On February 18, 2008, the Province of Benguet filed its answer to the petition, insisting on the liability of Hedcor and relying on the Articles of Incorporation of Hedcor to substantiate its allegation that Hedcor possesses both primary and secondary franchises. Hedcor is of the opinion that it is not liable for franchise tax since it does not need a national franchise to operate its business pursuant to Section 6 of the EPIRA. Moreover, Hedcor argues that it is a separate and distinct legal entity from HEDC and Cleanergy, and as such, it cannot be made liable for whatever obligation, if any, as may pertain to HEDC and/or Cleanergy.

On June 13, 2012, RTC Benguet rendered a decision adverse to Hedcor. On July 16, 2012, Hedcor filed a Motion for Partial Reconsideration as well as a Supplement to the Motion for Reconsideration on July 19, 2012. At the hearing on the said motions on August 17, 2012, Hedcor presented its arguments. The Province of Benguet failed to file any comment or opposition to the Motion or its supplement.

The RTC of Benguet decided the case in favor of Hedcor. However, the Province of Benguet filed a Petition for Review with the Court of Tax Appeals (CTA).

On November 7, 2013, Hedcor filed its Memorandum citing the recent decisions of the CTA in the cases of Ormat Leyte Company Ltd. vs. Province of Leyte and Energy Development Corporation vs. Sorsogon City, which stated that the business of generation and supply of power does not require generation companies to secure national franchises, and therefore, they are not liable for franchise taxes.

On April 22, 2014, Hedcor, through counsel, received a copy of the Decision of the CTA Third Division denying the Province of Benguet's Petition for Review. On October 22, 2014, Hedcor received a copy of the Entry of Judgment made by the CTA Third Division, declaring that the Decision has become final and executory on May 21, 2014.

Mactan Electric Co. vs. Acoland, Inc. Civil Case No. MDI-56
RTC Branch 56, Mandaue City
June 16, 1996

On July 16, 1996, MECO filed a quo warranto case against Acoland, Inc. (now AboitizLand) questioning the latter's authority to distribute power within the MEPZ II as well as the PEZA's power to grant such authority to AboitizLand. MECO argues that AboitizLand does not possess the legal requirements to distribute power within MEPZ II, and that the amendment of AboitizLand's Articles of Incorporation to include the right to engage in the operation, installation, construction and/or maintenance of electric and other public utilities only six days after the filing of this case was an afterthought.

Aboitiz Land's claims that the Special Economic Zone Act of 1995 (RA 7916) which created PEZA grants the latter broad powers and functions to manage and operate special economic zones, and that these include the power to grant the right to distribute electricity within PEZA-registered economic zones.

The PEZA intervened and argued that it is authorized by its charter to undertake and regulate the establishment and maintenance of utilities including light and power within economic zones under its jurisdiction.

In 2007, with the approval of PEZA, AboitizLand transferred all of its power assets and business to a new corporation, MEZ, which is now the real party in interest in the case.

The case remains pending before the RTC of Mandaue City.

**In The Matter Of The Assessed Real Property Tax On Machineries Located Within The Municipality of Bakun,
Province of Benguet
Central Board of Assessment Appeals
CBAA Case No. L-57 and L-59**

The Municipality of Bakun, Province of Benguet issued an assessment against LHC for deficiency in real property tax on its machineries in the amount of approximately ₱11 mn, inclusive of interests and penalties, for the year 2002. LHC appealed the assessment to the LBAA. The NPC intervened in the proceedings before the LBAA arguing that (1) the liability for the payment of real property tax over the machineries is assumed by the NPC under Section 8.6(b) of the Bakun PPA dated November 24, 1996; and (2) the NPC is exempted from the payment of real property tax under Section 234 of the LGC, which provides that machineries that are actually, directly and exclusively used by government-owned and controlled corporations engaged in the generation and transmission of electric power are not subject to the real property tax. The LBAA ruled in favor of the Municipality of Bakun on the ground that the NPC could not invoke the exception under Section 234 of the LGC because the machineries covered by the assessment are not yet owned by the NPC.

The NPC further appealed the ruling of the LBAA to the Central Board of Assessment Appeals (CBAA), which appeal was docketed as CBAA Case No. L-57/59. The Province of Benguet, through the Office of the Governor, and LHC engaged in negotiations to arrive at a possible settlement. In December 2009, the NPC moved for the issuance of a decision based on a compromise agreement. The Province of Benguet opposed the NPC's motion and prayed that CBAA continue hearing the case and resolve the same on the merits. LHC filed its reply to the Province of Benguet's opposition.

On July 3, 2012, the CBAA rendered a decision dismissing the appeals of LHC and the NPC for lack of merit. LHC then filed its Motion for Reconsideration. On October 4, 2012, LHC received an order from the CBAA noting the Motion for Reconsideration filed by LHC and the one filed by the NPC, and giving the Province of Benguet a period of ten days from receipt of the said order within which to file its comment/opposition. As of December 31, 2012, LHC has not received a copy of the Motion for Reconsideration filed by the NPC or any comment or opposition from the Province of Benguet.

On October 11, 2013, LHC, NPC and the Province of Benguet filed a Joint Motion for Judgment based on a Compromise Agreement with the CTA. On January 16, 2014, LHC received a copy of the resolution of the CTA En Banc ordering the parties to submit additional documents in support of the Joint Motion for Judgment. After numerous requests for extensions to comply, which were all granted, the CTA En Banc issued a Resolution noting the Compliance filed by LHC and the Manifestation and Motion for Extension filed by the Office of the Solicitor General.

LHC received a further Resolution from the CTA En Banc reiterating its request for original and certified true copies of certain documents. Upon examination of the files, it was determined that some of the documents requested by the CTA En Banc have already been furnished. LHC will file a Manifestation with the CTA En Banc stating this fact and will move for more time to submit the documents that have not been submitted yet, in particular:

1. Documentary evidence showing that the signatories are authorized and have secured prior authorization to enter into the January 29, 2004 Compromise Agreement; and
2. Approval and concurrence of the NPC Board and the Office of the Solicitor General (OSG) to the January 29, 2004 Compromise Agreement.

**Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the Provincial Treasurer of the Province of Ilocos Sur
Central Board of Assessment Appeals, Manila
CBAA Case Nos. L-96 and L-99**

On July 2, 2003, the Municipal Assessor of Alilem sent LHC two notices of assessment of real property. The first notice required LHC to pay real property taxes in the amount of ₱4.3 mn, for the fourth quarter of 2002, while the second notice required LHC to pay ₱17.2 mn for 2003. The notices of assessment also contained an additional imposition of 40% of the acquisition cost, which allegedly represented installation costs, and a further imposition of 15%, which allegedly represented freight costs.

LHC filed a Protest before the LBAA which ruled against LHC by upholding the notices of assessment. LHC appealed directly to the CBAA. After the trial was completed, the parties submitted their respective Memoranda. LHC submitted its Memorandum on July 3, 2012.

On September 26, 2012, the CBAA rendered a decision denying LHC's appeal. On November 14, 2012, LHC filed its Motion for Reconsideration. On March 21, 2013, the CBAA issued a resolution denying LHC's motion for reconsideration, a copy of which was received by LHC only on November 6, 2013. LHC filed its Petition for Review on December 6, 2013.

On February 5, 2014, LHC received a copy of the Resolution of the CTA En Banc consolidating the case with CTA EB Case No. 1024. On March 17, 2014, LHC received a copy of the Resolution of the CTA En Banc noting the compliance filed by the respondents. To date, the CTA En Banc has not yet acted on the Petition.

On January 26, 2015, LHC received a copy of the Decision of the CTA En Banc denying the Petition. LHC filed a Motion for Reconsideration on February 10, 2015.

SN Aboitiz Power - Magat, Inc. vs. The Municipality of Alfonso Lista, Hon. Charles L. Cattiling, in his capacity as Mayor of the Municipality of Alfonso Lista, and Estrella S. Aliguyon, in her capacity as Treasurer of the Municipality of Alfonso Lista

RTC Alfonso Lista, Ifugao, Branch 15

Special Civil Action No. 17-09

March 6, 2009

On July 12, 2007, the BOI issued Certificate of Registration No. 2007-188 to SN Aboitiz Power-Magat classifying its operation of the Magat Power Plant as a pioneer enterprise. Pursuant to Section 133(g) of the LGC, SN Aboitiz Power-Magat is exempt from local business taxes for a period of six years from the date of registration with the BOI. However, the Municipality of Alfonso Lista refused to recognize such exemption and insists on assessing and collecting local business taxes from SN Aboitiz Power-Magat.

In March 2009, SN Aboitiz Power-Magat filed a Complaint for Injunction with the RTC of Alfonso Lista, Ifugao against the Municipality of Alfonso Lista, its Mayor and Treasurer. The Complaint prayed that the defendants and all persons acting under their direction or authority be prevented from: (1) assessing and collecting local business taxes from SN Aboitiz Power-Magat; (2) refusing to issue a Mayor's Permit to SN Aboitiz Power-Magat for non-payment of local business taxes; and (3) distraining and levying on SN Aboitiz Power-Magat's properties, (4) closing the Magat Power Plant, and (5) committing any other act against SN Aboitiz Power-Magat that obstructs or delays its operations in connection with its non-payment of local business taxes. The Complaint also prays for the issuance of a Temporary Restraining Order (TRO) and writ of preliminary injunction. The RTC denied SN Aboitiz Power-Magat's application for a TRO.

SN Aboitiz Power-Magat filed a Petition for Certiorari with the CA for the issuance of a TRO and/ or writ of preliminary injunction being sought from the RTC and for the nullification of the RTC order. The CA granted SN Aboitiz Power-Magat's Petition for Certiorari and made permanent the TRO it initially issued.

Due to the on-going negotiations between both parties, the court suspended all scheduled hearings to give the parties ample time to submit a compromise agreement. The compromise agreement has been signed by the parties and submitted to the court for approval on May 12, 2011.

During the September 20, 2011 hearing, the Joint Motion for Judgment based on Compromise Agreement ("Joint Motion") was deemed submitted for resolution. Because of the length of time that had passed since its filing, on May 20, 2012, SN Aboitiz Power-Magat moved that the court decide on the Joint Motion. The court denied the Joint Motion in a joint resolution received by SN Aboitiz Power-Magat on September 14, 2012. SN Aboitiz Power-Magat moved for reconsideration of the denial of the Joint Motion on September 21, 2012.

During the September 26, 2012 hearing, certain private individuals led by Charles L. Cattiling and Arsenio Humiding filed a motion to intervene as well as their own Complaint (the "Intervention"). SN Aboitiz Power-Magat filed its Opposition to the Intervention on October 11, 2012.

Again, because of the length of time that had passed since the filing of these motions, on December 12, 2013, SN Aboitiz Power-Magat moved that the court resolve its Motion for Reconsideration and the Intervention. On May 27, 2014, the court, through another joint resolution, denied the Motion for Reconsideration.

Given the foregoing, on June 25, 2014, a Petition for Certiorari was filed with the Court of Appeals assailing the denial of the court of the Joint Motion and the Motion for Reconsideration.

On February 4, 2015, Atty. Joseph Humiding entered his appearance as counsel for the intervenors, who were given ten days to comment on SN Aboitiz Power-Magat's Opposition to the Intervention. SN Aboitiz Power-Magat was, likewise, given ten days to reply to the comment.

**AP Renewables, Inc. vs. Modesto E. Ere stain, Jr., in his capacity as Provincial Assessor
Local Board of Assessment Appeals, Province of Albay
LBAA Case No. 03-14
January 10, 2014**

On May 26, 2009, PSALM turned over the geothermal facilities located at Tiwi, Albay to APRI pursuant to an APA between PSALM and APRI. The APA is comprised of and refers to several agreements including a Land Lease Agreement (Lease Agreement) between APRI and PSALM for the lease of lands acquired by PSALM from the NPC (Leased Lands).

Through a letter dated January 13, 2010, APRI informed and gave a copy of the APA (which included the Lease Agreement) to the Municipal Assessor of Tiwi, Albay (Municipal Assessor). On March 15, 2010, APRI sent a letter to the Provincial Assessor requesting for the inspection and assessment of all properties transferred to APRI from PSALM.

From the years 2010, 2011, 2012 and 2013, the Municipal Assessor issued notices of assessments (Notices) to APRI, signed by the Municipal Treasurer. The Notices were forwarded to APRI notwithstanding the fact that the properties were in the name of PSALM. Pursuant to the Notices, APRI has been paying real property taxes (RPT) due on the Leased Lands beginning the third quarter of 2009. The Municipal Treasurer of Tiwi, Albay (Municipal Treasurer) issued certifications for the years including 2010 to 2013, confirming APRI's full payment of its RPT liability for these years.

On January 2, 2013, the Provincial Assessor wrote a letter to the Bureau of Local Government Finance (the BLGF) requesting for an opinion on whether or not (a) it is proper to adjust the value of the Leased Lands from special to industrial with an assessment level from 10% to 50%, and (b) APRI, as beneficial user, is liable to pay the RPT on the Leased Lands with an assessment level of 50% to take effect retroactive to the effective date of the Lease Agreement.

On April 12, 2013, the BLGF rendered an opinion (April 12 Opinion) finding that the classification of Leased Lands should be changed from special to industrial, applying a 50% assessment level retroactively the year following the date of effectivity of the Lease Agreement.

On June 20, 2013, APRI wrote a letter to the BLGF requesting for clarification of the April 12 Opinion (June 20 Request), essentially arguing that the 50% assessment level should not be applied retroactively considering that as early as 2010, APRI already informed the Assessor of the Lease Agreement, yet the Assessor continued to apply a 10% assessment level yearly on the Leased Lands, such that APRI should not be prejudiced by a retroactive application of the new assessment level. On September 4, 2013, the BLGF issued an opinion finding that the 50% assessment level cannot be made to apply retroactively to APRI and should apply instead to the year following the date of Notice of Assessment indicating the change in assessment level (September 4 Opinion).

Notwithstanding the September 4 Opinion, the Provincial Assessor still issued the Assessment Notices, applying the 50% assessment level retroactively from the date of effectivity of the Lease Agreement, which would correspond to a potential deficiency RPT in the amount of ₱70,655,771.12. On November 18, 2013, APRI received tax declarations from the Provincial Assessor allegedly covering the real properties mentioned in the disputed Assessment Notices.

On January 10, 2014, APRI timely filed an Appeal with Motion to Post Bond with the LBAA, Province of Albay, respectfully seeking the nullification and/or cancellation of the Assessment Notices. On May 7, 2014, APRI received an Order from the LBAA directing it to post a surety bond in the amount of ₱70,655,771.12, computed on the basis of APRI's RPT liability based on the Disputed Assessment Notices. In compliance to the LBAA Order, APRI filed a Compliance/Manifestation stating that it has already obtained a bond. APRI is preparing for the submission and presentation of evidence on the merits of the case.

On July 30, 2014, APRI had its documentary exhibits marked in evidence by the LBAA. The LBAA also ordered the Provincial Assessor to secure the assistance of counsel in time for the next hearing, which was scheduled on September 5, 2014. However, this and other hearings were reset in view of pending negotiations for the possible settlement of the case. On November 24, 2014, the parties appeared before the LBAA and informed its members that they are still in the process of exploring the possibility of settling this case. Consequently, the LBAA reset the November 24, 2014 hearing to January 23, 2015. However, the LBAA reset the hearing to March 27, 2015. To date, the parties are negotiating and discussing the terms of the possible settlement.

Bayan Muna Representative Neri Javier Colmenares, et. al. v Energy Regulatory Commission, et. al., G.R. No. 210245; National Association of Electricity Consumers for Reforms, et. al. v Manila Electric Company, et. al. G.R. No. 210255; Manila Electric Company, et. al. v Philippine Electricity Market Corporation, et. al., G.R. No. 210502

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against ERC and the Manila Electric Company (MERALCO) with the Supreme Court, questioning the alleged substantial increase in MERALCO's power rates for the billing period of November 2013. These cases raised, among others, the legality of Section 6, 29 and 45 of the EPIRA, the failure of ERC to protect consumers from the high energy prices and the perceived market collusion of the generation companies. These cases were consolidated by the Supreme Court, which issued a Temporary Restraining Order (TRO) preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended by the Supreme Court for another 60 days, or until April 22, 2014. MERALCO, in turn, filed a counter-petition impleading all generation companies supplying power to the WESM to prevent the generation companies from collecting payments on power purchases by MERALCO from the WESM. The Supreme Court also ordered all power participants to file their respective pleadings in response to MERALCO's counter-petition.

The Supreme Court set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were ordered to file their comments and/or memoranda. The case is pending before the Supreme Court. MERALCO has been prevented from collecting the differential increase of the price hike. Because of MERALCO's counter-petition against generators, all generation companies which supplied power through WESM were not paid by PEMC.

On April 22, 2014, the Supreme Court extended the TRO indefinitely. The case is still pending with the Supreme Court.

ERC Case No. 2014-021 MC: In the Matter of the Prices in the WESM for the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without Prejudice to the On-going Investigation on the Allegation of Anti-Competitive Behavior and Possible Abuse of Market Power Committed by Some WESM Participants

ERC was tasked to conduct an investigation on the allegations of anti-competitive behavior by some WESM participants. As a result of the investigations conducted, ERC, in its Order dated March 3, 2014 (the "ERC Order") directed PEMC to void the Luzon WESM prices during the November and December 2013 supply months on the basis of a market failure and a preliminary investigation of alleged market collusion. ERC also declared the imposition of regulated prices for such billing periods and directed PEMC to calculate the regulated prices and implement the same in the revised November and December 2013 WESM bills of the concerned distribution utilities in Luzon, except for MERALCO whose November 2013 WESM bill was maintained in compliance with the TRO issued by the Supreme Court. ERC also ordered PEMC through its Enforcement and Compliance Office (ECO) to conduct an investigation, within a period of no less than 90 days, on the alleged violation of the Must-Offer-Rule.

On March 18, 2014 PEMC issued adjusted billing statements for all generators trading in the WESM, including Cebu-based EAUC and CPPC recalculating the WESM prices. The Company's Affiliates and Subsidiaries, APRI, TLI, TMO, AESI, AdventEnergy, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, CPPC and EAUC filed their respective Motions for Reconsideration, questioning the validity of the ERC Order on the ground of lack of due process, among others. ERC, in its Order dated October 15, 2014, denied said Motions for Reconsiderations. SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, APRI, TLI, TMO filed their Petitions for Review before the Court of Appeals on November 19, 24, December 1, and 4, 2014, respectively. These Petitions are currently pending with the Court of Appeals.

PEMC ECO-2014-0009: Therma Mobile, Inc. (TMO Power Plants Units 1-4) Possible Non-Compliance with Must-Offer-Rule, Investigation Summary Report, dated August 4, 2014

PEMC ECO conducted an investigation on TMO for possible non-compliance with the Must-Offer-Rule for the period October 26, 2013 to December 25, 2013. PEMC ECO concluded that TMO was non-compliant with the Must-Offer-Rule for 3,578 intervals and recommended a penalty of ₱234.9 mn. TMO filed its Letter Request for Reconsideration on September 5, 2014, contending that it did not violate the Must-Offer-Rule because its maximum available capacity was limited to 100 MW due to: (i) the thermal limitations of the old TMO 115-kV transmission line, and (ii) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation.

In its letter dated January 30, 2015, the PEMC Board denied TMO's request for reconsideration and confirmed its earlier findings of breach of 3,578 counts under the Must-Offer-Rule and sustained the imposition of financial penalties amounting to ₱234.9 mn on TMO. According to the PEMC Board, the penalties will be collected from TMO through the WESM settlement process.

TMO maintains that there is no basis for the PEMC decision. It did not withhold any capacity for the period covered, as it was physically impossible for TMO to transmit more than 100 MW to MERALCO. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 21, 2013. At this period, TMO's engines and transmission lines were still undergoing rehabilitation after having been non-operational for the last five years.

On February 13, 2015, TMO filed a Notice of Dispute with the PEMC to refer the matter to dispute resolution under the WESM Rules, WESM Dispute Resolution Market Manual and the ERC-PEMC Protocol.

On February 16, 2015, TMO filed an Urgent Petition for the Issuance of Interim Measures of Protection for the Issuance of a Writ of Preliminary Injunction with prayer for Temporary Order of Protection before the Pasig City Regional Trial Court (RTC). In its Order dated February 24, 2015, the RTC granted TMO a 20-day temporary order of protection and directed PEMC to a) refrain from demanding or collecting the amount of ₱234.9 mn as financial penalty; b) refrain from charging interest on the financial penalty and having the same accrue; and c) refrain from transmitting PEMC-ECO's Investigation Report to the ERC. TMO posted a bond in the amount of ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order.

The hearing for TMO's prayer for the issuance of a Writ of Preliminary Injunction was held last March 12 and 19, 2015. The parties were given until March 25, 2015 to file their respective memoranda. The RTC is expected to issue its decision soonafter. Meanwhile, TMO and PEMC have agreed to maintain the *status quo* until that decision is released.

In Re: Petition for Dispute Resolution: Manila Electric Company (MERALCO) vs. South Premier Power Corporation (SPPC), Masinloc Power Partners Company, Ltd. (MPPCL), AP Renewables, Inc. (APRI), Therma Luzon, Inc. (TLI), San Miguel Energy Corporation (SMEC) and SEM-Calaca Power Corporation (SCPC)
ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI and APRI, among other Successor Generating Companies (SGCs) under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. To date, the ERC has yet to render its decision on the Joint Motion to Dismiss.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II – OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

(1) Market Information

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of 2013 to 2015 were as follows:

	2015		2014		2013	
	High	Low	High	Low	High	Low
First Quarter	44.95	44.50	42.25	33.90	39.95	36.00
Second Quarter	N/A	N/A	38.40	35.80	37.70	31.00
Third Quarter	N/A	N/A	40.75	36.00	35.10	31.00
Fourth Quarter	N/A	N/A	42.90	39.00	35.05	32.05

The closing price of AboitizPower common shares as of March 31, 2015 is ₱44.50 per share.

(2) Holders

As of March 27, 2015, AboitizPower has 588 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

The top 20 stockholders of AboitizPower as of March 27, 2015 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures, Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation (Filipino)	861,629,670	11.71%
3) PCD Nominee Corporation (Foreign)	617,337,033	8.39%
4) Bauhinia Management, Inc.	12,609,100	0.17%
5) A. Soriano Corporation	11,205,360	0.15%
6) San Fernando Electric Light & Power Co., Inc.	7,931,034	0.11%
7) Parraz Development Corporation	7,827,522	0.11%
8) Sabin M. Aboitiz	6,050,985	0.08%
9) Iker M. Aboitiz	5,465,100	0.07%
10) Hawk View Capital, Inc.	5,375,223	0.07%
11) Portola Investors, Inc.	5,375,223	0.07%
12) Aboitiz & Company, Inc.	5,360,000	0.07%
13) Daniele Management & Development Corporation	5,234,949	0.07%
14) Ramon Aboitiz Foundation, Inc	3,900,000	0.05%
15) Arrayanes Corporation	3,290,443	0.04%
16) Cal Management Corporation	2,965,590	0.04%
17) Tris Management Corporation	2,837,306	0.04%
18) Gitana Management & Dev't. Corporation	2,817,091	0.04%
19) Tinkerbelle Management Corporation	2,773,091	0.04%
20) Kayilka Holdings, Inc.	2,723,446	0.03%
SUBTOTAL	7,230,238,940	98.26%
Other Stockholders	128,365,367	1.74%
TOTAL SHARES	7,358,604,307	100.00%
NET ISSUED AND OUTSTANDING SHARES	7,358,604,307	100.00%

(3) Dividends

The cash dividends declared by AboitizPower to common stockholders from 2013 to the first quarter of 2015 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Record Date
2015 (regular)	₱1.14	₱8.39 bn	3/24/2015
2015 (special)	₱0.52	₱3.83 bn	3/24/2015
2014 (regular)	₱1.26	₱9.27 bn	3/25/2014
2014 (special)	₱0.40	₱2.94 bn	3/25/2014
2013	₱1.66	₱12.22 bn	3/19/2013

During the regular board meeting of the Company held on November 28, 2012, the Board approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. The new policy changed the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy was effective starting 2013.

(4) Recent Sales of Unregistered or Exempt Securities including Recent Issuances of Securities Constituting an Exempt Transaction

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.



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SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Ortigas in Mandaluyong City, Metro Manila, Philippines
 Tel: (632) 726-0621 to 33 Fax: (632) 726-3263 Email: msc@sec.gov.ph

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Company Information

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 Company Type Stock Corporation

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(Company's Full Name)

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____ (Business Address: No. Street City / Town / Province)

M. JASMINE S. OPORTO

Contact Person

02- 886-2729

Company Telephone Number

3rd Monday of May

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Month Day

Fiscal Year

Letter

FORM TYPE

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Annual Meeting

N/A

Secondary License Type, if Applicable

SEC

Dept. Requiring this Doc

N/A

Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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April 1, 2015

**MARKETS AND SECURITIES REGULATION DEPARTMENT
SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA Greenhills
Mandaluyong City, Metro Manila

ATTENTION : **MR. VICENTE GRACIANO P. FELIZMENIO JR.**
Director

RE : **SEC Form 17-Q for First Quarter of 2015**

Gentlemen:

This has reference to the submission of Aboitiz Power Corporation's SEC Form 17-Q (Quarterly Report) for the First Quarter of 2015, in relation to the submission of its SEC Form 20-IS (Definitive Information Statement) with this Honorable Commission.

In compliance with the requirements of the Securities Regulation Code (SRC), we will file with this Honorable Commission the Quarterly Report for the First Quarter of 2015 on or before May 15, 2015, within forty (45) days from the end of the applicable quarter as required under the SRC. Upon filing said Quarterly Report, we will distribute the same to the Company's shareholders.

The Company will also file with this Honorable Commission the 2015 Definitive Information Statement on or before April 23, 2015, and will send out copies of the same to its stockholders on or before April 24, 2015, well within the periods required under the SRC.

Thank you.

Very truly yours,

ABOITIZ POWER CORPORATION

By:

A handwritten signature in black ink, appearing to read "M. Jasmine S. Oporto".

M. JASMINE S. OPORTO
Corporate Secretary

Item 6. Management's Discussion and Analysis or Plan of Action**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following is a discussion and analysis of the Company's consolidated financial condition and results of operations and certain trends, risks and uncertainties that may affect its business. The discussion and analysis of the Company's results of operations is presented in three comparative sections: the year ended December 31, 2014 compared with the year ended December 31, 2013, the year ended December 31, 2013 compared with the year ended December 31, 2012 and the year ended December 31, 2012 compared with the year ended December 31, 2011.

Prospective investors should read this discussion and analysis of the Company's consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this report.

Key Performance Indicators

Management uses the following indicators to evaluate the performance of the Company and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the "Group"):

1. **Share in Net Earnings of Associates.** Share in net earnings (losses) of associates represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment. Share in Net Earnings of Associates indicates profitability of the investment and investees' contribution to the Group's net income.

Manner of Computation: Associate's Net Income (Loss) x Investor's % ownership

2. **Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA).** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group's ability to service its debts.
3. **Cash Flow Generated.** Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.
4. **Current Ratio.** Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.
5. **Debt-to-Equity Ratio.** Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

The table below shows the comparative figures of the top five key performance indicators for 2014 and 2013.

Key Performance Indicators	2014	2013
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES	4,009,488	6,474,370
EBITDA	31,765,156	29,899,736
CASH FLOW GENERATED:		
Net cash flows from operating activities	23,437,979	24,413,143
Net cash flows used in investing activities	(12,979,595)	(11,502,024)
Net cash flows used in financing activities	(1,618,932)	(12,245,816)
Net Increase in Cash & Cash Equivalents	8,839,452	665,303
Cash & Cash Equivalents, Beginning	31,383,499	30,678,493
Cash & Cash Equivalents, End	40,231,875	31,383,499
CURRENT RATIO	3.36	2.87
DEBT-TO-EQUITY RATIO	1.26	1.13

Share in net earnings of associates decreased by 38% or by ₱2.46 bn. The decrease came as result of the step-acquisition of the Visayan Electric Company, Inc. (VECO) as well as lower contributions from SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat), SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet) and STEAG State Power, Inc. (STEAG Power).

Consolidated EBITDA increased due to the full year consolidation of VECO, which started to be consolidated towards the end of 2nd quarter 2013.

Cash was generated from the Group's operations and dividends received from associates. Proceeds from the bonds offering and new borrowings also augmented cash flows for the year and was used to fund ongoing projects and working capital requirements of subsidiaries.

Current ratio improved to 3.36x at the end of 2014 from 2.87x by year end 2013 due mainly to an increase in current assets.

Debt-to-equity ratio as of December 31, 2014 was at 1.26, higher than 1.13 as of December 31, 2012. This is mainly due to the increase in the Group's total liabilities.

Results of Operations

The Company's net income for the year 2014 recorded a 10% YoY decrease, from ₱18.58 bn to ₱16.71 bn. This translated to earnings per share of ₱2.27. The Company registered a non-recurring loss of ₱136 mn (versus last year's loss of ₱1.55 bn) during the year. This was mostly due to the revaluation of consolidated dollar-denominated loans and placements. Adjusting for these one-offs, the Company's core net income for 2014 amounted to ₱16.84 bn, down by 16% YoY.

Power Generation

The generation business accounted for 81% of earnings contributions, recording an income share of ₱13.48 bn for 2014, down 11% YoY. The decline is attributed to the full-year impact of the implementation of the Geothermal Resource Supply Contract of the Tiwi-MakBan plants, limited operations of Magat plant due to low water levels, and the expiration of the Pagbilao and Magat plants' income tax holiday during the year. The large hydros were also adversely impacted by lower average prices for both its spot and ancillary sales. Netting out one-off items, the generation business generated ₱13.64 bn for the period, which was 21% lower than last year.

The attributable net generation for the year rose by 3% YoY, from 10,949 GWh to 11,272 GWh as electricity sold through bilateral contracts, which made up 86% of total energy sold during the period, expanded by 7% to 9,661 GWh. On the other hand, spot market sales decreased by 16% from 1,914 GWh to 1,612 GWh as low water levels during the dry season constrained the operations of the Magat, Ambuklao, and Binga plants.

In terms of capacity, higher sales through bilateral contracts and ancillary services resulted to a 13% YoY increase in AboitizPower's attributable sales to 1,800 MW. The growth was partly driven by Therma Mobile, Inc. (TMO), which was only able to offer its full capacity of 200 MW in the second quarter of 2014. While ancillary sales were weak in the second quarter due to the dry season, the increase in water levels in the second half of 2014 as a result of the typhoons has led to a strong recovery in ancillary sales during the last six months of the year. The Group's average price for its energy sales decreased by 3% YoY in 2014. This was mainly due to the 21% YoY decrease in the average selling price of the Group's spot sales. Notwithstanding the increase in ancillary volume sales, revenues were also down as a result of a 39% decrease in average ancillary rates.

Power Distribution

The power distribution group's earnings share for 2014 remained flat from a year ago at ₱3.2 bn. This is equivalent to 19% of earnings contributions from AboitizPower's business segments. Total attributable electricity sales increased by 10% YoY, from 4,076 GWh to 4,480 GWh as energy sales to industrial customers grew by 15% YoY. The acquisition of Lima Utilities Corporation (now Lima Enerzone Corporation) (Lima Enerzone) last June 2014 also provided a modest contribution to the improvement in sales. On the other hand, the group's gross margin on a per kwh basis in 2014 decreased to ₱1.71 from ₱1.77 a year ago. The unfavorable variance was brought about by the higher direct costs incurred by Davao Light & Company, Inc. (Davao Light) and Cotabato Light & Company (Cotabato Light) due to the running of their embedded plants to cover for the energy shortfall in the Mindanao grid.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent decreased by 10% from ₱18.58 bn in 2013 to ₱16.71 bn in 2014. The various movements in line items are shown below to account for the decrease:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2013	₱18,576,845
Increase in operating revenues	14,704,219
Increase in operating expenses	(11,830,749)
Decrease in share in net earnings of associates	(2,464,882)
Increase in interest income	58,120
Increase in interest expense	(650,369)
Increase in other income	1,675,689
Higher provision for taxes	(2,897,464)
Increase in income attributable to non-controlling interests	(466,225)
Total	(1,871,661)
Consolidated Net Income Attributable to Equity Holders of the Parent for 2014	₱16,705,184

Operating Revenues

(20% increase from ₱72.06 bn to ₱86.76 bn)

Consolidated operating revenues from the Generation segment decreased by 6% from ₱39.44 bn in 2013 to ₱36.88 bn. The drop mainly came from lower revenues at AP Renewables, Inc. (APRI) due to lower volumes sold to the WESM as well as a drop in its average selling prices during the year. Therma Luzon, Inc. (TLI) also saw a decrease in its operating revenues resulting from lower selling prices during the year.

The decrease in operating revenues from the generation segment was offset by full year revenues coming from the Group's Retail Electricity Supplier Licensed Companies - Aboitiz Energy Solutions, Inc. (AESI) and Adventenergy, Inc. (AdventEnergy) which began their respective operations after Open Access started in June of 2013.

The distribution segment also increased its operating revenues from ₱28.07 bn in 2013 to ₱39.98 bn in 2014. The 42% increase, is mainly as a result of the full year consolidation of the operating revenues of VECO.

Operating Expenses

(23% increase from ₱52.58 bn to ₱64.41 bn)

The increase in the consolidated operating expenses is accounted for as follows:

- Cost of purchased power increased by 21% or ₱5.12 bn. The increase is mainly due to the full year consolidation of VECO's cost of purchased power.
- Cost of generated power increased by 19% or ₱3.40 bn. The increase is mainly due to full year fuel costs incurred by TMO which started operating in November 2013 and higher steam supply costs of APRI.
- General and administrative expenses increased by 34% or ₱1.38 bn. The increase is attributable to: a) the full year consolidation of VECO's expenses; b) TMO's full year recognition of general and administrative expenses; and c) the Group's higher provision for impairment of receivables.
- Depreciation and amortization expenses increased by 20% due to the full year consolidation of VECO's depreciation expense and full year depreciation charges for TMO.
- Operations and maintenance expenses increased by 51% or ₱1.16 bn. The increase is attributable to: a) full year consolidation of VECO's expenses; b) full year expenses incurred by TMO; c) higher costs of running the embedded plants of Davao Light and Cotabato Light; and d) higher expenses of APRI.

Interest Income

(14% increase from ₱414 mn to ₱472 mn)

Increase is mainly due to higher average cash and cash equivalent balances at the Parent Company in 2014.

Interest Expense and other financing costs

(12% increase from ₱5.34 bn to ₱5.99 bn)

The increase is mainly due to higher long-term debt balances as a result of debt raising activities in 2013 and a bond offering of the Parent Company in 2014.

Share in Net Earnings of Associates

(38% decrease from ₱6.47 bn to ₱4.01 bn)

The decline in the Share in Net Earnings of Associates is due to the lower contributions from the following associates:

- SN Aboitiz Power-Magat's contribution declined due to lower revenues and higher tax provisions (expiration of income tax holiday). Revenues were limited by lower water levels and lower selling prices during the year.
- The income contribution from SN Aboitiz Power-Benguet likewise decreased due to lower revenues as a result of lower selling prices during the year.
- A decrease in STEAG Power's registered income due to an extended unplanned plant outage in the first half of the year leading to lower revenues and higher repairs and maintenance cost.
- The effects of the full year consolidation of VECO in 2014.

Other Income (Expenses) - net

(Increase from ₱1.08 bn other expense to ₱592 mn other income)

The increase is mainly due to lower net unrealized foreign exchange loss in 2014 resulting from the restatement of TLI's dollar-denominated debt on its monthly obligations to the PSALM (accounted as a finance lease obligation).

Provision for Taxes

(550% increase from ₱527 mn to ₱3.42 bn)

The increase is mainly due to the expiry of TLI's income tax holiday at the end of 2013.

Net Income Attributable to Non-controlling Interests

(56% increase from ₱834 mn to ₱ 1.30 bn)

The increase is mainly due to the full year consolidation of VECO.

Consolidated Statements of Comprehensive Income

Consolidated comprehensive income attributable to equity holders of the parent decreased from ₱18.95 bn in 2013 to ₱16.97 bn in 2014. The increase is mainly due to the decrease in consolidated net income recognized during the period.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets (as of December 31, 2014 vs. December 31, 2013) increased by ₱22.82 bn or 12% due to the following:

- a) Cash and cash equivalents grew by 28% (from ₱31.38 bn in 2013 to ₱40.23 bn in 2014). The increase is mainly attributable to an increase in cash and cash equivalent balances at the Parent Company from the proceeds of its bond offering in 2014.
- b) Trade and other receivables decreased by 5% (from ₱13.04 bn in 2013 to ₱12.33 bn in 2014). The lower revenues at APRI led to a corresponding decrease in trade receivables. During the year higher impairment provisions on trade receivables were recognized.
- c) Inventories decreased by 24% (from ₱2.84 bn in 2013 to ₱2.17 bn in 2014). The decrease is mainly due to lower coal inventory of TLI and the decrease in transmission and distribution supplies inventory of VECO.
- d) Other current assets increased by 12% (from ₱1.74 bn in 2013 to ₱1.94 bn in 2014). The increase is mainly due to higher prepaid tax of Parent Company and AESI.
- e) Property, plant and equipment (PPE) increased by 12% (from ₱106.75 bn in 2013 to ₱119.65 bn in 2014) mainly attributable to ₱16.3 bn additions to PPE from: 1) ₱13.06 bn construction costs of Davao, Pagbilao 3 and Cebu coal-fired plants, and Sabangan and Tudaya hydroelectric plants; and 2) ₱3.24 bn for distribution segment projects and other capital expenditures.
- f) Intangible asset – service concession rights decreased by 7% mainly due to amortization expense charged during the year.
- g) Investment properties went up by ₱15 mn attributable to the fair valuation gain recognized on the Company's investment property.
- h) Derivative assets (current and noncurrent portions) increased by 264% (from ₱30.9 mn in 2013 to ₱112.5 mn in 2014) primarily due to unrealized mark-to-market gains recognized on outstanding hedge instruments during the current period.
- i) Available for sale investments decrease of ₱3 mn is mainly on account of the impairment of an investment held by Cotabato Light.
- j) Goodwill increased by 36% (from ₱806 mn in 2013 to ₱1.09 bn in 2014) mainly due to the ₱468 mn additional goodwill from the acquisition of Lima Enerzone. This was partly offset by the ₱179 mn reduction of the provisional goodwill on VECO investment upon finalization of the fair values related to the step acquisition done in 2013.
- k) Net pension assets increase of ₱69 mn is mainly due to actuarial gains recognized by the Parent Company during the period.
- l) Deferred income tax assets (DTA) decreased by 53% (from ₱520 mn in 2013 to ₱244 mn in 2014). The decrease is due to the following: 1) ₱577 mn reversal in 2014 of the deferred tax benefit on NOLCO that was set up in December 2013, as the NOLCO was applied against the generated taxable income in 2014; and 2) ₱193 mn recognized deferred tax benefits on actuarial gains and other comprehensive income during the period. The decrease was partly offset by the ₱397 mn reclassification of deferred tax liability on accumulated FX gain from DTA to Deferred Income Tax Liability (DTL) to reflect the shift of the subsidiary's tax position from net DTA in December 2013 to net DTL in December 2014.
- m) Other noncurrent assets increased by 37% (from ₱7.80 bn in 2013 to ₱10.66 bn in 2014) mainly due to the build-up of deferred input VAT arising from the Group's construction of power plants.

Liabilities

Consolidated liabilities increased by 18% from ₱102.69 bn as of December 31, 2013 to ₱120.68 bn as of December 31, 2014.

- a) The bank loans outstanding as of December 31, 2014 represent new loans availed by Davao Light.
- b) Trade and other payables decreased by 15% (from ₱15.08 bn in 2013 to ₱12.78 bn in 2014) mainly on account of net settlement of trade payables of TLI.

- c) Income tax payable increased by 74% (from ₱348 mn in 2013 to ₱604 mn in 2014) primarily due to higher tax payable of TLI.
- d) Long-term debts increased by 84% (from ₱23.29 bn in 2013 to ₱42.78 bn in 2014). The increase is mainly attributable to the following:
 - Parent Company's ₱10 bn retail bond issuance in 2014.
 - Additional loans from the project debt facility of Therma South, Inc. (TSI) (₱7.56 bn) and Pagbilao Energy Corporation (PEC) (a joint operation, ₱3.17 bn) to fund its ongoing power plant construction.
- e) Customers' deposits increased by 11% (₱5.14 bn in 2013 to ₱5.69 bn in 2014) mainly due to: 1) consolidation of new subsidiary (Lima Enerzone); 2) increase in deposits for Davao Light and VECO as it continues to see growth in its customer base during the year; and 3) additional deposits from retail supply customers in 2014.
- f) Asset retirement obligation increased by 17% (₱2.00 bn in 2013 to ₱2.35 bn in 2014). Increase is due to additional provision and interest accreted during the year.
- g) Pension liability decreased by 10% (₱453 mn in 2013 to ₱406 mn in 2014) on account of retirement contributions made by certain subsidiaries during the year.
- h) Deferred income tax liabilities (DTL) increased by 37% (₱910 mn in 2013 to ₱1.25 bn in 2014) is mainly due to the ₱397 mn reclassification of deferred tax liability on accumulated FX gain from DTA to DTL.

Equity

Equity attributable to equity shareholders of the parent increased by 5% (from ₱87.63 bn in 2013 to ₱91.96 bn in 2014) due to the following:

- a) Retained earnings increased by 7% or ₱4.49 bn after taking up this year's net income of ₱16.71 bn and after dividends declared and paid during the year of ₱12.22 bn. During the year, the Company also appropriated ₱20.90 bn of its unrestricted retained earnings for its various projects.
- b) Cumulative translation adjustments increased by ₱63 mn from the effects of translating a subsidiary's US dollar net assets and the Group's hedging transactions.
- c) The combined actuarial losses on defined benefit plans for the Group and its share in the actuarial losses of the associates decreased by ₱158 mn mainly due to recognized actuarial gains during the period.
- d) Share in the net unrealized valuation gains on available for sale investments of an associate increased by 35% or ₱31 mn on account of the movement in the market value of the investment held by an associate.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from the Group's operations continue to be the main cash generating activity as it brought in ₱23.44 bn for the year. The cash generated from operations has dropped by 4% versus last year mainly due to higher payments made to settle trade payables and income taxes.

The Group's net cash used in investing activities during the year amounted to ₱12.98 bn. A total of ₱16.22 bn was used for capital expenditures and acquisition of a subsidiary. This was partly offset by dividends received from associates amounting to ₱4.62 bn.

The significant cash flows relating to financing activities during the year were as follows: a) Cash inflows of ₱20.63 bn representing proceeds from the Group's debt raising activities during the year to finance ongoing projects; and b) Cash outflows for the following were incurred during the year:

- Dividend payments to shareholders of ₱12.22 bn.
- Payments made by TLI to PSALM on its finance lease obligations of ₱6.97 bn.
- Principal and interest payments amounting to ₱2.22 bn.

As of December 31, 2014, the Group's cash and cash equivalents increased from ₱31.38 bn in 2013 to ₱40.23 bn.

Financial Ratios

On a consolidated basis, current ratio increased to 3.36x from 2.87x at the start of the year. This improvement is mainly due to the 16% increase in current assets. The ₱7.70 bn increase in current assets is due to the higher cash and cash equivalents held by the company at the end of 2014.

Consolidated debt to equity ratio remains to be comfortable at 1.26x as of December 31, 2014 (versus year end 2013's 1.13x). The increase is mainly due to an increase in consolidated debt.

Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties which may have Material Impact on Registrant

Over the long term, AboitizPower remains to be in a very good position to benefit from the opportunities that developments concerning the electricity industry will bring. Its sound financial condition, coupled with a number of initiatives that the Company is undertaking will allow it to create additional generating capacity over the next several years. On the other hand, the expiration of the income tax holiday of several of the Company's plants over the next few years is expected to have some impact on earnings.

Generation Business

1. Expiration of Income Tax Holiday

Several of the AboitizPower's plants were eligible for an income tax holiday (ITH) upon their acquisition by the Company. Upon the expiration of the ITH, the respective plants will now be assessed a corporate income tax in accordance with the relevant laws.

SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat). SN Aboitiz Power-Magat obtained the Board of Investments' (BOI) approval of its application as new operator of the Magat Plant with a pioneer status, which approval entitles it to an ITH until July 11, 2013. On November 16, 2012, the BOI approved SN Aboitiz Power-Magat's application for a one-year extension of its ITH holiday until July 11, 2014. After the lapse of SN Aboitiz Power-Magat's ITH, it is liable to pay income tax. Consequently, the first full-year impact of SN Aboitiz Power Magat's ITH expiration will be felt in 2015.

SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet). The Binga Plant obtained an ITH extension from the BOI in October 9, 2012. The ITH for Binga Plant will expire on August 11, 2015, while Ambuklao Plant also obtained an ITH extension on March 6, 2013, which will be valid until June 30, 2018.

2. Increase in Attributable Generating Capacity

Notwithstanding the challenges over the short-term, AboitizPower has built the necessary foundation to sustain its growth trajectory over the long term. Over the next several years, AboitizPower looks to expanding its portfolio of generation assets by implementing the following projects.

- Greenfield and Brownfield developments (for completion in 2015)

300-MW CFB Coal-Fired Power Plant in Davao. AboitizPower, through 100%-owned subsidiary Therma South, Inc. (TSI), is constructing a 2x150 MW CFB coal-fired power plant in Davao, which is the biggest load center on the island of Mindanao. The project broke ground in May 2012. The EPC contract for the power block was awarded to Formosa Heavy Industries (FHI) with FHI supplying the CFB boilers and Fuji as major subcontractor/supplier of the turbine-generators. The EPC contract for the balance of plant equipment and their integration with the power block was awarded to a consortium led by Black & Veatch Corporation. Commissioning and testing of the first unit began in the fourth quarter of 2014. The facility is expected to become fully operational by mid-2015, thereby providing Mindanao with much-needed reliable and competitively-priced base-load power.

14-MW Sabangan Hydro Power Plant Project. This involves the construction and operation of a hydropower plant facility in Mt. Province, in Northern Luzon by first half 2015. This project will be undertaken by a wholly owned subsidiary of AboitizPower, Hedcor Sabangan, Inc. The project, which is the first to be constructed in Mt. Province, will take approximately 24 months to construct and expected to be commissioned in March 2015.

- Greenfield and Brownfield developments (for completion beyond 2015)

600-MW (net) Coal-Fired Power Plant in Subic. This is a project by Redondo Peninsula Energy, Inc. (RP Energy), a joint venture among Meralco PowerGen Corporation (MPGC), AboitizPower's Subsidiary, Therma Power, Inc. (TPI) and Taiwan Cogeneration International Corporation (TCIC). AboitizPower, through TPI will have an equity interest of 25% in RP Energy. The project involves the construction and operation of a 2x300 MW (net) circulating-fluidized-bed (CFB) coal-fired power plant located within the Subic Bay Freeport Zone. On November 15, 2012, RP Energy was issued an amended Environmental Compliance Certificate (ECC) to cover two high-efficiency 300-MW (net) units with main steam reheat systems. Site preparation is substantially completed. The selected EPC contractor is Hyundai with Foster Wheeler and Toshiba as major subcontractors/suppliers of the CFB boilers and turbine-generators, respectively.

Hyundai has not yet been notified to proceed with the works because of the filing with the Supreme Court of a petition for a Writ of Kalikasan and environmental protection order by an ad hoc group of individuals and organizations. The petition was remanded to the Court of Appeals for a hearing. The Court of Appeals denied the issuance of Writ of Kalikasan for lack of merit, but nonetheless, nullified RP Energy's Environmental Compliance Certificate and land lease with SBMA on grounds of DENR non-compliance with procedural requirements and SBMA failure to secure LGU approvals/endorsements, respectively. This decision was the subject of three Petitions for Review on Certiorari to the Supreme Court filed by RP Energy, DENR and SBMA. On February 3, 2015, the Supreme Court promulgated its decision denying the petition for Writ of Kalikasan and declaring valid the project's ECC and land lease with SBMA, paving the way for the project to proceed. In view of the Supreme Court's decision, full development and implementation of project has been resumed with the expected commercial operation of the power plant now planned by late 2018.

420-MW Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon. AboitizPower, through wholly-owned Subsidiary, TPI, and TeaM (Philippines) Energy Corporation (TEPEC), whose shareholders are Marubeni Corporation (Marubeni) and Tokyo Electric Company (TEPCO), through TPEC Holdings Corporation (TPEC Holdco) have formed Pagbilao Energy Corporation (PEC) to own Unit 3. The terms and conditions of the joint investment were finalized in a definitive shareholder agreement between the Parties. Unit 3 will be located within the premises of the existing 735-MW (net) Pagbilao Units I and II Coal-Fired Thermal Power Plant in Quezon province.

Marubeni and TEPCO are also shareholders of TeaM Energy Corporation, which owns and operates the Pagbilao Units 1 and 2 under a build-operate-transfer contract with the National Power Corporation (NPC). AboitizPower's wholly owned subsidiary, Therma Luzon, Inc. (TLI), is the Administrator of the Energy Conversion Agreement between TeaM Energy Corporation and NPC under an Independent Power Producer Administration Agreement with the Power Sector Assets and Liabilities Management Corporation (PSALM), which manages the assets and IPP contracts of NPC.

On April 25, 2014, PEC entered into a contract with a contractor consortium comprised of Mitsubishi Hitachi Power Systems Ltd, Daelim Industrial Co, Ltd, DESCO, Inc. and Daelim Philippines, Inc. to provide the engineering, procurement and construction (EPC) services required for the project. Notice to Proceed with the works was issued to the consortium on April 30, 2014. The debt financing for the project closed on May 30, 2014. The plant construction commenced last September 2014 and the target commercial operation is planned for year-end 2017.

340-MW CFB Coal-Fired Project in Toledo City, Cebu. This is a project of Therma Visayas, Inc. (TVI), a partnership between AboitizPower and Vivant Integrated Generation Corporation. AboitizPower will have an equity interest of 80% in TVI. This project involves the construction of a 2x170-MW coal-fired power project located south of Toledo City. The project site was acquired in December 2011. The ECC for the project was issued in May 2013.

Technical specifications, contract drawings, contract conditions, and requests for EPC proposals were issued on July 15, 2013, with a submittal deadline of November 15, 2013, thereafter extended to November 29, 2013. The EPC contract was awarded to Hyundai Engineering Co. Ltd. (HEC) and limited notice to proceed (LNTP) with engineering design and detailed subsurface investigations of the site issued on May 30, 2014. This was followed by the project notice to proceed (NTP) for all EPC activities on March 18, 2015. Turnover of the first unit is targeted for the first half of 2018, with the second following three months thereafter.

68-MW Manolo Fortich Hydropower Plant Project. Hedcor Bukidnon, Inc (Hedcor Bukidnon) plans to start construction of the Manolo Fortich project within the second quarter of 2015 [due to delays in securing permits]. It is composed of the 43-MW Manolo Fortich 1 and 25-MW Manolo Fortich 2. Hedcor Bukidnon has completed the Memorandum of Agreement with the local government units. It is currently waiting for the issuance of water permit, after which a 24-month construction period will follow.

Other Greenfield and Brownfield developments. AboitizPower, together with its subsidiaries and associate company, is engaged in the origination and development of other greenfield and brownfield project opportunities, for example:

- AboitizPower recently partnered with SunEdison to develop photovoltaic solar project opportunities in the Philippines. This is consistent with the Company's focus on environmental sustainability and diversified power generation technologies. The agreement formalizes SunEdison's intention to jointly explore, develop, construct and operate up to 300 MW of utility-scale solar photovoltaic power generation projects in the Philippines over the next three years.
- SN Aboitiz Power's Greenfield Development Program aims to grow its renewable portfolio by looking at potential small and large hydro projects in the Philippines, primarily within its current host communities in northern Luzon.

SN Aboitiz Power-Greenfield, Inc. (SN Aboitiz Power-Greenfield) secured renewable energy service contracts (RESCs) from the Department of Energy (DOE) on December 2, 2013 for its proposed 6-MW Maris South Canal and 1.75-MW Maris North Canal mini-hydropower projects located downstream of the National Irrigation Administration (NIA)-owned and -operated Maris dam and reservoir. The Maris dam and reservoir, which form the tailwater of Magat hydroelectric power plant, is situated at the boundary of Alfonso Lista, Ifugao and Ramon, Isabela. SN Aboitiz Power-Greenfield is currently waiting for DOE approval of the assignment of the RESCs to SN Aboitiz Power-Magat. NIA and SN Aboitiz Power-Magat have signed a Memorandum of Understanding (MOU) for SNAP to develop both projects.

SN Aboitiz Power-Ifugao, Inc. has also secured on July 24, 2014 RESCs for its proposed 350-MW hydropower complex project in Ifugao, which is composed of three facilities: the 100-MW Alimit hydropower plant, the 240-MW Alimit pumped storage facility, and the 10-MW Olilicon hydropower plant. Both Maris and Alimit projects are currently in the feasibility study stage.

SN Aboitiz Power-Magat and the NIA held the ground-breaking ceremony for the optimization of the Maris Reservoir on November 4, 2014. Maris Optimization is a project of NIA with SN Aboitiz Power-Magat as its project partner. It aims to raise the Maris Reservoir by adding a set of stoplogs about three meters high. The project is expected to add some eight million cubic meters of storage, and will also entail refurbishment and improvements to the Maris dam structure for better irrigation water delivery and safety. Work is scheduled to begin in January 2015 and targeted for completion by first quarter of 2016

- Hedcor, Inc. (Hedcor) continually explores hydropower potentials located in Luzon and Mindanao. Based on current findings, Hedcor sees the potential of building plants with capacities ranging from 20 MW to 80 MW. When the projects pass the evaluation stage and once permits are secured, the two-year construction period for the hydropower plant facilities will commence.

Additionally, Hedcor's FLS Plant is nearing the completion of its expansion from 4.9 MW to 6.1 MW with the installation of new turbines and generators.

- AboitizPower is also exploring new geothermal resources. Currently, pre-development works are ongoing in several areas namely, Negron-Cuadrado located in Central Luzon and Mt. Apo located in Mindanao. Both the Negron-Cuadrado and Mt. Apo geothermal projects have been awarded geothermal renewable energy service contracts (GRESK) by the DOE.

3. Participation in the Government's Privatization Program for its Power Assets

AboitizPower continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off.

AboitizPower is also keen on participating in PSALM's public auction for the IPP Administrator (IPPA) contracts, which involves the transfer of the management and control of total energy output of power plants under contract with NPC to the IPPA.

In November 2013, Aboitiz Energy Solutions, Inc. (AESI) participated in the bidding for the IPPA of the strips of the Unified Leyte Geothermal Power Plant (ULGPP). AESI won 40 strips of energy corresponding to 40-MW capacity of ULGPP. The Notice of Award was issued to AESI on January 29, 2014. This IPPA contract will allow AESI to sell 40 MW of geothermal power from ULGPP, beginning December 26, 2014.

Distribution Business

AboitizPower remains optimistic that it will realize modest growth on its existing distribution utilities. It continually seeks efficiency improvements in its operations to maintain healthy margins.

On December 13, 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the Return on Rate Base (RORB) mechanism which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a 4-year regulatory period is set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine a distribution utility's efficiency factor. For each year during the regulatory period, a distribution utility's distribution charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a Performance Incentive Scheme whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time of restoration to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Cotabato Light & Power Company's (Cotabato Light) Second Regulatory Period ended on March 31, 2013. A reset process should have been initiated 18 months prior to the start of the Third Regulatory Period covering April 1, 2013 to March 31, 2017. The reset process, however, has been delayed due to the issuance of an Issues Paper on the Implementation of PBR for Distribution Utilities under the RDWR by the ERC in 2013. This paper aims to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has held several public consultations in Manila, Cebu and Davao from January to March 2014. In addition, several focus group discussions (attended by representatives from the academe, consumer groups, DUs and NGCP) were held in Manila, Cebu and Cagayan de Oro from April to May 2014. These discussions aimed to focus on particular topics which included valuation of the regulatory asset base, annual revenue requirement building blocks, WACC, among others. ERC has yet to release a final position paper on what would be its future actions on the implementation of PBR.

Similar to Cotabato Light, Visayan Electric Company, Inc. (VECO) and Davao Light & Power Company, Inc.'s (Davao Light) Second Regulatory Period also already ended on June 30, 2014. The three DUs are still implementing the distribution, supply and metering charges approved for the last year of the Second Regulatory Period.

For Subic EnerZone Corporation's (SEZ) and San Fernando Electric Light and Power Company's (SFELAPCO) fourth regulatory year covering October 1, 2014 to September 30, 2015, public hearings have been completed before the end of CY 2014. The case applications are under evaluation by the ERC.

On June 19, 2014, AboitizPower acquired 100% ownership interest of Lima Enerzone Corporation (formerly Lima Utilities Corporation) (Lima Enerzone) from Lima Land, Inc., a wholly-owned subsidiary of Aboitiz Land, Inc. Lima Enerzone is the electricity distribution utility serving the LiMA Technology Center located in Batangas. The acquisition is in line with the Company's strategy of expanding its EnerZone brand.

Market and Industry Developments

1. Open Access and Retail Competition

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition in a particular grid are as follows:

- (a) Establishment of the WESM;
- (b) Approval of unbundled transmission and distribution wheeling charges;
- (c) Initial implementation of the cross subsidy removal scheme;

- (d) Privatization of at least 70% of the total capacity of generating assets of NPC within the respective grids; and
- (e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPA.

Under the Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier license (RES) from the ERC.

Commencement of Open Access

In June 2011, ERC declared December 26, 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. In September 2012, the ERC declared the start of Open Access on December 26, 2012. Open Access commercial operations under an interim development system have been implemented starting June 26, 2013.

The implementation of Open Access starting June 26, 2013 enabled AboitizPower to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. AboitizPower has two wholly-owned subsidiaries (i.e. AESI and Adventenergy, Inc. (AdventEnergy)) that are licensed RES. Open Access allowed AESI and AdventEnergy to enter into contracts with the eligible contestable customers. Moreover, Open Access also facilitated AboitizPower to contract with other RES companies. Currently, AboitizPower has signed contracts equivalent to approximately 300 MW through its RES companies.

Based on the current timeline, the threshold level for an eligible contestable customer will decrease to a minimum of 750 kW monthly average peak demand (from the current 1 MW threshold) by June 2015.

The ERC issued Resolution 22 Series of 2013

ERC issued revised licensing regulation for RES companies operating in the Retail Supply Segment last December 19, 2013. Items amended include the following:

- Restriction for Generator, IPPA and DU affiliates in securing license as a RES company;
- Transfer of live Retail Supply Contracts (RSCs) for RES with expired license to another licensed RES;
- Determination of full retail competition to be made by ERC not later than June 25, 2015;
- Contracted capacities of RES affiliates to be included in the grid limitations imposed on Generation Companies;
- End-user affiliate RES limited to supplying up to 50% of its total contestable customer affiliates;
- RES companies are limited to procuring up to 50% of its generation requirements from affiliate Generation Companies;
- Annual submission of 5-year Business Plan; and
- Submission of live Retail Supply Contracts for review by the ERC.

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, the Retail Electricity Suppliers Association (RESA) challenged its legality at the Pasig RTC. Trial is suspended to give way to amicable settlement of issues between RESA and ERC.

However, ERC has issued Resolution No. 17, Series of 2014, which holds in abeyance the evaluation of RES license applications, and suspends the issuance of RES licenses, pending the ERC's promulgation of the amended RES License Rules.

2. Interim Mindanao Electricity Market (IMEM)

The DOE issued Department Circular No. 2013-05-0008 "Promulgating the Interim Mindanao Electricity Market Implementing Rules". Correspondingly, DOE also issued DC No. 2013-09-0020 approving pertinent IMEM Manuals.

The IMEM has the following features:

- Day-ahead pricing and scheduling;
- Zonal pricing;
- IMEM is for available resource capacity after taking out bilateral contract quantities;
- In-Day Market is for imbalances or deviation from day-ahead schedules only; and
- Deviations from day-ahead schedule will be subject to penalties and incentives.

The IMEM started on December 3, 2013 and the first IMEM billing period ended on December 25, 2013. The first IMEM billing period has not been fully settled and succeeding billing periods were still not billed by PEMC. Last March 2014, PEMC suspended the implementation of IMEM.

3. Price Hike Issue for November and December 2013 Billing Months

Due to the maintenance shutdown of Malampaya Natural Gas Field, the dispatch of Natural Gas-fired power plants were affected which caused the increase in the WESM prices in November and December 2013 Billing Months. The Supreme Court issued a Temporary Restraining Order (TRO) in GR Nos. 210245 and 201255, pegging the generation charge of Manila Electric Company (Meralco) to ₱5.6673/kWh. The TRO should have ended last February 2014, but this has been extended indefinitely through a notice provided by the Supreme Court last April 22. The extended TRO also includes the generators non-collection of the increase in generation charge.

Issuance of ERC Case No. 2014-021MC

ERC issued ERC Case No. 2014-021 MC "In the Matter of the Prices in the Wholesale Electricity Spot Market (WESM) For the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without Prejudice to the ongoing Investigation on the Allegation of Anti-Competitive Behavior and Possible Abuse of Market Power Committed by some WESM Participants" on March 3, 2014. The ERC issued an Order to VOID the WESM Prices in Luzon for November and December billing periods and declares the imposition of regulated prices in lieu thereof, in the exercise of its police power.

The ERC Order adjusted prices retroactively. Regulated prices are calculated based on the load weighted average of the ex-post nodal energy prices and meter quantity of the same day same interval that have not been administered from December 26, 2012 to September 25, 2013. The Order includes the availment of oil-based plants of additional compensation to cover their full Fuel and Variable O&M Costs. Several subsidiaries and affiliates of AboitizPower, most notably SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, AP Renewables, Inc., and Therma Luzon, Inc. (TLI), will be affected by the decision as they had exposure to the spot market during the November-December period either as purchasers (as in the case of TLI), or as sellers.

Various companies have already filed cases to the Court of Appeals, after the ERC denied their various Motion for Reconsideration regarding the issuance of ERC Case No. 2014-021MC.

4. Reserve Market

The DOE issued Department Circular No. DC2013-12-0027, "Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market" dated December 2, 2013. The said Department Circular sets the responsibility of the Philippine Electricity Market Corporation (PEMC), NGCP, NEA and all WESM Members with regards to the operation of the Reserve Market.

The trial operations started on February 26, 2014, and PEMC is still reviewing its results before certifying for market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review by the ERC under ERC Case # 2007-004RC. The last hearing was on March 13, 2014.

The Reserve Market will cover three reserve categories, namely: Frequency Regulation, Contingency Reserve and Dispatchable Reserve. The Reserve Market will also include the scheduling of the ancillary services under ASPA with NGCP. No date has been set for the launch of the Reserve Market.

Year Ended December 31, 2013 versus Year Ended December 31, 2012

The table below shows the comparative figures of the top five key performance indicators for 2013 and 2012.

Key Performance Indicators	2013	2012 (As Restated)
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES	6,474,370	9,939,763
EBITDA	29,899,736	34,241,928
CASH FLOW GENERATED:		
Net cash flows from operating activities	24,413,143	24,867,739
Net cash flows (used in) investing activities	(11,502,024)	4,516,210
Net cash flows from used in financing activities	(12,245,816)	(22,055,061)
Net Increase in Cash & Cash Equivalents	665,303	7,328,888
Cash & Cash Equivalents, Beginning	30,678,493	23,391,561
Cash & Cash Equivalents, End	31,383,499	30,678,493
CURRENT RATIO	2.87	2.65
DEBT-TO-EQUITY RATIO	1.13	0.98

The Company's Share in Net Earnings of Associates decreased by 35% or by ₱3.47 bn as compared to the prior year. The operating results of the following associates contributed to the decrease:

- The decrease of ancillary revenues at SN Aboitiz Power Magat, Inc. (SN Aboitiz Power-Magat) due to the lower acceptance on its nominated capacities to the National Grid Corporation of the Philippines (NGCP) as well as lower ancillary prices for the year led to the decline of its income contributions to the Group.
- A decrease of STEAG State Power, Inc.'s (STEAG Power) tariffs as a result of a contractual rebasing resulted into lower margins impacting STEAG Power's net income for the year.
- Higher operating expenses at East Asia Utilities Corporation (EAUC) and Cebu Energy Development Corporation (Cebu Energy) compared to last year led to lower income contributions during the year.
- The Share in Net Earnings of Associates likewise decreased as a consequence of the step-acquisition of the Visayan Electric Company, Inc. (VECO) which is now a consolidated subsidiary.

Consolidated EBITDA decreased reflecting the lower consolidated net income for the year.

Total Cash and Cash Equivalents by year-end 2013 stayed close to the same levels as year-end 2012 even as significant movements of cash were made during the year. Notable cash outflows were made to pay cash dividends to shareholders, fund ongoing projects and pre-pay certain long term debt. Cash was generated from the Group's operations, dividends received from associates and fresh debt raising activities to fund ongoing projects and working capital requirements of subsidiaries.

Current ratio at the end of 2013 was 2.87x slightly higher from 2.65x by year-end 2012. The higher current ratio is due to the higher increase in current assets as compared to the slight increase in current liabilities.

Debt-to-Equity ratio as of December 31, 2013 was at 1.13 from 0.98 as of December 31, 2012. This is mainly due to the increase in the Group's total liabilities.

Results of Operations

The Company's net income for the year 2013 recorded a 24% YoY decrease, from ₱24.43 bn (as restated) to ₱18.58 bn. This translated to earnings per share of ₱2.52. The Company registered a non-recurring loss of ₱1.55 bn (versus last year's gain of ₱705 mn) during the year. This was due to the net effect of the revaluation of consolidated dollar-denominated loans and placements resulting to unrealized foreign exchange losses of ₱1.87 bn, non-recurring expenses related to the prepayment of debt of ₱93 mn and a gain due to the step acquisition of a subsidiary. Adjusting for these one-offs, the Company's core net income for 2013 amounted to ₱20.12 bn, down by 15% YoY.

Power Generation

The generation business accounted for 83% of earnings contributions recording an income share of ₱15.23 bn for 2013, down 33% YoY. Netting out one-off items, the generation business generated ₱17.2 bn for the period, which was 21% lower than last year.

The group's average price for its power decreased by 3% YoY in 2013. This was mainly due to the 7% YoY decrease in the average selling price of the group's bilateral contracts. While average spot market prices increased by 9% during the same period, the group's exposure to the spot market has significantly declined during the year.

On the other hand, the attributable net generation for the period in review grew by 3% YoY, from 10,660 GWh to 10,949 GWh on the back of a 37% increase in spot sales from 1,398 GWh to 1,914 GWh. Meanwhile, power sales through bilateral contracts for the period declined by 2% from 9,261 GWh to 9,035 GWh.

The year 2013 saw the successful implementation of the Company's strategy to shift the bulk of its contracts from energy-based contracts to capacity-based contracts. In general, the latter are essentially de-risked contracts since these provide a fixed capacity fee payment for the company covering capital recovery and operation and maintenance costs; allows for the full pass-through of fuel costs, which make up a significant portion of the company's operating costs; and includes provisions for inflation-related adjustments and where applicable, forex adjustments on these costs. The combination of these features allows the Company to minimize revenue to cost mismatches. As such, the shift to capacity-based contracts will allow the benefit of more stable and predictable cash flows and minimize volatility in the company's cash flow generation. As of the end of 2013, the bulk of the group's capacity has already been contracted, with only 11% of its capacity exposed to spot, down by 15 percentage points from a year ago.

On a capacity basis, the Company's attributable sales increased by 3% YoY from 1,547 MW to 1,590 MW with bilateral capacity and spot market sales making up for the decline in ancillary and bilateral energy sales. Ancillary volumes dropped by 35% during the year as a result of the lower acceptance rate by the NGCP.

Power Distribution

Expansions in volumes and margins resulted to a 15% YoY growth in the power distribution group's earnings share for 2013, from ₱2.80 bn to ₱3.23 bn. Total attributable electricity sales increased by 4% YoY, from 3,934 GWh to 4,076 GWh. The residential segment spearheaded the growth in sales with a 5% YoY expansion in volume sales, while commercial and industrial accounts both registered YoY growth of 3%. The group's year-to-date gross margin on a per kWh basis improved to ₱1.77 from ₱1.60 a year ago. This was due to the improvement in the systems loss levels of all the distribution utilities, which were maintained within the government-imposed cap of 8.5%. Approved adjustments under PBR also helped support the increase in gross margins.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income**Consolidated Statements of Income**

Consolidated net income attributable to equity holders of the parent decreased by 24% from ₱24.43 bn (as restated) in 2012 to ₱18.58 bn in 2013. The various movements in the revenue and expense items are shown below to account for the decrease:

Consolidated Net Income Attributable to the Equity Holders of the Parent for 2012 (As Restated)	₱24,425,708
Increase in operating revenues	9,902,002
Increase in operating expenses	(10,880,474)
Decrease in share in net earnings of associates	(3,465,393)
Decrease in interest income	(515,118)
Decrease in interest expense	1,658,114
Decrease in other income	(3,067,370)
Lower provision for taxes	863,942
Increase in income attributable to non-controlling interests	(344,566)
Total	(5,848,863)
Consolidated Net Income Attributable to Equity Holders of the Parent for 2013	₱18,576,845

Operating Revenues*(16% increase from ₱62.15 bn to ₱72.06 bn)*

Consolidated operating revenues recognized by the generation segment decreased by 14% from ₱46.03 bn to ₱39.44 bn. The drop in operating revenues mainly came from lower revenues at AP Renewables, Inc. (APRI) due to lower volumes sold on its power supply contracts and sales to the WESM as well as a drop in its average selling prices during the year. Therma Luzon, Inc. (TLI) also saw a decrease in its operating revenues resulting from lower selling prices during the year.

The decrease in operating revenues from the generation segment was offset by a fresh stream of revenues coming from the Company's Retail Electricity Supplier Licensed Companies - Aboitiz Energy Solutions, Inc. (AESI) and Adventenergy, Inc. which began their respective operations after Open Access started in July of 2013.

The distribution segment also increased its operating revenues from ₱15.85 bn in 2012 to ₱28.07 bn in 2013. The 77% increase is mainly due to the consolidation of the operating revenues of the newly consolidated distribution utility, VECO, during the year.

Operating Expenses*(26% increase from ₱41.7 bn to ₱52.58 bn)*

The increase in the Group's operating expenses is accounted for as follows:

Cost of purchased power increased by 87% or ₱11.53 bn. The increase comes from (a) the first time recognition of cost of purchased power of VECO, as a consolidated subsidiary, and (b) higher cost of purchased power at TLI as it purchased replacement power to cover its generation shortfall due to unavailability of the Pagbilao plant during scheduled and unscheduled down times during the year.

Cost of generated power likewise decreased by 6% as lower fuel costs were incurred by TLI during the year.

General and Administrative Expenses are higher resulting from the consolidation of VECO's general and administrative expenses.

Operations and Maintenance Expenses decreased as lower expenses were incurred at the Company's geothermal subsidiary, APRI.

Depreciation and Amortization Expenses were higher by 10% due to the consolidation of VECO's depreciation expense in 2013, higher depreciation expenses at Davao Light & Power Company, Inc. (Davao Light) as well as the incremental depreciation relating to the increase in steam field assets at APRI arising from the recognition of its Asset Retirement Obligation (ARO).

Cost of Services decreased by 48% due to a decrease of these expenses at AESI.

Interest Income*(55% decrease from ₱929 mn to ₱414 mn)*

During the year, the average cash balances held by the Company as well as at its subsidiaries were lower than the average balances carried during most of 2012. This led to lower interest income recognized during the period.

Interest Expense*(24% decrease from ₱7 bn to ₱5.34 bn)*

Interest Expense declined by ₱1.66 bn mainly due to the Company's lower debt balances through most of 2013 as compared to 2012. Long Term Debt was paid down by the Company and a subsidiary during the year.

Share in Net Earnings of Associates*(35% decrease from ₱9.94 bn to ₱6.47 bn)*

The decline in the Share in Net Earnings of Associates is due to the lower contributions from the following associates:

SN Aboitiz Power–Magat revenues declined from the impact of lower acceptance of nominated capacities under its ancillary service contract with NGCP. This was further aggravated by lower ancillary selling prices during the year leading to lower share in net earnings.

Higher operating expenses likewise led to lower income contributions from EAUC and Cebu Energy, while lower tariffs at STEAG Power resulting from a contractual rebasing of its tariffs led to lower gross margins.

The Share in Net Earnings of Associates likewise decreased as a consequence of the step-acquisition of the VECO, which is now a consolidated subsidiary.

Other Income (Expenses)

(155% decrease from ₱1.98 bn other income to ₱1.08 bn other expense)

The decrease in this account is primarily due to the movement from an unrealized foreign exchange gain in the prior year to a foreign exchange loss this year resulting from the restatement of TLI's dollar denominated debt on its monthly obligations to the Power Sector Assets and Liabilities Management Corporation (PSALM). This is accounted for as a finance lease obligation. Furthermore, the Company on its investment in Mactan Enerzone Corporation impaired goodwill of ₱369 mn and recognized an impairment loss on its investments at Hijos de F. Escaño, Inc. of ₱571 mn. The above other expenses were mitigated by a ₱965 mn gain arising from the step acquisition of a subsidiary.

Provision for Taxes

(62% decrease from ₱1.39 bn to ₱527 mn)

The 62% decrease in the provisions made for taxes is primarily coming from lower deferred tax provisions at TLI arising from the tax effects of its unrealized forex losses during the year.

Net Income Attributable to Noncontrolling Interests

(70% increase from ₱490 mn to ₱834 mn)

The initial recognition of the Net Income Attributable to the Noncontrolling Interest of VECO resulted to the increase observed in the current year.

Consolidated Statements of Comprehensive Income

Consolidated comprehensive income attributable to equity holders of the parent decreased from ₱23.99 bn in 2012 to ₱18.95 bn in 2013. The decrease is mainly due to the lower consolidated net income recognized during the period.

As a result of the adoption of the change to PAS 19, under the Consolidated Statements of Comprehensive Income, the group recognized ₱303 mn of actuarial losses on defined benefit plans for its subsidiaries and share in actuarial gains (losses) on defined benefit plans under its associates and ₱34 mn as restated for the prior year.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets as of December 31, 2013 increased by ₱30.83 bn or 19% versus total assets as of December 31, 2012. The major changes in the balance sheet accounts are discussed below:

- a) Cash and cash equivalents grew by 2% from ₱30.68 bn as of December 31, 2012 to ₱31.38 bn as of December 31, 2013. The increase is attributable to cash generated by the Group's operations.
- b) Trade and other receivables rose by 61% (from ₱8.12 bn in 2012 to ₱13.04 bn in 2013). The increase is due to the take up of the trade receivables at newly consolidated subsidiary, VECO, accounting for 32% of the increase. There was also an increase in trade receivables at APRI and Therma Marine, Inc. and recognition of fresh trade receivables at newly operating subsidiaries, Therma Mobile, Inc. and AESI. Higher dividends receivable from associates further increased the balance of trade and other receivables at year end.
- c) The re-measurement of the fair value of the interest rate swap contract of a hydro subsidiary led to the increase in the derivative asset of the Group by ₱28 mn.
- d) Inventories-cost went up by 31% or ₱667 mn. The change came from the initial consolidation of the inventories at VECO making up 75% of the increase. The remaining increase is attributable to the higher level of coal inventories held at TLI at year end.
- e) Other current assets increased by 67% (from ₱1.04 bn in 2012 to ₱1.74 bn in 2013) mainly due to an increase in input VAT particularly at TLI and new input VAT balances at newly operating RES subsidiary, AESI, during the period in review. TLI's prepaid insurance also went up by close to ₱100 mn as of year end.

- f) Property, plant and equipment (PP&E) increased by 25% or ₱21.61 bn mainly due to the following:
- Twenty seven percent (27%) of the increase is due to the initial consolidation of the PP&E balances at VECO.
 - APRI, a geothermal subsidiary of the Company, has an obligation to decommission, abandon and perform surface rehabilitation on steam field assets or upon abandonment of the plant. The present value of the future obligations are recorded as an Asset Retirement Obligation (ARO) a liability and a corresponding increase under the related long-lived asset, in APRI's case, the steam field assets, and is recognized and depreciated on a straight-line basis over the useful life of the related asset. This led to an increase in APRI's property plant and equipment by ₱2.01 bn.
 - The balance of the increase to the PP&E account is due to the ongoing construction of a 300 MW Coal-fired Power Plant in Davao through a 100%-owned subsidiary, Therma South, Inc. (TSI).
- g) Investment property account went up by ₱3 mn as the investment property held at VECO is consolidated into the balance sheet.
- h) Available for sale investment increase of ₱3 mn is also due to the consolidation of assets held at VECO.
- i) The Company impaired Goodwill on its investment at MEZ amounting to ₱369 mn. Consequently, as a result of the step acquisition of VECO, Goodwill of ₱179 mn was recognized. Both transactions led to the net decrease of the Goodwill account by ₱190 mn.
- j) Net pension assets of the company decreased by 35% as actuarial losses were recognized during the period.
- k) Deferred tax assets recognized on TLI's Net Operating Loss Carry Over (NOLCO) during the year is the primary reason for the ₱291 mn increase in deferred income tax assets.
- l) Other noncurrent assets increased by 50% or ₱2.59 bn resulting from ₱3.05 bn in Franchise asset arising from the business combination valuation done as part of the VECO step acquisition.

Liabilities

Consolidated liabilities increased by 27% from ₱80.65 bn as of December 31, 2012 to ₱102.69 bn as of December 31, 2013.

- a) All bank loans outstanding as of year ending 2012 were paid down by the subsidiaries during the year.
- b) Trade and Other Payables rose by 50% or ₱5.02 bn. Half of this amount is from the initial take up of the Trade and Other Payables of the newly-consolidated subsidiary, VECO. The balance of the increase is mainly from higher accrued expenses for energy fees payable, inventory in transit and purchased power of TLI at year end.
- c) The re-measurement of the fair value of the interest rate swap contract of a hydro subsidiary led to the decrease in derivative liability as it swung from a derivative liability to a derivative asset position.
- d) Income Tax Payable increased by 182% due to higher tax payables of Davao Light as well as the initial consolidation of the income tax payable of VECO.
- e) Long term debt of the Group increased by 108% or ₱12.11 bn. The increase is attributable to the following:
- TSI entered into a loan facility agreement with various lenders with available debt facility of ₱24 bn. During the year, TSI drew down a total of ₱16.44 bn.
 - During the year, three distribution utilities of the company - Davao Light, Cotabato Light and VECO - raised a total of ₱3.8 bn in long-term debt.
- Decreasing long term debt for the period were prepayments of long term debt made by Hedcor Sibulan, Inc. of ₱3.04 bn and ₱5 bn in fixed rate notes prepaid by the company in the first quarter of the year.
- f) The last guaranteed payment to preferred shareholder of CPPC was made during the year, hence, as of the end of 2013, no future obligation exists.
- g) Customers' Deposit increased due to: (a) ₱1.95 bn of VECO's liability consolidated this year, (b) an increase in this account for Davao Light as it continues to see growth in its customer base, and (c) customer deposits made to AESI under its contracts which took effect this year.
- h) Initial recognition of an Asset Retirement Obligation (ARO) amounting to ₱2.01 bn was made this year. The ARO arose from the company's obligation, under their contracts and Environmental Compliance Certificate, to decommission, abandon and perform surface rehabilitation at the end of its useful lives of the steam field

assets or upon abandonment of the plant. APRI recognizes the present value of the obligation and capitalizes the present value of this cost as part of the balance of the related steam field asset under its Property Plant and Equipment.

- i) Pension Liability increased by ₱239 mn as result of actuarial losses recognized during the period.
- j) The increase in deferred income tax liabilities is coming from the initial consolidation of the deferred income tax liabilities at the company's newly consolidated subsidiary, VECO. The net deferred income tax liability of VECO is from the tax provision it takes on the revaluation increment in utility property plant and equipment.

Equity

The movements to the Equity section of the balance sheet are as follows: (a) Retained earnings increased by P6.36 bn after taking up this year's net income of ₱18.58 bn and after dividends declared and paid during the year of ₱12.22 bn, (b) an increase of ₱604 mn from the effects of cumulative translation adjustments recognized during the period for a subsidiary and associates that use US dollars as their functional currency, and (c) the combined actuarial losses on defined benefit plans for the subsidiaries and associates decreased equity by ₱727 mn. All of the above resulted to a net increase in Equity attributable to equity holders of the parent from ₱80.89 bn as of December 31, 2012 (as restated) to ₱87.63 bn as of December 31, 2013.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash generated from the Group's operations continue to be the main cash generating activity as it brought in ₱24.09 bn for the year. The cash generated from operations has dropped by 2% versus cash flows generated in the prior year as a result of this year's lower net income.

A significant amount of the Group's cash was used in investing activities totaling ₱11.5 bn during the year. A total of ₱15.62 bn was invested into capital expenditures which was supported in part by ₱4.24 bn dividends received from the company's associates.

The major cash flows relating to financing activities were as follows: Cash inflows of ₱20.8 bn representing proceeds from long term debt at the company's subsidiaries during the year to either finance ongoing projects or meet working capital requirements. Meanwhile, significant financing cash outflows for the following were incurred:

- The Company paid dividends of ₱1.62 bn in January 2013 for special cash dividends declared in November 28, 2012. It also made regular cash dividend payments to its shareholders for a total of ₱12.21 bn during the year. In total, the Company used ₱13.83 bn in cash to pay dividends during the year.
- The Group prepaid long term debt of ₱8.97 bn and paid bank loans of ₱2.33 bn.
- Payments made by TLI to PSALM on its finance lease obligations of ₱6.72 bn.

All of the above activities resulted to net cash outflows used in financing activities for the year of ₱12.25 bn.

At the end of the year, Cash and cash equivalents of the group slightly increased from ₱30.68 bn as of December 31, 2012 to ₱31.38 bn as of December 31, 2013.

Financial Ratios

The increase in current liabilities brought about by the VECO consolidation was offset by the decrease in current liabilities brought about by Hedcor Sibulan, Inc.'s prepayment of ₱3 bn in Long Term Debt which was already classified as a current liability at the end of 2012 and the payment of ₱1.28 bn in bank loans during the year which led to an increase in current liabilities by only 8% versus an increase in current assets of 17%. The changes resulted to an improvement in current ratio at year end of 2.87x from 2.65x in the previous year.

As total debt rose by 27% and equity increasing by only 8%, the Company's debt-to-equity ratio is now 1.13 as of December 2013 as compared to 0.98 as of December 31, 2012.

Year Ended December 31, 2012 versus Year Ended December 31, 2011

DISCUSSION ON KEY PERFORMANCE INDICATORS

Key Performance Indicators	2012 (As Restated)	2011 (As Restated)
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES	9,939,763	8,437,887
EBITDA	34,241,928	32,880,602
CASH FLOW GENERATED:		
Net cash flows from operating activities	24,867,739	22,675,901
Net cash flows (used in) investing activities	4,516,210	(5,013,103)
Net cash flows from used in financing activities	(22,055,061)	(12,575,210)
Net Increase in Cash & Cash Equivalents	7,328,888	5,087,588
Cash & Cash Equivalents, Beginning	23,391,561	18,301,845
Cash & Cash Equivalents, End	30,678,493	23,391,561
CURRENT RATIO	2.65	3.46
DEBT-TO-EQUITY RATIO	0.98	1.20

The Company's Share in Net Earnings of Associates increased by 18% or by ₱1.5 bn as compared to the same period last year. The following associates contributed to the increase:

- Higher contributions from both SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat) and SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet). Both companies saw a drop in ancillary revenues during the year due to lower acceptance on its nominated capacities to the National Grid Corporation of the Philippines (NGCP). Higher sales to the Wholesale Electricity Spot Market (WESM) at favorable prices made up for the lower ancillary revenues which allowed both companies to continue to be strong contributors to the Group's net earnings from its associates.
- The Company saw stronger earnings contributions from Cebu Energy Development Corporation (Cebu Energy) this year as compared to the prior year. In the first quarter of 2011, Cebu Energy's revenues were billed under pre-commercial operating discounted tariffs compared to full contracted tariffs upon commercial operations in 2012. Cebu Energy also managed to realize higher margins on its sales to the Visayas Spot Market during the year.
- Robust growth in the demand for electricity in the franchise area of the Visayan Electric Company, Inc. (VECO), coupled with higher earnings contribution from higher margins as a result of the implementation of its approved distribution tariff under the Performance Based Regulation (PBR) scheme accounted for the higher contributions from this major distribution utility in the Group's portfolio.

Current ratio at the end of 2012 is 2.65x from 3.46x of the previous year. The lower current ratio is due to a higher increase in the Group's current liabilities versus the increase in its current assets. The increase in current liabilities comes from higher balances in Trade and Other Payables as well as higher portions of the long term debt of the Group which will be settled within the next 12 months.

Debt-to-Equity ratio improved from 1.2 as of December 2011 to 0.98 as of December 31, 2012 (as restated). This is mainly due to the higher increase in equity which exceeds the increase in liabilities.

Results of Operations

The Company's consolidated net income for the year came in at ₱24.43 bn as compared to ₱21.63 bn, a 13% increase (as restated). This year's results translate to an earnings per share of ₱3.32.

The Company's core net income for 2012 amounted to ₱23.7 bn, a 12% improvement from the previous year. The following transactions were taken into account to arrive at the Company's core net income for the year:

- Foreign exchange gains resulting from the revaluation of consolidated dollar-denominated loans and placements amounting to ₱1.5 bn.

- Recognition of one-time expenses due to the following: (1) higher fuel cost booked by its geothermal assets due to reimbursement made to its steam supplier for expenses incurred from previous years; (2) the downward revenue adjustment of a wholly-owned subsidiary as a result of an Energy Regulatory Commission (ERC) ruling regarding its ancillary services contract; (3) the debt prepayment cost incurred by the Company; and (4) the recognition by the Company of a one-time, non-recurring expense due to the write-off of deferred tax assets related to the expiring NOLCO and expiring minimum corporate income tax (MCIT).

All in all, the Group recognized ₱705 mn in non-recurring gain in 2012.

Power Generation

The Generation Group continues to be a dependable contributor to the earnings of the Company accounting for 89% of the Company's earnings. This year the group contributed ₱22.76 bn, an 11% improvement from last year's contribution of ₱20.43 bn.

Higher outage levels as well as increase in demand brought about by increased economic activity and warmer temperatures, drove the increase in the Group's average selling price for its power. Average selling prices went up by 3% during the year driven mostly by the Group's sales to the spot market.

Volume sold also registered a 13% YOY increase from 9,422 GWh to 10,660 GWh. This comes primarily from more bilateral contracts served during the period which increased by 17% YOY. On a capacity basis, the Company's attributable sales increased by 9% YOY, from 1,413 MW to 1,547 MW, given the rising capacity sales through bilateral contracts. Capacity sold factors in general rose during the year, with the coal, geothermal and oil plants registering at 74%, 85%, and 93%, respectively. Lower than projected acceptance of ancillary capacity nominations led to lower capacity sold factors of the large hydros which came in at 86% by the end of 2012.

The partial completion of the rehabilitation of the Binga (2 of 4 units) hydropower plant coupled with the commercial operation of the 4-MW Irisan Greenfield hydropower plant resulted to a marginal increase in the Company's attributable capacity to 2,353 MW as of end-December 2012.

Power Distribution

Income contribution from the power Distribution Group went up by 16%, contributing ₱2.80 bn from ₱2.41 bn from the previous year, due to higher electricity sales and higher gross margins. Total attributable electricity sales grew by 6% from 3,727 GWh to 3,934 GWh. Electricity sales went up in all of the Distribution Utilities' customer segments, led by the industrial segment which went up by 6%, fueled by the country's increased economic activity. Sales to residential customers went up by 5% while the commercial segment went up by 3%. The Group's average gross margin for 2012 improved by 11% YoY to ₱1.60/kWh, mainly due to the implementation of the Distribution Utilities' approved rates under the PBR. Gross margins were further enhanced by the reduced systems losses of VECO and Cotabato Light & Power Company (Cotabato Light), with reductions to their level of system loss by 0.8 and 0.9 percentage points, respectively, as a result of initiatives implemented during the period in review.

Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

Consolidated Statements of Income

Consolidated net income attributable to equity holders of the Parent increased by 13% from ₱21.63 bn in 2011 (as restated) to ₱24.43 bn in 2012 (as restated). The various movements in the revenue and expense items are shown below to account for the said increase:

Consolidated Net Income Attributable to the Equity Holders of the Parent for 2011 (As Restated)	₱21,632,264
Increase in operating revenues	7,677,528
Increase in operating expenses	(7,610,966)
Increase in share in net earnings of associates	1,501,876
Increase in interest income	67,392
Decrease in interest expense	343,733
Increase in other income	1,290,757
Higher provision for taxes	(262,964)
Increase in income attributable to non-controlling interests	(213,912)
Total	2,793,944
Consolidated Net Income Attributable to Equity Holders of the Parent for 2012 (As Restated)	₱24,425,708

Operating Revenues

(14% increase from ₱54.48 bn to ₱62.15 bn)

Consolidated operating revenues shared in by the Generation segment increased by 15% from ₱39.94 bn to ₱46.03 bn. Higher revenues at Therma Luzon, Inc. (TLI) made up 70% of the increase due to higher volume in electricity sold. Higher operating revenues at AP Renewables, Inc. (APRI), a geothermal plant, make up a significant portion of the balance which went up by 8% versus the prior year due to the combined effects of higher electricity sales and better prices.

The distribution segment also increased its operating revenues from ₱14.36 bn in 2011 to ₱15.85 bn in 2012. The 10% increase is mainly attributable to higher revenues at Davao Light & Power Company, Inc. (Davao Light) due to its PBR adjusted tariffs and higher electricity sales. Subic EnerZone Corporation (SEZ) likewise contributed to the increase which also comes from its PBR adjusted tariffs.

Operating Expenses (As Restated)

(22% increase from ₱34.09 bn to ₱41.7 bn)

Overall, consolidated operating expenses went up by ₱7.61 bn versus the previous year. The increases are accounted for as follows:

- Cost of generated power increased by 48% or ₱3.64 bn. The increase is accounted for mainly by costs at TLI and Therma Marine, Inc. (TMI) which consumed more fuel resulting from higher dispatch. Fuel costs at both companies are also slightly higher than the previous year. Cebu Private Power Corporation (CPPC) also saw its fuel costs increase in 2012. Cost of generated power at APRI due to higher steam costs also contributed to the higher cost of generated power.
- Cost of purchased power increased by 26% or ₱1.98 bn. The increase comes from (a) higher purchased power costs at APRI as it purchased to cover its generation shortfall, and (b) higher cost of purchased power at Davao Light.
- General and Administrative expenses are higher by ₱1.12 bn. This arose from (a) higher provisions taken up for trade receivables, and (b) higher outside services.

Share in Net Earnings of Associates (As Restated)

(18% increase from ₱8.44 bn to ₱9.94 bn)

SN Aboitiz Power–Magat and SN Aboitiz Power–Benguet managed to provide a combined increase in contribution of ₱1.48 bn more than last year. Despite the lower contribution coming from its sales on ancillary services, the better than projected sales and pricing to the WESM has continued to buoy the contributions from the two large

hydropower companies.

Cebu Energy also had higher contributions this year owing to contracted tariffs during the year compared to pre-operating selling prices in the first two months of last year. Cebu Energy sales to the Visayas Spot Market further augmented its bottom line contributions.

VECO continues to provide higher contributions driven by better gross margins and higher electricity sales. The robust contributions by the above mentioned companies were dampened by the lower contributions from STEAG State Power, Inc. (STEAG Power) as a contractual rebasing of its tariffs led to lower gross margins.

Interest Income

(8% increase from ₱862 mn to ₱929 mn)

During the year, the average cash balances held by the Company as well as at its subsidiaries were higher than the average balances carried during most of 2011. The robust cash position resulted in the increase in Interest Income recognized for the period in review.

Interest Expense

(5% decrease from ₱7.35 bn to ₱7 bn)

Interest expense declined by ₱344 mn mainly due to the Company's lower debt balances through most of 2012 as compared to 2011. The Company prepaid most of its Long Term Debt in the past year.

Other Income - net

(186% increase from ₱693 mn to ₱1.98 bn)

The increase in Other Income is mainly due to higher unrealized foreign exchange (FX) gains recognized at TLI from the restatement of its dollar-denominated debt in contrast with unrealized FX losses taken up in 2011.

Provision for Taxes

(24% increase from ₱1.12 bn to ₱1.39 bn)

The 24% increase in the provisions made for taxes totalling ₱266 mn is primarily coming from the take up of higher deferred tax provisions at TLI compared to provisions taken up in the previous year.

Net Income Attributable to Non-controlling Interests (As Restated)

(78% increase from ₱276 mn to ₱490 mn)

The increase in net income attributable to minority interests was largely due to the increase in Abovant Holdings, Inc.'s (Abovant) earnings for the period of which 40% is for the account of the minority shareholders. Abovant's associate, Cebu Energy, improved its contributions over that of 2011 as it managed to bill better tariffs and higher sales to the spot market during the year. The balance of the increase is due to the take up of the minority shareholder's participation in the increase in CPPC's net income.

Consolidated Statements of Comprehensive Income (As Restated)

Consolidated comprehensive income attributable to equity holders of the Parent increased from ₱20.84 bn in 2011 to ₱24 bn in 2012. The increase is mainly due to the increase in consolidated net income recognized during the period.

Changes to PAS 19 required the recognition of actuarial gains and losses in Other Comprehensive Income. The change resulted to a ₱34 mn in comprehensive loss presented in the Consolidated Statements of Comprehensive Income.

Changes in Registrant's Resources, Liabilities and Shareholders' Equity

Assets

Total assets as of December 31, 2012 increased by ₱9.73 bn or 6% versus total assets as of December 31, 2011. The major changes in the balance sheet accounts are discussed below.

- a) Cash and Cash Equivalents grew by 31% from ₱23.39 bn as of December 31, 2011 to ₱30.68 bn as of December 31, 2012. The biggest increase in cash balances are at TLI and APRI as cash flows from their operating activities increased their cash balances as of year end.

- b) Trade and Other Receivables decreased by 14%. The decrease is mostly accounted for by the payment of ₱2.5 bn in dividends by one of the Company's associates which was outstanding as of year end 2011. This decrease was offset by an increase in Trade and Other Receivables at TLI.
- c) Other Current Assets decreased by 6% (from ₱1.11 bn in 2011 to ₱1.04 bn in 2012) mainly due to a decrease in input VAT particularly at APRI during the period in review.
- d) Property, Plant and Equipment increased by 8% or ₱6.44 bn. The increase is due to the on going construction of a 300-MW Coal-fired Power Plant in Davao through a 100%-owned subsidiary, TSI. The balance of the increase is from the on going rehabilitation at Tiwi-MakBan geothermal plants under APRI.
- e) Intangible Assets decreased by ₱477 mn during the year as amortization during the year is recognized.
- f) Investment in and Advances to Associate (as restated) decreased by ₱3.26 bn resulting from cash dividends received during the year.
- g) Net Pension Assets (as restated) significantly increased as significant contributions were made by TSI to its retirement fund.
- h) Deferred Income Tax Assets (as restated) decreased by 22% due to the write-off of deferred tax assets by the Company as it related to the expiring NOLCO and expiring minimum corporate income tax (MCIT).
- i) Other Noncurrent Assets increased by 32% (from ₱3.95 bn in 2011 to ₱5.21 bn in 2012) mostly from the recognition of Other Noncurrent Assets at APRI relating to its Input VAT. Similarly, Other Noncurrent Assets at TSI also increased during the year.

Liabilities

Consolidated liabilities decreased by 3% from ₱83.51 bn as of December 31, 2011 to ₱80.65 bn as of December 31, 2012.

- a) Bank Loans decreased by 21% or ₱338 mn as Hedcor, Inc. (Hedcor), Davao Light and Cotabato Light paid down short term bank loans which were availed to meet working capital requirements.
- b) Trade and Other Payables rose by 41% or ₱2.93 bn mainly from the recognition of dividends payable by the Company after a special cash dividend was declared in November 2012. Aside from the recognition of the dividend payables, this account also increased as higher costs leading to increase in payables are recognized at TMI, while at APRI, rehab related expenses increased its payable balances.
- c) Derivative Liability went up by ₱21 mn as it relates to an interest rate swap agreement entered into by Luzon Hydro Corporation (LHC) in order to hedge its floating rate exposure on its loan.
- d) Income Tax Payable decreased by 13% due to lower provisions taken up at Davao Light and CPPC.
- e) Long Term Debt decreased by ₱7.63 bn arising mainly from the following payments made by the Company during the year:
 - i. Prepayment of ₱5 bn of its 2009 Fixed Rate Corporate Notes;
 - ii. Prepayment of ₱2.29 bn of its 5-year Retail Bonds;
 - iii. Prepayment of ₱543 mn of its 7-year 2008 Fixed Rate Corporate Notes; and
 - iv. Payment of ₱705.6 mn of the maturing portion of its Retail Bonds.
- f) Finance Lease Obligations recognized at TLI increased by 3% or ₱1.67 bn, as accreted interest expenses on the Finance Lease Obligation exceeds the amount of monthly payments made to PSALM.
- g) Payable to preferred shareholders of a subsidiary inclusive of current portion decreased by 27% or ₱17 mn as payments to preferred shareholders were made in the first quarter of the year.
- h) The bulk of the increase in Customer Deposits which increased by 11% or ₱240 mn was mainly due to new connections in the franchise area of Davao Light as its customer base continues to grow.
- i) Pension Liability (as restated) decreased by 9% or ₱20 mn as obligations were funded during the year.
- j) Deferred Income Tax Liabilities (as restated) increased by 82% or ₱303 mn due to TLI's recognition of corresponding income tax provision on the unrealized FX gains on TLI's dollar obligations to PSALM beyond its income tax holiday period.

Equity (As Restated)

Equity attributable to equity holders of the Parent increased from ₱68.23 bn as of December 31, 2011 to ₱80.89 bn as of December 31, 2012. The increase is mainly due to the increase in retained earnings which went up by ₱13.07 bn as a result of the consolidated net income recorded for the period under review of ₱24.41 bn and net of the cash dividends declared during the period which totaled to ₱11.33 bn.

Material Changes in Liquidity and Cash Reserves of Registrant

Cash and Cash Equivalents grew by 31% from ₱23.39 bn as of December 31, 2011 to ₱30.68 bn as of December 31, 2012. Cash generated from the Group's operations was the largest source of cash inflow bringing in ₱24.84 bn during the year, an increase of ₱2.27 bn versus last year. The Company's strong earnings continue to be the major driver in the Company's cash position.

The Group's cash flows from investing activities went from a net outflow of ₱4.98 bn in 2011 to a net inflow of ₱4.54 bn during the year. This is mainly driven by ₱13.98 bn in dividends received. Investments into capital expenditures for Property, Plant and Equipment continue to be made by the Group, which accounted for investment cash outflows of ₱9.86 bn.

Cash flows used in financing activities in 2012 totalled ₱22.06 bn versus ₱12.58 bn in 2011. This substantial increase in cash outflow is due to (a) ₱9.71 bn in dividends paid during the year, (b) long term debt payments made totalling ₱9.16 bn, and (c) payments to settle finance lease obligations of ₱2.48 bn.

All of the above accounts for the increase in Cash and Cash Equivalents during the year.

Financial Ratios

Current ratio at the end of the year is 2.65x from 3.46x in the previous year. The lower current ratio is due to a higher increase in the Group's current liabilities versus the increase in its current assets. The increase in current liabilities comes from higher balances in Trade and Other Payables as well as higher portions of the long term debt of the Group which will be settled within the next 12 months.

Debt-to-Equity ratio (as restated) improved from 1.2 as of December 2011 to 0.98 as of December 31, 2012. This is mainly due to the higher increase in equity which exceeds the increase in liabilities.

Item 7. Financial Statements

The consolidated financial statements of AboitizPower are incorporated herein by reference. The schedules listed in the accompanying Index to Supplementary schedules are filed as part of this SEC Form 20-IS.

Item 8. Information on Independent Accountant and Other Related Matters**(A) External Audit Fees and Services**

The following table sets out the aggregate fees billed to the Company for each of the last two years for professional services rendered by SGV.

Fee Type	2014	2013
Audit Fees	₱365,400	₱348,000
Tax Fees	-	-
All Other Fees	₱6,642,534	₱725,000
Total	₱7,007,934	₱1,073,000

SGV was engaged by the Company to audit its annual financial statements. In 2014, the Company engaged SGV to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱10 bn fixed-rate retail bonds in 2014.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope and frequency before the audit is conducted.

Audit services of SGV for 2014 and 2013 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

(B) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

PART III – CORPORATE GOVERNANCE

Guided by the Organization for Economic Co-operation and Development (OECD)'s 5 Principles of Corporate Governance, AboitizPower refreshed its efforts in 2014 to strengthen the roles and responsibilities of its Board; adopted new protocols and improved existing systems and policies to protect the rights of its shareholders; safeguarded shareholders' equitable treatment; continuously recognized the value and participatory role of all stakeholders; and, practiced the appropriate level of transparency and improved corporate disclosures.

Shareholder Rights and Equitable Treatment

All shareholders, regardless of the amount of their shareholdings, are given the right to participate in the decision-making, pursuant to the Company's One Share, One Vote policy.

Moreover, to ensure that directors, officers, and even majority shareholders do not take advantage of their positions, all shareholders are apprised of all related party transactions, with amounts disclosed, within the Aboitiz Group. All related party transactions in the Group are reported in AboitizPower's Consolidated Audited Financial Statements every year.

All shareholders likewise receive notices of all shareholders' meetings, and all agenda items to be discussed and decided upon during the said meetings are set out in the notices and that no new agenda item will be taken up during the conduct of the meeting. For the guidance of shareholders, included in the notices to shareholders' meetings are the rationale of agenda items which are submitted to the shareholders for their approval.

Stakeholder Engagement

The Aboitiz Group is committed to the principles of sustainability to balance the interests of People, Planet, and Profit. By following this rule, AboitizPower has obtained and maintained a good health, safety, and environmental track record. The Group launched its Sustainability Policy in 2013, in the belief that all stakeholders must be treated with fairness and that corporate social responsibility is an integral part of doing business. In support of this policy, in 2014, the Group launched its BetterWorld campaign to encourage all stakeholders to adopt this policy for sustainability.

AboitizPower has a Manual of Corporate Governance (Manual) and Code of Ethics and Business Conduct (Code) to guide the attainment of its corporate goals and strategies. To ensure compliance, copies of the Manual and the Code are made available to the Board of Directors, management and all employees through AboitizPower's website. Company-wide orientations on the Manual and the Code are conducted yearly.

The Compliance Officer, together with the Human Resources Department, regularly monitors and evaluates compliance by the Board of Directors, management and employees to the Manual, the Code, other company policies, and existing laws and regulations. The Compliance Officer also ensures the implementation of AboitizPower's rule against conflicts of interests and the misuse of confidential and proprietary information throughout the organization.

The Compliance Officer regularly reports to the Board Corporate Governance Committee the Company's compliance status with existing laws and regulations, as well as the Board's, management's and employees' compliance with internal governance policies.

There are no major deviations from the Manual as of the date of this report. The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization. Any amendments to the Manual are promptly submitted to the Securities and Exchange Commission (SEC) for confirmation and approval.

Disclosure and Transparency

Pursuant to its commitment to transparency and accountability, AboitizPower (www.aboitzpower.com) has its own dedicated corporate governance webpage which serves as a resource center and library for its stakeholders. As part of its commitment to sustainability, AboitizPower is maximizing the use of digital technology rather than the use of scarce paper sources.

A copy of the complete annual Corporate Governance Report (CG Report) of the Compliance Officer is available at www.aboitzpower.com/AP/7983:Annual-Corporate-Governance-Report.html. A condensed copy of the CG Report is also included in AboitzPower's Annual Report and can be accessed at <http://www.aboitzpower.com/AP/5672:apvx-downloads.html>.

Board Responsibility

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and to achieve disciplined and sustainable growth. To this end, board attendance and active participation during board meetings are encouraged from directors. Attendance during board meetings are closely monitored and reported by the Compliance Officer to the SEC and PSE, as well as in the Company's 2014 SEC Annual Corporate Governance Report uploaded in the company website.

DIRECTORS	Regular and Special Meetings 2014							
	23-Jan Regular	11-Mar Special	27-Mar Regular	19-May Regular	17-Jun Special	24-Jul Regular	25-Sept Regular	27-Nov Regular
Enrique M. Aboitz	P	P	P	P	P	P	P	P
Jon Ramon Aboitz	P	P	P	P	P	P	P	P
Erramon I. Aboitz	P	P	P	P	P	P	P	P
Antonio R. Moraza	P	P	P	P	P	P	P	P
Mikel A. Aboitz	P	P	P	P	P	P	P	P
Jaime Jose Y. Aboitz	P	P	P	P	A	P	A	P
Romeo L. Bernardo	P	P	P	P	P	P	P	P
Alfonso A. Uy	P	P	P	P	P	P	P	P
Jose R. Facundo	P	P	P	P	N/A	N/A	N/A	N/A
Carlos C. Ejercito (Appointed on May 19, 2014)	N/A	N/A	N/A	N/A	P	P	P	P
Total no. of directors present	8	8	8	8	7	8	8	7
% of Directors Present	88.89%	88.89%	88.89%	88.89%	77.78%	88.89%	88.89%	77.78%

Legend: P – Present A – Absent

Pursuant to SEC Memorandum Circular No. 1-2014, the Company reported the attendance of the Board of Directors for the year 2014 to the SEC and the PSE through its 2014 SEC Annual Corporate Governance Report. A copy of the report was uploaded in the Company's website and can be accessed at <http://www.aboitzpower.com/AP/8027:ACGR.html>.

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management, as well as in monitoring and evaluating management performance in meeting such goals. The different Board committees - Audit, Corporate Governance, and Risk and Reputation Management - report regularly to the Board and are crucial in maintaining Board oversight in key management areas.

The mandate and the composition of each Board committee are described below:

- The Board Corporate Governance Committee represents the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles, and the various compensation matters. Independent Directors comprise majority of the voting members of the Board Corporate Governance Committee.

Chairman: Jon Ramon Aboitz; Members: Erramon I. Aboitz, Carlos C. Ejercito, Romeo L. Bernardo and Alfonso A. Uy; Ex-Officio Members: M. Jasmine S. Oporto and Xavier Jose Y. Aboitz

- The Board Audit Committee represents the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise majority of the members of the Board Audit Committee, including its Chairman.

Chairman: Carlos C. Ejercito; Members: Romeo L. Bernardo, Alfonso A. Uy, Mikel A. Aboitiz and Antonio R. Moraza; Invited Attendees: Manuel R. Lozano and Susan V. Valdez

- The Board Risk and Reputation Management Committee represents the Board in discharging its responsibility relating to risk management and related matters for the Group.

Chairman: Enrique M. Aboitiz; Members: Antonio R. Moraza, Mikel A. Aboitiz, Carlos C. Ejercito and Alfonso A. Uy; Ex-Officio Members: Manuel R. Lozano and Susan V. Valdez

Corporate Governance Initiatives

Going beyond mere compliance and box-ticking, the Company regularly updates its corporate governance policies to ensure that they are relevant to the needs of the organization and, at the same time, at par with global best practices.

In 2013, AboitizPower launched its corporate governance e-learning course which was made available to all newly hired employees of the Company. This e-learning course superseded the mandatory corporate governance seminar conducted for all employees during previous years and supplements the annual corporate governance training required by the SEC on all directors and key officers starting 2014, pursuant to SEC Memorandum Circular 1, Series of 2014.

The Company has in place a performance evaluation system for corporate governance. It participates in the annual Corporate Governance Scorecard Surveys of the SEC and the PSE to benchmark its corporate governance practices against best practices. AboitizPower likewise participated in the ASEAN Corporate Governance Scorecard, the successor of the Institute of Corporate Directors (ICD)'s Corporate Governance Scorecard, which was adopted by the Philippines in September 2012. The 2014 ASEAN Corporate Governance Scorecard Assessment of the Company showed a marked improvement in the Company's score, a clear proof of the Company's serious efforts in adapting the best corporate governance practices available.

For a full discussion on the Company's initiatives, a copy of the complete CG Report of the Compliance Officer is available at www.aboitizpower.com/AP/7983:Annual-Corporate-Governance-Report.html.

Corporate Governance Awards

As a testament to its commitment to adopt best practices, AboitizPower has been consistently recognized in local and international surveys, assessments, and scorecards as among the Philippines' best-managed companies and cited for its commitment to good corporate governance.

In October 24, 2014, AboitizPower was recognized as Asia's Outstanding Company on Corporate Governance in the 4th Asian Excellence Recognition Awards of Corporate Governance Asia held in Hong Kong. The Asian Excellence Recognition Awards are designed to recognize excellence in investor communications, business ethics, CSR, environmental practices and financial performance. Finance Asia also recognized the Company as Best Managed Company (Ranked 9th), Best Investor Relations (Ranked 5th), and Most Committed To A Strong Dividend Policy (Ranked 5th).

In November 10, 2014, AboitizPower was awarded by the Philippine Stock Exchange with the 2014 PSE Bell Awards for exemplary corporate governance practices. In addition, AboitizPower was a finalist in the 2014 PSE Bell Awards.

In November 28, 2014, AboitizPower was likewise recognized by the Institute of Corporate Directors to be among the Top 50 ASEAN Companies in the recently concluded 2014 ASEAN Corporate Governance Scorecard Assessment.

ANNEX "A-1"

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **ROMEO L. BERNARDO**, Filipino, of legal age and a resident of 15 Swan St., Green Meadows Quezon City, Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Aboitiz Power Company.
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
ALFM Dollar Bond Fund	Chairman	2003
ALFM Euro Bond Fund	Chairman	2005
ALFM Growth Fund	Chairman	2007
ALFM Money Market Fund	Chairman	2007
ALFM Peso Bond Fund	Chairman	2003
Ayala Plans, Inc.	Independent Director	April 26, 2006
Bank of the Philippine Islands	Independent Director	August 21, 2002
BPI Capital Corporation	Independent Director	October 23, 2012
BPI Direct Savings Bank, Inc.	Independent Director	February 11, 2004
BPI Family Savings Bank, Inc.	Independent Director	February 18, 2004
BPI Forex Corporation	Independent Director	April 2006
BPI Globe BanKo, Inc., A Savings Bank (formerly known as Pilipinas Savings Bank, Inc.)	Independent Director	May 30, 2008
BPI Leasing Corporation	Independent Director	April 27, 2006
BPI Rental Corporation	Independent Director	April 27, 2006
BPI/MS Insurance Corporation	Independent Director	December 4, 2009
BPI-Philam Life Assurance Corporation – A Subsidiary of Philamlife and an Affiliate of BPI (Formerly Known as Ayala Life Assurance, Inc.)	Independent Director	April 2006
Financial Executives Institute of the Philippines (FINEX) Foundation	Board of Trustee	January 2012
Foundation for Economic Freedom	Vice Chairman & Founding Fellow	1997
GlobalSource Partners	Advisor	July 2007
Globe Telecom, Inc.	Independent Director	September 2001
Institute for Development & Econometric Analysis, Inc. (IDEA)	Board of Trustee	
Lazaro Bernardo Tiu & Associates, Inc.	President & Managing Director	October 1996
Management Association of the Philippines	Board of Trustee	January 2013
National Reinsurance Investment Corporation of the Philippines	Independent Director	June 2006
Philippine Institute for Development Studies (PIDS)	Board of Trustee	October 2005
Philippine Investment Management, Inc. (PHINMA)	Independent Director	August 2005
Philippine Stock Index Fund, Inc.	Chairman	2007
RFM Corporation	Independent Director	October 2002

ANNEX "A-1"

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of AboitizPower, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. No conflict of interest exists between my being an Independent Director of AboitizPower and my other affiliations as defined and stated in AboitizPower's Guidelines.
5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
6. I shall inform the corporate secretary of AboitizPower of any changes in the abovementioned information within five days from its occurrence.

Done, this February 27, 2015 at Taguig City.

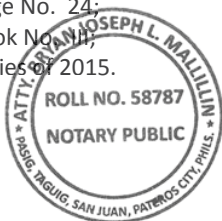


ROMEO L. BERNARDO

Affiant

SUBSCRIBED AND SWORN to before me this February 27, 2015 at Taguig City. Affiant, who is personally known to me, personally appeared before me and exhibited to me his Philippine Passport No. EB2294305 issued at DFA Manila on April 11, 2011 and his Community Tax Certificate No. 19362143 issued on January 17, 2014 at Quezon City.

Doc. No. 113;
Page No. 24;
Book No. 111;
Series of 2015.



BRYAN JOSEPH L. MALLILLIN
Notary Public for Taguig City
Notarial Commission No. 229
Until December 31, 2015

NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-2377834; 01-13- 2015, Taguig City
IBP No. 0981399; 01-06-2015; Quezon City
Roll No. 58787, IBP Quezon City Chapter
MCLE Compliance No. IV-0018683, 04-14-2016

ANNEX "A-2"

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **ALFONSO A. UY**, Filipino, of legal age and a resident of 15 Swan St., Green Meadows Quezon City, Manila, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Aboitiz Power Company (AboitizPower).
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
La Filipina Uy Gongco Corporation	Chairman	2004
Philippine Foremost Milling Corporation	Chairman	2004
Mindanao Grain Processing Corporation	Chairman	2004
Iloilo Economic Development Foundation	Chairman	2007
Star Terminals of the Asian Regions Corporation	Chairman	2014
Panay Power Holding Corporation	Vice Chairman	2011
State Properties, Inc.	Director	2010
State Investment Trust, Inc.	Director	2010
STEAG State Power, Inc.	Director	2008
BDO Private Bank	Director	2007

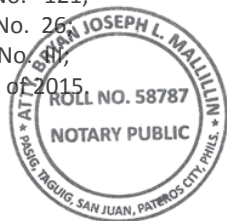
3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of AboitizPower, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. No conflict of interest exists between my being an Independent Director of AboitizPower and my other affiliations as defined and stated in AboitizPower’s Guidelines.
5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
6. I shall inform the corporate secretary of AboitizPower of any changes in the abovementioned information within five days from its occurrence.

Done, this February 27, 2015 at Taguig City.

ALFONSO A. UY
Affiant

SUBSCRIBED AND SWORN to before me this February 27, 2015 at Taguig City. Affiant, who is personally known to me, personally appeared before me and exhibited to me his Philippine Passport No. EB5984075 issued at Metro Manila on July 20, 2012 and his Community Tax Certificate No. 05875056 issued on January 6, 2015 at Iloilo City.

Doc. No. 121;
Page No. 26
Book No. _____
Series of 2015



[Handwritten Signature]

BRYAN JOSEPH L. MALLILIN
Notary Public for Taguig City
Notarial Commission No. 229
Until December 31, 2015

NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-2377834; 01-13- 2015, Taguig City
IBP No. 0981399; 01-06-2015; Quezon City
Roll No. 58787, IBP Quezon City Chapter
MCLE Compliance No. IV-0018683, 04-14-2016

ANNEX "A-3"

CERTIFICATION OF INDEPENDENT DIRECTORS

I, **CARLOS C. EJERCITO**, Filipino, of legal age and a resident of 215 Country Club Drive, Ayala Alabang Village, after having been duly sworn to in accordance with law do hereby declare that:

1. I am an Independent Director of Aboitiz Power Company (AboitizPower).
2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Morganhouse Holdings, Incorporated	Chairman and President	2009 to present
Morganland Properties, Incorporated	Chairman and President	2009 to present
CR Nichrome, Incorporated	Chairman and President	2009 to present
Northern Access Mining, Incorporated	Chairman and CEO	2009 to present
Forum Cebu Coal Corporation	Chairman and CEO	2009 to present
Kaipara Mining and Development Corporation	Chairman and CEO	2010 to present
Mount Grace Hospitals, Incorporated	Chairman and CEO	2012 to present
Medical Center Manila	Director	2013 to present
VRPotenciano Medical Center	Director	2012 to present
Unihealth Tagaytay Medical Center	Director	2013 to present
Pinehurst Medical Clinic, Inc.	Director	2014
Bloomberry Resorts Corporation	Independent Director	2013 to present
Monte Oro Resources and Energy Corporation	Independent Director	2012 to present
United Coconut Planters Bank (UCPB)	Chairman	2009 to 2011
National Grid Corporation of the Philippines	Director	2009
United Laboratories Inc (Unilab)	Vice Chairman	2005 to 2008
United Laboratories Inc (Unilab)	President and CEO	1997 to 2008
Unilab Group of Companies	President and CEO	1997 to 2008
Univet Agricultural Products Inc	President and CEO	1997 to 2008
Management Association of the Philippines	Member, Board of Governors	2012 to 2013

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of AboitizPower, as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
4. No conflict of interest exists between my being an Independent Director of AboitizPower and my other affiliations as defined and stated in AboitizPower's Guidelines.
5. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code.
6. I shall inform the corporate secretary of AboitizPower of any changes in the abovementioned information within five days from its occurrence.

ANNEX "A-3"

Done, this February 27, 2015 at Taguig City.

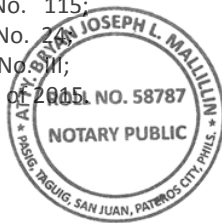


CARLOS C. EJERCITO

Affiant

SUBSCRIBED AND SWORN to before me this February 27, 2015 at Taguig City. Affiant, who is personally known to me, personally appeared before me and exhibited to me his Philippine Passport No. EB0986917 issued at DFA Manila on September 20, 2010.

Doc. No. 115;
Page No. 24;
Book No. 11;
Series of 2015



BRYAN JOSEPH L. MALLILIN

Notary Public for Taguig City

Notarial Commission No. 229

Until December 31, 2015

NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
PTR No. A-2377834; 01-13- 2015, Taguig City
IBP No. 0981399; 01-06-2015; Quezon City
Roll No. 58787, IBP Quezon City Chapter
MCLE Compliance No. IV-0018683, 04-14-2016

ANNEX "B"

SUMMARY OF THE MINUTES OF THE 2014 ANNUAL STOCKHOLDERS' MEETING

The meeting was called to order on May 19, 2014 at 10:45 a.m. by the Chairman of the Board, Mr. Enrique M. Aboitiz. The Corporate Secretary certified that notices for the 2014 Annual Stockholders' Meeting of AboitizPower were duly sent out on April 25, 2014 to all stockholders of record as of close of business on March 31, 2014. The Corporate Secretary further reported that notices of the meeting were also published in Philippine Daily Inquirer, Philippine Star and Business Mirror on April 16, 2014.

The Corporate Secretary certified to the existence of a quorum, there being a total of 5,193,278 shares present in person and 6,566,032,244 shares represented by proxy, or a total of 6,571,225,522 shares which constitute at least a majority of, or 89.30% of the total outstanding capital stock of 7,358,604,307 entitled to vote, or more than 2/3 of the total outstanding shares entitled to vote.

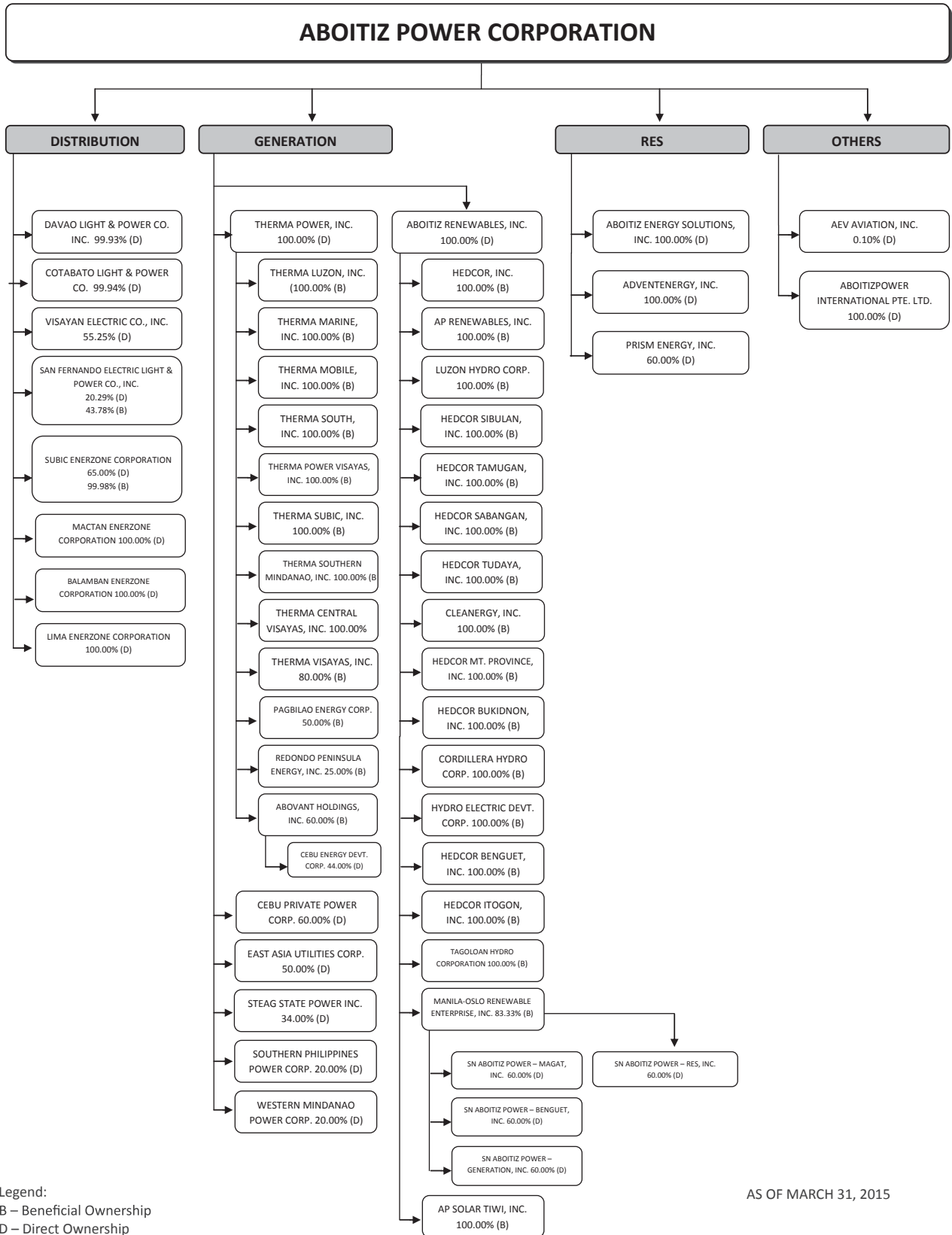
Upon motion duly made and seconded, the minutes of the previous Annual Stockholders' Meeting last May 20, 2013 was approved.

The body passed the following resolutions:

- 1) Approval of the 2013 Annual Report and Financial Statements
- 2) Delegation of the Authority to Elect the Company's External Auditors for 2014 to the Board of Directors
- 3) Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2013 up to May 19, 2014
- 4) Election of the Members of the Board of Directors
- 5) Amendment of the Articles of Incorporation to Adopt Revisions to the Primary Purpose Clause and Additional Secondary Purpose Clauses
- 6) Renewal of the Delegated Authority to the Board of Directors to Amend or Repeal the Company's By-laws or Adopt New By-laws

After the approval of the proposed resolutions, the meeting was duly adjourned.

ANNEX "C"



Legend:
 B – Beneficial Ownership
 D – Direct Ownership

AS OF MARCH 31, 2015

ANNEX "D"

RATIONALE OF ITEMS REQUIRING SHAREHOLDER APPROVAL

ITEM NO. 4: Reading and Approval of the Minutes of the Previous Stockholders' Meeting held on May 19, 2014.

RATIONALE: To allow the stockholders to confirm that the proceedings during the 2014 ASM was recorded accurately and truthfully.

ITEM NO. 6: Approval of the 2014 Annual Report and Financial Statements.

RATIONALE: To present to the shareholders the results of the Company's operations in 2014, in accordance with Section 75 of the Corporation Code.

ITEM NO. 7: Delegation of the Authority to Elect the Company's External Auditor for 2015 to the Board of Directors.

RATIONALE: To allow the Board Audit Committee sufficient time to evaluate and select the auditing firm which can best provide assurance to the directors and shareholders on the integrity of the company's financial statements and adequacy of its internal controls.

ITEM NO. 8: Ratification of the Acts, Resolutions and Proceedings of the Board of Directors, Corporate Officers and Management in 2014 up to May 18, 2015.

RATIONALE: To allow the stockholders to approve or ratify the acts of the Board of Directors and Officers of the Company in accordance with the Corporation Code.

ITEM NO. 9: Election of the Members of the Board of Directors.

RATIONALE: To allow stockholders to elect the Company's Board of Directors in accordance with Section 24 of the Corporation Code and the Company's By-Laws.

ITEM NO. 10: Renewal of the Delegated Authority to the Board of Directors the Power to Amend or Repeal the Company's By-Laws or Adopt New By-Laws.

RATIONALE: To get the consent of the stockholders to allow the Board of Directors to make timely and necessary changes to the Company's By-Laws in the pursuit of its business.

The Board Audit Committee Report to the Board of Directors

The Board Audit Committee's roles and responsibilities are embodied in the Board Audit Committee Charter approved by the Board of Directors. Its primary function is to provide assistance to the Board in fulfilling its oversight responsibility to the shareholders relating to: (a) the quality and integrity of the Company's accounting, auditing, legal, ethical and regulatory compliance; (b) risk management; (c) financial reporting practices; and (d) corporate governance. Any proposed changes to the Audit Committee Charter are referred to the Board for approval.

Membership

As of December 31, 2014, the Board Audit Committee is composed of five (5) members, three (3) of whom are independent directors.

I, Carlos C. Ejercito, Independent Director and Chair of the Committee is ably assisted by Romeo L. Bernardo (Independent Director), Alfonso A. Uy (Independent Director), Mikel A. Aboitiz (Non-Executive Director) and Antonio R. Moraza (Executive Director).

Meetings

There were four (4) regular Committee meetings held during the year—March 4, May 6, July 22 and October 28—one (1) special meeting on July 30, and two (2) joint meetings—June 2 and Dec 11—with the Board Risk and Reputation Management Committee.

Also present in these meetings is the Group Internal Audit Head, the Chief Reputation and Risk Management Officer, and by invitation, the Aboitiz Power Chief Financial Officer and the AP Controller.

Financial Reports

On a high level basis, the Committee reviewed, discussed, and endorsed for the approval of the Board the quarterly unaudited consolidated financial statements and the annual audited financial statements of Aboitiz Power Corporation and Subsidiaries. Included in the review are the Management Discussion and Analysis of Financial Condition and Results of Operations after these have been presented and discussed with management, accounting and the company's independent external auditor, SyCip Gorres Velayo & Co. (SGV)—a member practice of Ernst & Young (EY) in the Philippines.

The activities of the Audit Committee were performed in the following context:

- That management has the primary responsibility for the financial statements and the financial reporting process; and
- That the company's independent external auditor is responsible for expressing an opinion on the conformity of the Company's audited financial statements with Philippine Financial Reporting Standards.

Independent Auditors

On July 22, 2014, the Board Audit Committee endorsed the re-appointment of SyCip Gorres Velayo & Co. (SGV) as the independent external auditor for the company. The overall scope and audit plan of SGV were reviewed and approved during the October 28, 2014 regular Board Audit Committee meeting. The terms of engagement which covers audit-related services provided by SGV and its related fees were also reviewed and found to be reasonable.

The results of the SGV audits and its assessment of the overall quality of the financial reporting process were discussed. SGV presented the effects of changes in relevant accounting standards and presentation of financial statements that impact on the reported results. These matters were covered during the first Board Audit Committee meeting held the following year on March 5, 2015. The delegation to the Board of Directors of the appointment of the Company's external auditor was largely upon the recommendation of the Board Audit Committee.

Also, in the review of non-audit services provided by independent auditors, the Committee unanimously concurred/ratified the opinion that there is no conflict of interest and that the work that Ernst & Young (Indonesia) have been contracted to do for the Company is compatible with the general standard of independence for auditors imposed by relevant regulations.

Internal Auditors

The Group Internal Audit (GIA) takes the lead in setting the standards, initiatives and overall direction of the group-wide resident internal audit teams deployed to the different business units. It remains to be the single point of contact for the Board Audit Committee. The restructuring of the internal audit organization has proven to be a worthwhile endeavour as scope and coverage of audits have increased with resident audit teams being able to specialize in areas of business covered by their teams.

All technical audits related to information systems and technology are handled by the group internal auditors until such time that competencies to handle such audits can be transferred to the resident audit teams. Focus areas reviewed in 2014 include information technology general controls and software applications reviews.

The Committee reviewed and approved the annual audit program for the year which also covers the adequacy of resources, qualifications and competency of the staff and independence of the internal auditor.

With reference to the IPPF Attribute Standard 1100 which states that “The Internal Audit Activity must be independent, and internal auditors must be objective in performing their work”, the Committee confirms that the internal auditors conducted its responsibilities objectively and in an unbiased manner. The Committee further confirms that, to the best of its knowledge and belief, that the auditors have no personal or other impairments that prevent them from objectively planning, conducting, reporting, or otherwise participating and reaching independent conclusions in their audit assignments in 2014. Internal audit is organizationally positioned to be independent—administratively reporting to the President and Chief Executive Officer and functionally reporting to the Board Audit Committee.

Based on the information from the results of the audits conducted in 2014 for Aboitiz Power Corporation, its subsidiaries and alliances, with the contribution provided by management and other key leaders on the issues raised to their attention, Internal Audit believes that, overall there is reasonable assurance that the existing system of internal controls allows for a generally adequate management of identified risks and effectively supports the improvement of the management of the Company as a whole.

Review of the Audit Charter

The Committee reviewed and assessed the current audit charter in its meeting held October 28, 2014 and found it adequate. No modification needed.

Self-Assessment

The Committee conducted its annual self-assessment in accordance with the guidelines of SEC Memo Cir. No. 4, series of 2012. The assessment result showed that it fully complied with the requirements set forth in the Audit Charter and met the necessary and most important requirements set by global standards and best practices.

Risk Management

The Committee had two (2) joint meetings with the Board Risk and Reputation Management Committee in 2014 where the updated results of the Risk Management Plan validation conducted by GIA and the resident audit teams were presented. Considering the dynamic nature of risks, this closed-looped process from risk identification to risk treatment validation should be ongoing and continual to ensure that risk treatment activities that the business units commit to do are being done. The ultimate value of this process is to assist the business units in enhancing their capability to manage and monitor its top risks.

It is also in these joint meetings that the members of the Audit Committee are apprised of the top key strategic risks consequential to the Company’s ability to execute its strategies and achieve its business objectives for the following year. High-level risk exposures are presented and discussed as these can affect shareholder value and ultimately the viability of the company. The significant potential impact of these strategic risks warrants a more focused attention from the board and its directors.

As in previous years, the Committee continues to monitor action plans and commitments developed by management to address audit issues and to ensure that proposed solutions are workable, strategic and sustainable.

Finally, the Committee has undertaken its activities to ensure that it continues to deepen its focus on the integrity of financial reporting, effectiveness of internal controls, risk management, governance and compliance within the Aboitiz Power group of companies.

In behalf of the Committee,



Carlos C. Ejercito
Chairman, Independent Director

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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Company Name

A	B	O	I	T	I	Z		P	O	W	E	R		C	O	R	P	O	R	A	T	I	O	N				

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

3	2	n	d		S	t	r	e	e	t	,		B	o	n	i	f	a	c	i	o		G	l	o	b	a	l	
C	i	t	y	,		T	a	g	u	i	g		C	i	t	y	,		M	e	t	r	o		M	a	n	i	l
a	,		P	h	i	l	i	p	p	i	n	e	s																

Form Type

A	A	P	F	S
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Department requiring the report

C	F	D
---	---	---

Secondary License Type, If Applicable

N	A
---	---

COMPANY INFORMATION

Company's Email Address

www.aboitizpower.com

Company's Telephone Number/s

(02) 886-2800

Mobile Number

Not Available

No. of Stockholders

606

Annual Meeting
Month/Day

May 18

Fiscal Year
Month/Day

December 31

CONTACT PERSON INFORMATION

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

Name of Contact Person

Mr. Manuel R. Lozano

Email Address

manuel.lozano@aboitiz.com

Telephone Number/s

(02) 886-2800

Mobile Number

Not Available

Contact Person's Address

32nd Street, Bonifacio Global City, Taguig City, Metro Manila 1634
--

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



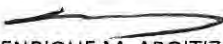
SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the Parent financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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



ENRIQUE M. ABOITIZ, JR.
Chairman of the Board



ERRAMON I. ABOITIZ
Chief Executive Officer



MANUEL R. LOZANO
FVP/Chief Finance Officer/Corporate Information Officer

Signed this 10th day of March 2015

Republic of the Philippines)
 City of Taguig) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC No.	Date/Place Issued
ENRIQUE M. ABOITIZ, JR.	EB9219812 19663064	September 24, 2013, Manila January 28, 2015, Cebu City
ERRAMON I. ABOITIZ	EB7151577 19659114	January 14, 2013; Cebu City January 26, 2015, Cebu City
MANUEL R. LOZANO	EC1926563 02456853	August 18, 2014, NCR South February 4, 2015, Makati City

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this MAR 10 2015.

Doc. No. 381;

Page No. 78;

Book No. I;

Series of 2015



Lehua L. Cabrera
LE LHUA L. CABRERA
 Notary Public for Taguig City
 National Commission No. 252
 Until December 31, 2015
 MAC Tower, 32nd Street, Bonifacio Global City, Taguig City
 PTR No. A-74452, Taguig City, January 7, 2015
 IBP No. 016762, Membership No. 51275
 Quezon City Chapter
 MCLC Compliance No. IV-0308371

**INDEPENDENT AUDITORS' REPORT
TO ACCOMPANY INCOME TAX RETURN**

The Stockholders and the Board of Directors
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited the financial statements of Aboitiz Power Corporation as at and for the year ended December 31, 2014, on which we have rendered the attached report dated March 10, 2015.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Company.

SYCIP GORRES VELAYO & CO.

Leovina Mae V. Chu

Leovina Mae V. Chu
Partner
CPA Certificate No. 99910
SEC Accreditation No. 1199-A (Group A),
March 15, 2012, valid until March 31, 2015
Tax Identification No. 209-316-911
BIR Accreditation No. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 4751341, January 5, 2015, Makati City

March 10, 2015



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

Report on the Parent Company Financial Statements

We have audited the accompanying parent company financial statements of Aboitiz Power Corporation, which comprise the parent company balance sheets as at December 31, 2014 and 2013, and the parent company statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Parent Company Financial Statements

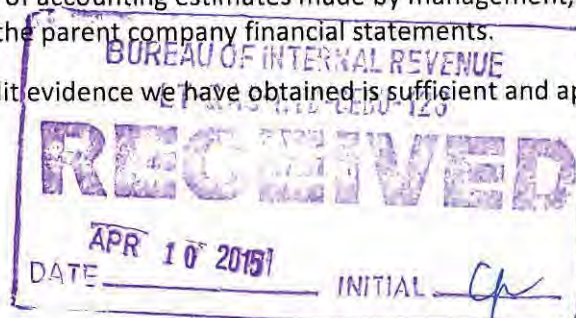
Management is responsible for the preparation and fair presentation of these parent company financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of Aboitiz Power Corporation as at December 31, 2014 and 2013, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

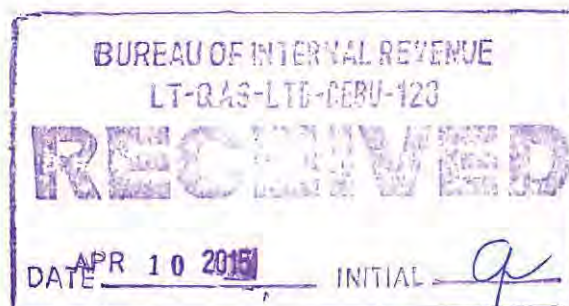
Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 23 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Aboitiz Power Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

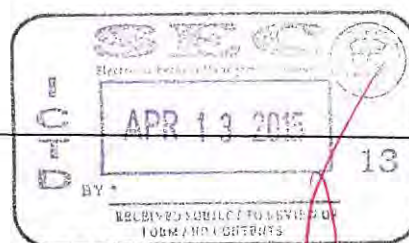
Leovina Mae V. Chu

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PTR No. 4751341, January 5, 2015, Makati City

March 10, 2015



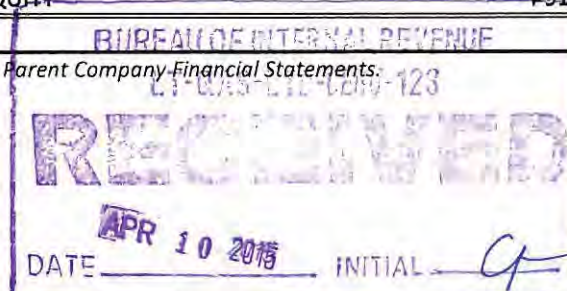
ABOITIZ POWER CORPORATION
PARENT COMPANY BALANCE SHEETS



December 31

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	P20,161,489,096	P13,803,388,532
Trade and other receivables (Note 5)	458,828,701	208,297,342
Derivative asset (Note 20)	-	257,355
Prepaid taxes and other current assets	330,695,849	243,966,987
Total Current Assets	20,951,013,646	14,255,910,216
Noncurrent Assets		
Investments in and advances to subsidiaries (Note 6)	64,500,270,106	58,324,877,270
Investments in and advances to associates (Note 7)	5,511,239,582	5,537,934,574
Pension asset (Note 16)	64,671,775	-
Property and equipment (Note 8)	61,895,738	47,692,685
Investment property (Note 9)	25,000,000	10,000,000
Computer software license (Note 10)	6,420,255	5,343,765
Deferred income tax assets (Note 17)	-	67,810,642
Project development costs (Notes 11 and 18)	246,594,661	121,987,027
Total Noncurrent Assets	70,416,092,117	64,115,645,963
TOTAL ASSETS	P91,367,105,763	P78,371,556,179
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	P182,521,804	P70,912,372
Amounts owed to a related party (Note 18)	12,300,000,000	12,300,000,000
Total Current Liabilities	12,482,521,804	12,370,912,372
Noncurrent Liabilities		
Long-term debts - net of current portion and deferred financing cost (Note 13)	9,901,933,815	-
Deferred tax liability (Note 17)	891,730	-
Pension liability (Note 16)	-	115,149,031
Total Noncurrent Liabilities	9,902,825,545	115,149,031
Total Liabilities	22,385,347,349	12,486,061,403
Equity		
Capital stock (Note 14a)	7,358,604,307	7,358,604,307
Additional paid-in capital (Note 14a)	12,588,894,332	12,588,894,332
Actuarial losses on defined benefit plan (Note 16)	(86,628,496)	(236,309,388)
Retained earnings (Note 14b)		
Appropriated	20,900,000,000	-
Unappropriated	28,220,888,271	46,174,305,525
Total Equity	68,981,758,414	65,885,494,776
TOTAL LIABILITIES AND EQUITY	P91,367,105,763	P78,371,556,179

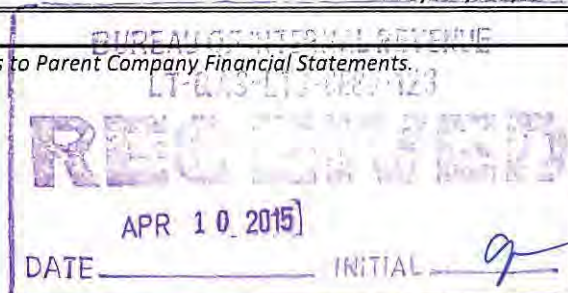
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2014	2013	2012
REVENUE			
Dividends (Notes 6 and 7)	₱14,992,799,358	₱14,669,635,698	₱24,761,137,820
Technical, management and other service fees (Note 18)	889,476,113	593,087,649	641,458,116
Interest income (Notes 4 and 18)	243,073,819	80,181,257	191,283,171
	16,125,349,290	15,342,904,604	25,593,879,107
GENERAL AND ADMINISTRATIVE EXPENSES			
Personnel (Note 15)	460,328,551	378,905,555	238,694,293
Interest and other financing charges (Note 13)	185,130,823	71,584,309	972,314,884
Service fees (Note 18)	81,789,118	62,047,608	55,531,719
Transportation and travel (Note 18)	54,096,793	56,212,612	53,268,866
Professional fees (Note 18)	53,859,329	28,855,672	31,497,008
Consultation fees and bidding expenses	20,244,073	1,450	78,076
Rent (Note 18)	17,540,132	10,021,221	9,071,898
Legal research and development	15,764,790	10,127,338	14,393,440
Depreciation and amortization (Notes 8 and 10)	16,513,947	13,946,281	13,805,638
Taxes and licenses	10,320,258	7,067,268	27,115,158
Training	9,071,776	11,140,609	6,361,568
Entertainment, amusement and recreation	5,911,596	2,572,445	3,824,888
Repairs and maintenance	5,633,393	2,799,775	1,721,451
Communication	4,230,688	2,718,781	4,783,949
Advertising and sponsorships	4,177,915	7,527,655	8,564,341
Office supplies	2,380,104	2,829,497	3,486,477
Light and water	2,353,884	1,422,312	1,819,492
Donations and contributions	-	83,435,233	-
Information technology project costs (Note 18)	-	-	309,693
Others	6,354,974	2,063,052	9,004,030
	955,702,145	755,278,673	1,455,646,869
OTHER INCOME (CHARGES) - Net			
Foreign exchange gain (losses) - net (Note 20)	20,667,864	45,050,492	(71,064,141)
Valuation gain on investments (Note 9)	15,000,000	-	-
Gains on redemption of preferred shares (Note 7)	4,903,724	4,791,996	43,588,015
Provision for impairment loss on investment in an associate (Note 7)	-	(735,223,045)	-
Others	11,246,358	384,599	1,857,937
	51,817,946	(684,995,958)	(25,618,189)
INCOME BEFORE INCOME TAX	15,221,465,091	13,902,629,973	24,112,614,049
PROVISION FOR INCOME TAX (Note 17)	59,599,195	39,901,358	150,999,959
NET INCOME	₱15,161,865,896	₱13,862,728,615	₱23,961,614,090

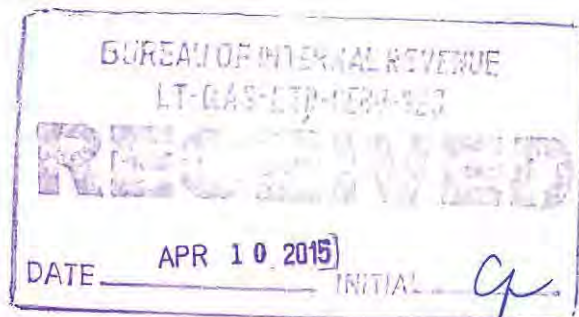
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
NET INCOME	₱15,161,865,896	₱13,862,728,615	₱23,961,614,090
OTHER COMPREHENSIVE INCOME			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (losses) on defined benefit plans (Note 16)	213,829,845	(85,460,964)	(41,827,859)
Income tax effect (Note 17)	(64,148,953)	25,638,289	12,548,358
Other comprehensive income for the year, net of tax	149,680,892	(59,822,675)	(29,279,501)
TOTAL COMPREHENSIVE INCOME	₱15,311,546,788	₱13,802,905,940	₱23,932,334,589

See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION

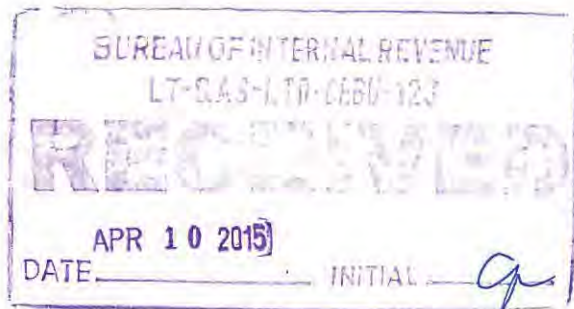
**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**

	Capital Stock (Note 14a)	Additional Paid-In Capital	Actuarial Gains (Losses) on Defined Benefit Plan	Retained Earnings		Total
				Appropriated	Unappropriated	
Balances at January 1, 2014	₱7,358,604,307	₱12,588,894,332	(₱236,309,388)	₱-	₱46,174,305,525	₱65,885,494,776
Net income for the year	-	-	-	-	15,161,865,896	15,161,865,896
Other comprehensive income	-	-	149,680,892	-	-	149,680,892
Total comprehensive income	-	-	149,680,892	-	15,161,865,896	15,311,546,788
Cash dividends (Note 14b)	-	-	-	-	(12,215,283,150)	(12,215,283,150)
Appropriation during the year (Note 14b)	-	-	-	20,900,000,000	(20,900,000,000)	-
Balances at December 31, 2014	₱7,358,604,307	₱12,588,894,332	(₱86,628,496)	₱20,900,000,000	₱28,220,888,271	₱68,981,758,414
INTERNAL REVENUE OFFICE LTD-CERO-123 2015						
	Capital Stock (Note 14a)	Additional Paid-In Capital	Actuarial Losses on Defined Benefit Plan	Retained Earnings		Total
				Appropriated	Unappropriated	
Balances at January 1, 2013	₱7,358,604,307	₱12,588,894,332	(₱176,486,713)	₱-	₱44,526,860,060	₱64,297,871,986
Net income for the year	-	-	-	-	13,862,728,615	13,862,728,615
Other comprehensive income	-	-	(59,822,675)	-	-	(59,822,675)
Total comprehensive income	-	-	(59,822,675)	-	13,862,728,615	13,802,905,940
Cash dividends (Note 14b)	-	-	-	-	(12,215,283,150)	(12,215,283,150)
Balances at December 31, 2013	₱7,358,604,307	₱12,588,894,332	(₱236,309,388)	₱-	₱46,174,305,525	₱65,885,494,776



	Capital Stock (Note 14a)	Additional Paid-In Capital	Actuarial Losses on Defined Benefit Plan	Retained Earnings		Total
				Appropriated	Unappropriated	
Balances at January 1, 2012	₱7,358,604,307	₱12,588,894,332	(₱147,207,212)	₱-	₱31,897,496,603	₱51,697,788,030
Net income for the year	-	-	-	-	23,961,614,090	23,961,614,090
Other comprehensive income	-	-	(29,279,501)	-	-	(29,279,501)
Total comprehensive income	-	-	(29,279,501)	-	23,961,614,090	23,932,334,589
Cash dividends (Note 14b)	-	-	-	-	(11,332,250,633)	(11,332,250,633)
Balances at December 31, 2012	₱7,358,604,307	₱12,588,894,332	(₱176,486,713)	₱-	₱44,526,860,060	₱64,297,871,986

See accompanying Notes to Parent Company Financial Statements.

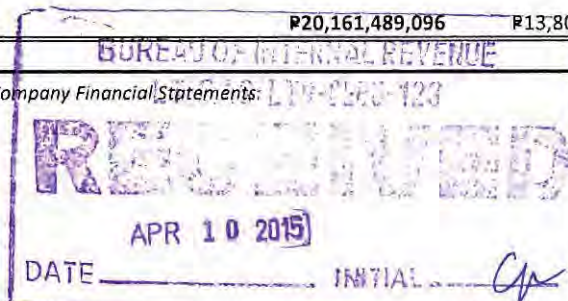


ABOITIZ POWER CORPORATION

PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P15,221,465,091	P13,902,629,973	P24,112,614,049
Adjustments for:			
Interest and other financing charges (Note 13)	185,130,823	71,584,309	972,314,884
Depreciation and amortization (Notes 8 and 10)	16,513,947	13,946,281	13,805,638
Loss on disposal of assets	157,165	6,842,600	-
Interest income (Notes 4 and 18e)	(243,073,819)	(80,181,257)	(191,283,171)
Valuation gain on investment property	(15,000,000)	-	-
Unrealized foreign exchange losses (gains)	(14,091,998)	(46,544,832)	18,346,470
Gains on redemption of preferred shares (Notes 7)	(4,903,724)	(4,791,996)	(43,588,015)
Provision for impairment of investment in an associate	-	735,223,045	-
Property dividends	-	(2,724,871)	-
Operating income before working capital changes	15,146,197,485	14,595,983,252	24,882,209,855
Decrease (increase) in:			
Trade and other receivables	(147,888,180)	(686,539)	27,034,481
Prepaid taxes and other current assets	(2,029,236)	(1,265,207)	(5,429,626)
Pension asset	(64,671,775)	-	-
Increase (decrease) in:			
Pension liability	98,680,815	(116,967,037)	(2,575,428)
Trade and other payables	139,897,357	32,114,220	(159,974,066)
Net cash generated from operations	15,170,186,466	14,509,178,689	24,741,265,216
Income taxes paid	(139,745,401)	(81,024,686)	(91,645,287)
Net cash flows from operating activities	15,030,441,065	14,428,154,003	24,649,619,929
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	140,430,640	63,799,084	245,164,037
Proceeds from redemption on preferred shares (Note 7)	31,598,716	31,486,988	318,508,690
Increase in project development costs	(124,607,634)	(111,647,189)	(9,056,649)
Additions to:			
Investments in and advances to subsidiaries	(6,175,392,836)	(2,210,563,608)	(5,691,630,645)
Investments in and advances to associates	-	(207,300)	(4,302,566)
Additions to:			
Property and equipment (Note 8)	(32,196,222)	(35,890,921)	(12,049,659)
Intangible assets (Note 10)	(1,930,825)	(664,557)	(1,249,979)
Proceeds from disposal of property and equipment (Note 8)	2,176,390	732,720	-
Net cash flows used in investing activities	(6,159,921,771)	(2,262,954,783)	(5,154,616,771)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase (decrease) in amounts owed to related parties	-	12,300,000,000	(18,415,300)
Proceeds from long-term debts (Note 13)	10,000,000,000	-	-
Transaction costs from availment of long-term debt	(101,087,703)	-	-
Interest and other financing charges paid	(210,397,228)	(107,961,869)	(866,922,518)
Cash dividends paid	(12,215,283,150)	(13,834,176,098)	(9,713,357,685)
Payments of long-term debt (Note 13)	-	(5,000,000,000)	(8,543,200,000)
Net cash flows used in financing activities	(2,526,768,081)	(6,642,137,967)	(19,141,895,503)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,343,751,213	5,523,061,253	353,107,655
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	14,349,351	46,287,477	(19,082,720)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,803,388,532	8,234,039,802	7,900,014,865
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P20,161,489,096	P13,803,388,532	P8,234,039,802

See accompanying Notes to Parent Company Financial Statements: LDP-CPES-123



ABOITIZ POWER CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of December 31, 2014, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.88% of the Company. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

On March 21, 2013, the Board of Directors (BOD) approved the change in registered office address of the Company from Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City to 32nd street, Bonifacio Global City, Taguig City, Metro Manila. The change of principal office address is reflected under Article III of the Amended Articles of Incorporation.

The parent company financial statements were approved and authorized for issue in accordance with a resolution by the BOD of the Company on March 10, 2015.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The accompanying parent company financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment properties which are measured at fair value. The parent company financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rate and as otherwise indicated.

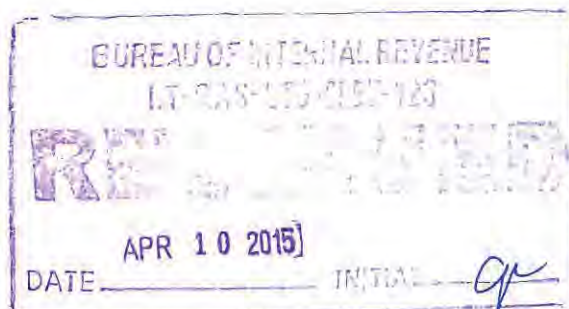
The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements that are presented in compliance with Philippine Financial Reporting Standards (PFRS). These may be obtained at 32nd street, Bonifacio Global City, Taguig City, Metro Manila, Philippines.

Statement of Compliance

The parent company financial statements are prepared in compliance with PFRS.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which were applied starting January 1,



2014. These new and revised standards and interpretations did not have any significant impact on the Company's financial statements:

- **Investment Entities (Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 27, *Separate Financial Statements*)**
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments must be applied retrospectively, subject to certain transition relief. The above amendments have no effect on the Company since it does not qualify as an investment entity as defined under PFRS 10.
- **PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* (Amendments)**
These amendments, which are to be applied retrospectively, clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These have no impact on the Company since it does not have any offsetting arrangements.
- **PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets* (Amendments)**
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

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

- **PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting* (Amendments)**
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria, and require retrospective application. These have no impact on the Company as it has not novated its derivatives during the current or prior periods.
- **Philippine Interpretation IFRIC 21, *Levies***
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

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



Annual Improvements to PFRSs (2010-2012 cycle)

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

Annual Improvements to PFRSs (2011-2013 cycle)

In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Company as it is not a first time PFRS adopter.

New standards and interpretation issued and effective after December 31, 2014

The Company will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- PFRS 9, *Financial Instruments - Classification and Measurement* (2010 version)
PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

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



- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

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

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

Effective January 1, 2015

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

This amendment, which becomes effective starting January 1, 2015, is not applicable to the Company since it has a defined benefit plan which does not require contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

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

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition



- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, *Financial Instruments*, if early adopted). The Company shall consider this amendment in future business combinations.
- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
 - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
- *PAS 24, Related Party Disclosures - Key Management Personnel Services*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

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

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.



- **PFRS 13, *Fair Value Measurement - Portfolio Exception***
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
- **PAS 40, *Investment Property***
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- **PAS 16, *Property, Plant and Equipment*, and PAS 38, *Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)***
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These will have no impact on the Company given that it has not used a revenue-based method to depreciate its non-current assets.
- **PAS 16, *Property, Plant and Equipment*, and PAS 41, *Agriculture - Bearer Plants (Amendments)***
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These will have no relevance to the Company since it is not engaged in agriculture business.
- **PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements (Amendments)***
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for



annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will have no impact on the Company since there is no plan to shift to the equity method in the preparation of the separate financial statements.

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

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

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

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

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

- PFRS 14, *Regulatory Deferral Accounts*

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



Annual Improvements to PFRSs (2012-2014 cycle)

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

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).



Effective January 1, 2018

- PFRS 9, *Financial Instruments* – Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

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

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

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

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

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

- IFRS 15, *Revenue from Contracts with Customers*
IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more



structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date, once adopted locally.

Summary of Significant Accounting Policies

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible to the Company.

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

A fair value measurement of a non-financial asset takes into account a market participants 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 Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

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

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



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

Cash and Cash Equivalents

Cash and cash equivalents in the parent company balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Company also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Company determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'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 Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

a. Financial asset or financial liability at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities classified as held for trading and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or upon initial recognition if it is designated by management as at FVPL. Derivatives, including separated embedded derivatives, are also



classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

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

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

Financial assets and liabilities at FVPL are recorded in the parent company balance sheet at fair value. Subsequent changes in fair value are recognized in the parent company statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

Included under this category is the Company's derivative asset (see Note 19).

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, they are classified as non-current assets.

Included under this category are the Company's cash and cash equivalents (excluding cash on hand) and trade and other receivables.

c. HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.



Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the parent company statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Company does not have any HTM investments at December 31, 2014 and 2013.

d. AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the parent company statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the parent company statement of income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the investment matures or management intends to dispose it within twelve months after the end of the reporting period.

The Company does not have any AFS investments at December 31, 2014 and 2013.

e. Other financial liabilities

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

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability.

Gains and losses are recognized in the parent statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category are the Company's trade and other payables, dividends payable, long-term debts and amounts owed to related parties.

Derivative financial instruments

Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the parent company statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.



The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and,
- the hybrid or combined instrument is not recognized as at FVPL.

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.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

As of December 31, 2014, the Company has no freestanding derivatives. As of December 31, 2013, the Company has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered to economically hedge its foreign exchange risk (see Note 20). In 2013, the Company did not apply hedge accounting treatment on its derivative transactions. The Company has not bifurcated any embedded derivatives as of December 31, 2013.

Classification of financial instruments between liability and equity

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

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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.

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 income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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.



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 where:

- the rights to receive cash flows from the asset have expired;
- the Company 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 Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

Impairment of Financial Assets

The parent company assesses at each balance sheet date whether 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 an 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 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 debtors or a group of debtors 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 a 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 Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 parent company statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, 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 parent company statement of income) is removed from the other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in the other comprehensive income.



In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on rate of interest used to discount future cash flows for measuring impairment loss. Such accrual is recorded as part of "Interest income" in the parent company statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed through the parent company statement of income.

Offsetting Financial Instruments

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

Investments in and Advances to Subsidiaries and Associates

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture.

Investments in and advances to subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Company recognizes income from the investments only to the extent that the Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Investment Property

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Prior to 2014, the Group carried the investment property at cost, as allowed by PAS 40. The change in accounting policy in 2014 resulted to fair value gain of ₱15.0 million and deferred tax liability of ₱4.5 million. Gains or losses arising from changes in fair values of investment properties are included in the parent company statement of income in the year in which they arise.



Investment property is derecognized when it has either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in the parent company statement of income in the year of derecognition.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Company as an owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the parent company statement of income. When the Company completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the parent company statement of income.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. Such cost includes the cost of replacing parts of such property and equipment. Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

<u>Category</u>	<u>Number of Years</u>
Transportation equipment	5
Office equipment	3
Communication equipment	3
Leasehold improvements	10

Leasehold improvements are amortized over the period of the lease agreement or the estimated useful lives of the improvements, whichever is shorter.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The asset's useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end.



Construction in progress represents properties under construction and is stated at cost. This includes cost of construction and other direct cost. Construction in progress is not depreciated until such time the relevant assets are completed and available for use.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the parent company statement of income in the year in which the expenditure is incurred.

Computer software license

Computer software license is initially recognized at cost. Following initial recognition, the computer software license cost is carried at cost less accumulated amortization and any accumulated impairment in value.

The computer software license is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software license is available for use. The amortization period and the amortization method for the license are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the parent company statement of income in the expense category consistent with the function of the computer software license.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income when the asset is derecognized.

Project Development Costs

Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the



asset. Impairment losses of continuing operations are recognized in the parent company 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 Company makes an estimates of the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions 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 parent company statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Foreign Currency Transactions

The Company's financial statements are presented in Philippine Peso, which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.



Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income

Dividend income is recognized when the Company's right to receive payment is established.

Interest income

Interest income is recognized as it accrues taking into account the effective yield of the asset.

Technical, management and service fees

Technical, management and services fees are recognized when the related services are rendered.

Expenses

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company 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 expense or income in the parent company 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 parent company statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. 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.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income Taxes

Current income tax

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

Deferred income tax

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

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

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



- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred 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 profit will be available against which the temporary differences can be utilized.

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

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

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

Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT is recognized as an asset and will be used to offset the Company's current output VAT liabilities and or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.

Output VAT

Output VAT represents VAT due on the sale, lease or exchange of taxable goods or properties or service by any person registered or required to register under Philippine taxation laws and regulations.



Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Reporting Period

Post year-end events that provide additional information about the Company's position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgment

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

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine Peso. The Philippine Peso is the currency of the primary economic environment in which the Company operates and it is the currency that mainly influences the sale of services and the costs of providing the services.



Classification of financial instruments

The Company exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition 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 parent company balance sheet.

Estimation Uncertainty

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

Estimating allowance for impairment of trade and other receivables

The Company maintains allowance for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Company's relationship with its debtors, debtor's current credit status and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively.

The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment of receivables will increase the Company's recorded expenses and decrease current assets. No allowance for impairment of receivables was recognized as of December 31, 2014 and 2013. As of December 31, 2014 and 2013, the Company's receivables amounted to ₱458.8 million and ₱208.3 million, respectively (see Note 5).

Estimating allowance for impairment of losses on investment in and advances to subsidiaries and associates

Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2014 based on management's assessment. In 2013, it was determined that the carrying value of the investment in Hijos exceeded its recoverable amount. As a result, an impairment loss amounting to ₱735.2 million was recognized. The recoverable amount of Hijos was determined to be ₱122.8 million as of December 31, 2013. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱70.01 billion and ₱63.86 billion as of December 31, 2014 and 2013, respectively (see Notes 6 and 7).

Assessing impairment of nonfinancial assets

The Company assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (investment property, property and equipment, computer software license, prepaid taxes and other current assets and other noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of the assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the



Company to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The carrying values of investment property, property and equipment, computer software license, prepaid taxes and other current assets and other noncurrent assets amounted to ₱25.0 million, ₱61.9 million, ₱6.4 million, ₱330.7 million and ₱246.6 million, respectively. As of December 31, 2013, the carrying values of investment property, property and equipment, computer software license, prepaid taxes and other current assets and other noncurrent assets amounted to ₱10.0 million, ₱47.7 million, ₱5.3 million, ₱244.0 million and ₱122.0 million, respectively (see Notes 8, 9, 10 and 11).

Estimating useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2014 and 2013, the net book values of property and equipment, excluding land, amounted to ₱62.0 million and ₱47.7 million, respectively (see Note 8).

Pension costs

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

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 16.

Net benefit expense amounted to ₱34.0 million in 2014, ₱19.4 million in 2013 and ₱16.7 million in 2012. Pension asset as at December 31, 2014 amounted to ₱64.7 million and pension liability at December 31, 2013 amounted to ₱115.1 million (see Note 16).



Fair values of financial instruments

When the fair values of financial assets and financial liabilities recorded in the parent company balance sheet cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Company's financial instruments are presented in Note 20.

Deferred income tax assets

The Company's assessment on the recognition of deferred income tax assets on non-deductible temporary differences is based on the budgeted taxable income of the following reporting period. This budget is based on the Company's past results and future expectations on revenue and expenses. As of December 31, 2014 and 2013, gross deferred income tax assets amounted to ₱76.3 million and ₱146.4 million, respectively. No deferred income tax assets were recognized for provision for impairment of investment amounting to ₱735.2 million as of December 31, 2013, MCIT amounting to ₱23.6 million and ₱20.8 million and NOLCO amounting to ₱894.8 million and ₱2.07 billion as of December 31, 2014 and 2013, respectively (see Note 17).

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2014 and 2013.

4. Cash and Cash Equivalents

	2014	2013
Cash on hand and in banks	₱304,095,920	₱733,866,873
Short-term deposits	19,857,393,176	13,069,521,659
	₱20,161,489,096	₱13,803,388,532

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposits rates.

Interest earned on cash and cash equivalents amounted to ₱243.1 million in 2014, ₱80.2 million in 2013 and ₱191.3 million in 2012.



5. Trade and Other Receivables

	2014	2013
Trade (see Note 18)	₱291,763,741	₱158,236,623
Interest	130,048,641	27,405,462
Nontrade	17,513,634	3,744,438
Recoverable deposits	5,913,079	5,349,866
Others	13,589,606	13,560,953
	₱458,828,701	₱208,297,342

Trade receivables are non-interest bearing and are generally on 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 18.

6. Investments in and Advances to Subsidiaries

The details of the Company's investments in and advances to subsidiaries follow:

	2014	2013
<i>Investments in Subsidiaries</i>		
Aboitiz Renewables, Inc. (ARI)	₱36,654,338,814	₱36,654,338,814
Therma Power, Inc. (TPI)	19,116,058,873	17,789,079,099
Lima Enerzone Corporation (LEZ)	1,329,696,667	-
Hedcor Sabangan, Inc. (Hedcor Sabangan)	1,010,643,142	130,143,142
Therma Mobile, Inc. (Therma Mobile)	742,400,000	561,400,000
Davao Light & Power Co., Inc. (DLPC)	738,468,398	738,468,398
Visayan Electric Co., Inc. (VECO; see Note 7)	665,388,202	665,388,202
Hedcor Tudaya, Inc. (HTI)	656,250,000	180,500,000
Mactan Enerzone Corporation (MEZC)	609,532,287	609,532,287
Therma South, Inc. (Therma South)	519,399,692	-
Balamban Enerzone Corporation (BEZC)	486,869,161	486,869,161
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	237,376,250	-
Hedcor Sibulan, Inc. (Hedcor Sibulan)	231,000,000	-
Subic Enerzone Corporation (SEZC)	227,000,000	227,000,000
Cotabato Light & Power Co. (CLPC)	214,046,152	214,046,152
Therma Visayas, Inc. (TVI)	173,114,630	-
Aboitiz Energy Solutions, Inc. (AESI)	21,000,000	21,000,000
Cebu Private Power Corporation (CPPC)	17,806,608	17,806,608
Adventenergy, Inc. (AI)	812,500	812,500
Prism Energy, Inc. (PEI)	750,000	750,000
	63,651,951,376	58,297,134,363
<i>Advances to subsidiaries</i>	848,318,730	27,742,907
	₱64,500,270,106	₱58,324,877,270

Investment in VECO

Prior to the step acquisition in 2013, the Company directly owns 43.49% of VECO. It also owns 11.77% of VECO through 46.73% owned associate, Hijos de F. Escaño, Inc. (Hijos).



In 2013 and 2012, Hijos declared property dividends in the form of VECO shares to its shareholders. As a result of the property dividends, the Company's direct ownership in VECO increased to 55.26%, allowing it to obtain control in VECO.

The transaction was accounted for as a business combination achieved in stages and the investment in VECO was presented as an investment in a subsidiary in 2013.

Additional investment in ARI

In July 2013, the Company subscribed additional 764.0 million redeemable preferred shares of ARI at ₱1 per share for a total subscription price of ₱764.0 million.

Additional investment in TPI

In 2014, the Company subscribed additional shares of TPI consisting of 132.6 million common shares for ₱132.6 million and 1.19 billion redeemable preferred shares for ₱1.19 billion.

In 2013, the Company subscribed additional shares of TPI consisting of 93.4 million common shares for ₱93.4 million and 841.1 million redeemable preferred shares for ₱841.1 million.

Investment in LEZ

In June 2014, the Company acquired one hundred percent (100%) of the issued and outstanding shares of LEZ for a cash consideration of ₱1.33 billion.

Investment in Hedcor Bukidnon

In 2014, the Company subscribed 237.4 million redeemable preferred shares of Hedcor Bukidnon for ₱237.4 million.

Investment in Hedcor Sibulan

In 2014, the Company subscribed 231.0 million Series A redeemable preferred shares of Hedcor Sibulan for ₱231.0 million.

Investment in TVI

In 2014, the Company subscribed 173.1 million redeemable preferred shares of TVI for ₱173.1 million.

Investment in Therma South

In 2014, the Company subscribed 519.4 million redeemable preferred shares of Therma South for ₱519.4 million out of Therma South's increase in authorized capital stock.

Investment in Therma Mobile

In 2014, the Company subscribed additional 181 million redeemable preferred shares of Therma Mobile for ₱181 million.

In 2013, the Company subscribed 561.4 million redeemable preferred shares of Therma Mobile for ₱561.4 million.

Investment in HTI

In 2014, the Company subscribed additional 475.8 million redeemable preferred shares of HTI for ₱475.8 million.



In 2013, the Company subscribed 180.5 million redeemable preferred shares of HTI for ₱180.5 million.

Investment in Hedcor Sabangan

In 2014, the Company subscribed additional 880.5 million redeemable preferred shares of Hedcor Sabangan for ₱880.5 million.

In 2013, the Company subscribed 130.1 million redeemable preferred shares of Hedcor Sabangan for ₱130.1 million.

Advances to Subsidiaries

These advances will be applied against future subscriptions of the Company to the shares of stock of the subsidiaries.

The Company's subsidiaries (all incorporated in the Philippines) and the corresponding percentage equity ownership are as follows:

Name of Company	Nature of Business	2014		2013	
		Direct	Indirect	Direct	Indirect
ARI	Holding company	100.00%	–	100.00%	–
TPI	Holding company	100.00%	–	100.00%	–
LEZ	Power distribution	100.00%	–	–	–
Hedcor Sabangan*	Power generation	–	100.00%	–	100.00%
Therma Mobile	Power generation	–	100.00%	–	100.00%
DLPC	Power distribution	99.93%	–	99.93%	–
VECO (see Note 7)	Power distribution	55.26%	–	55.26%	–
HTI	Power generation	–	100.00%	–	100.00%
MEZC	Power distribution	100.00%	–	100.00%	–
BEZC	Power distribution	100.00%	–	100.00%	–
Hedcor Bukidnon*	Power generation	–	100.00%	–	100.00%
Hedcor Sibulan	Power generation	–	100.00%	–	100.00%
SEZC	Power distribution	65.00%	34.98%	65.00%	34.98%
CLPC	Power distribution	99.94%	–	99.94%	–
TVI	Power generation	–	100.00%	–	100.00%
Therma South	Power generation	–	100.00%	–	100.00%
AESI	Retail electricity supplier	100.00%	–	100.00%	–
CPPC	Power generation	60.00%	–	60.00%	–
AI	Retail electricity supplier	100.00%	–	100.00%	–
PEI*	Retail electricity supplier	60.00%	–	60.00%	–

*No commercial operations as of December 31, 2014

7. Investments in and Advances to Associates

The details of the Company's investments in and advances to associates follow:

	2014	2013
<i>Investments in Associates</i>		
STEAG State Power, Inc. (STEAG)	₱4,400,611,465	₱4,400,611,465
Hijos de F. Escaño, Inc. (Hijos)	858,069,586	858,069,586
AEV Aviation, Inc. (AAI)	291,400,000	291,400,000
Pampanga Energy Ventures, Inc. (PEVI)	209,465,106	209,465,106

(Forward)



	2014	2013
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	₱180,863,801	₱180,863,801
East Asia Utilities Corporation (EAUC)	180,616,369	180,616,369
Western Mindanao Power Corporation (WMPC)	79,099,377	79,099,377
Southern Philippines Power Corporation (SPPC)	45,776,067	72,471,059
	6,245,901,771	6,272,596,763
Less allowance for impairment loss	735,223,045	735,223,045
	5,510,678,726	5,537,373,718
<i>Advances to Associate</i>	560,856	560,856
	₱5,511,239,582	₱5,537,934,574

Investment in SPPC and WMPC

In July 2014, SPPC redeemed 96,775 Redeemable Preferred Shares (RPS) at a redemption price of ₱31.6 million or ₱326.52 per share attributable to the Company. The book value of the redeemed shares amounted to ₱26.7 million. As a result, the Company recognized a “Gain on redemption of preferred shares” amounting to ₱4.9 million.

In July 2013, SPPC redeemed 96,775 RPS at a redemption price of ₱31.5 million or ₱325.36 per share attributable to the Company. The book value of the redeemed shares amounted to ₱26.7 million. As a result, the Company recognized a “Gain on redemption of preferred shares” amounting to ₱4.8 million.

In February 2012, SPPC redeemed 193,550 RPS at a redemption price of ₱61.6 million or 318.47 per share, while WMPC redeemed in full the 632,241 RPS at a redemption price of ₱203.4 million or ₱321.77 per share, both attributable to the Company. The book value of the redeemed shares amounted to ₱53.4 million for SPPC and ₱184.6 million for WMPC. Gain on redemption of preferred shares from SPPC and WMPC amounted to ₱8.2 million and ₱18.8 million, respectively.

Investment in EAUC

In March 2012, EAUC redeemed 36,600 Series A RPS attributable to the Company at ₱2,920 per share. The book value of the redeemed shares amounted to ₱36.9 million and was redeemed at a total redemption price amounting to ₱53.4 million. As a result, the Company recognized “Gain on redemption of preferred shares” amounting to ₱16.5 million.

The percentage of the Company’s ownership in associates is as follows:

Name of Company	Nature of Business	Percentage of Ownership	
		2014	2013
EAUC	Power generation	50.00%	50.00%
AAI	Service	49.25%	49.25%
Hijos	Holding company	46.73%	46.73%
PEVI*	Holding company	42.84%	42.84%
STEAG	Power generation	34.00%	34.00%
SFELAPCO*	Power distribution	20.29%	20.29%
SPPC	Power generation	20.00%	20.00%
WMPC	Power generation	20.00%	20.00%

*PEVI has direct ownership in SFELAPCO of 54.83% while the Company’s direct ownership in SFELAPCO is 20.29% resulting to the Company’s effective ownership in SFELAPCO of 43.78%.



Impairment of investment in Hijos

In 2013, it was determined that the carrying value of the investment in Hijos exceeded its recoverable amount. As a result, an impairment loss amounting to ₱735.2 million was recognized.

8. Property and Equipment

December 31, 2014

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱42,442,084	₱17,365,915	₱648,331	₱19,634,179	₱80,090,509
Additions	18,580,094	4,977,092	103,678	8,535,358	32,196,222
Disposals	(7,426,607)	(544,776)	–	–	(7,971,383)
Balances at end of year	53,595,571	21,798,231	752,009	28,169,537	104,315,348
Accumulated Depreciation:					
Balances at beginning of year	24,650,982	6,062,404	484,577	1,199,862	32,397,825
Depreciation and amortization	7,638,647	5,332,805	160,384	2,527,776	15,659,612
Disposals	(5,280,799)	(357,028)	–	–	(5,637,827)
Balances at end of year	27,008,830	11,038,181	644,961	3,727,638	42,419,610
Net Book Values	₱26,586,741	₱10,760,050	₱107,048	₱24,441,899	₱61,895,738

December 31, 2013

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	₱35,389,659	₱17,285,988	₱1,071,515	₱17,967,425	₱71,714,587
Additions	8,356,354	11,629,128	48,213	15,857,226	35,890,921
Disposals	(1,303,929)	(11,549,200)	(471,397)	(14,190,472)	(27,514,998)
Balances at end of year	42,442,084	17,365,916	648,331	19,634,179	80,090,510
Accumulated Depreciation:					
Balances at beginning of year	22,363,782	11,898,975	508,507	4,342,447	39,113,711
Depreciation and amortization	6,988,883	4,073,748	305,472	1,855,689	13,223,792
Disposals	(4,701,683)	(9,910,319)	(329,402)	(4,998,274)	(19,939,678)
Balances at end of year	24,650,982	6,062,404	484,577	1,199,862	32,397,825
Net Book Values	₱17,791,102	₱11,303,512	₱163,754	₱18,434,317	₱47,692,685

The Company recognized a loss on disposal on property and equipment amounting to ₱0.1 million and ₱6.8 million in 2014 and 2013, respectively.

There are no restrictions on the title and no property and equipment are pledged as security for liabilities.

Fully depreciated property and equipment with cost amounting to ₱29.3 million and ₱11.3 million as of December 31, 2014 and 2013, respectively, are still carried in the books of the Company and still in use.



9. Investment Property

Investment property pertains to land not used in operations.

The fair value of the investment property was determined based on the valuation performed by independent professional qualified appraisers.

The fair value of the land was estimated by using the Sales Comparison Approach which considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered. The fair value is categorized under level 3 (techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data) fair value hierarchy.

For the Sales Comparison Approach, a significant increase (decrease) in price per square meter, in isolation, would result to a higher (lower) fair value.

Based on the appraisal conducted by an independent firm of appraisers, the fair value of the Company's investment property amounted to ₱25.0 million.

The highest and best use of these parcels of land has been determined to be for commercial utilization.

10. Computer Software License

	2014	2013
Cost:		
Balances at beginning of year	₱7,601,356	₱6,936,799
Addition	1,930,825	664,557
Balances at end of year	9,532,181	7,601,356
Accumulated amortization:		
Balances at beginning of year	2,257,591	1,535,102
Amortization for the year	854,335	722,489
Balances at end of year	3,111,926	2,257,591
Net book values	₱6,420,255	₱5,343,765

11. Project Development Costs

	2014	2013
Balances at beginning of year	₱121,987,027	₱10,339,838
Additions (see Note 18)	143,820,332	111,647,189
Write-off	(19,212,698)	-
Balances at end of year	₱246,594,661	₱121,987,027



Project development costs consist of rights, titles and interests for various power plant development projects.

12. Trade and Other Payables

	2014	2013
Trade payables (see Note 18)	₱52,263,620	₱28,408,680
Accrued taxes and fees	52,252,769	35,093,363
Output value-added tax (VAT)	45,072,618	3,977,242
Accrued interest (see Note 13)	28,287,924	–
Nontrade payables	4,206,596	3,221,932
Others	438,277	211,155
	₱182,521,804	₱70,912,372

Trade payables are noninterest-bearing and generally on 30-day term.

Accrued taxes and fees represent taxes withheld on compensation, benefits and other fees.

13. Long-term Debts

	Interest Rate	2014	2013
Financial and non-financial institutions - unsecured			
2014 7-year retail bonds	5.21%	₱6,600,000,000	₱–
2014 12-year retail bonds	6.10%	3,400,000,000	–
		10,000,000,000	
Less deferred financing costs		98,066,185	–
		₱9,901,933,815	₱–

Retail Bonds - ₱10.00 billion

In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at a fixed rate equivalent to 5.21% p.a. and a ₱3.40 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Prior to the maturity date, the Company may redeem in whole the outstanding bonds on the following relevant dates. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, and the product of the principal amount and the early redemption price in accordance with the following schedule:

Bonds	Early Redemption Option Dates	Early Redemption Price
7-year	5.25 years from Issue Date	101.00%
	6.00 years from Issue Date	100.50%
12-year	7.00 years from Issue Date	102.00%
	8.00 years from Issue Date	101.75%
	9.00 years from Issue Date	101.50%
	10.00 years from Issue Date	101.00%
	11.00 years from Issue Date	100.25%



Unless previously redeemed, the principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value.

Under the bond trust agreement, the Company shall not permit its DE ratio to exceed 3:1 calculated based on the year-end debt and consolidated equity. The Company is in compliance with the debt covenant as of December 31, 2014.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱98.1 million as of December 31, 2014.

Total interest expense recognized in 2014 amounted to ₱169.9 million.

Fixed Rate Notes - ₱5.00 billion

On April 14, 2011, the Company availed a total of ₱5.00 billion from the Notes Facility Agreement (NFA) it signed on April 12, 2011, with First Metro Investment Corporation (FMIC) as Issue Manager, the proceeds of which were used by the Company for general corporate purposes and refinancing.

The notes were fully prepaid in January 2013. Consequently, the ₱30.5 million unamortized deferred financing cost as of the end of 2012 was charged to the 2013 parent company statement of income.

Total interest expense recognized amounted to ₱94.7 million and ₱308.6 million, in 2013 and 2012, respectively.

Fixed Rate Notes - ₱3.89 billion

On December 18, 2008, the Company availed a total of ₱3.89 billion from the NFA it signed on December 15, 2008 with BDO Capital & Investment Corporation, BPI Capital Corporation, FMIC, and ING Bank N.V. -Manila Branch as Joint Lead Managers, the proceeds of which were used to finance its subsidiaries and associates' acquisitions as well as for other general corporate purposes.

In December 2011, the ₱3.33 billion 5-year notes were early redeemed in full incurring ₱66.6 million of prepayment penalty charges recognized under "Interest and other financing charges."

In December 2012, the ₱543.2 million 7-year notes were early redeemed in full incurring ₱10.9 million of prepayment penalty charges recognized under "Interest and other financing charges."

Total interest expense recognized amounted to ₱48.9 million in 2012.

Retail Bonds - ₱3.00 billion

On April 30, 2009, AP registered and issued unsecured bonds worth ₱3.0 billion with three-year and five-year terms. As provided for in the Underwriting Agreement, the three-year and five-year bonds bear interest at 8.00% and 8.70% per annum, respectively. The proceeds were used to partially finance APRI's acquisition of Tiwi-Makban Geothermal Power Plants.



In April 2012, the maturing ₱705.6 million 3-year fixed-rate bonds were fully paid while the ₱2.29 billion 5-year fixed-rate bonds were pre-terminated in full incurring ₱45.9 million of prepayment penalty recognized under "Interest and other financing charges."

Total interest expense recognized amounted to ₱83.9 million in 2012.

14. Equity

a. Capital Stock

Authorized - ₱1 par value

Preferred shares - 1,000,000,000 shares

Common shares - 16,000,000,000 shares

Issued

Common shares - 7,358,604,307 shares

₱7,358,604,307

There are no preferred shares issued and outstanding as of December 31, 2014 and 2013.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the parent company balance sheet.

As of December 31, 2014, 2013 and 2012, the Company has 606, 588 and 548 shareholders, respectively.



b. Retained Earnings

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings as follows:

Projects	Full Commercial Operations by	Appropriation
68 MW Manolo Fortich Hydro	End of 4 th quarter 2016	₱2,600,000,000
300 MW Davao Coal	End of 1 st half 2015	9,500,000,000
14 MW Sabangan Hydro	End of 1 st half 2015	2,800,000,000
400 MW Coal Fired Pagbilao Unit 3	End of 4 th quarter 2017	6,000,000,000
Total		₱20,900,000,000

On March 1, 2012, the BOD approved the declaration of cash dividends of ₱1.32 a share (₱9.71 billion) to all stockholders of record as of March 16, 2012. These dividends were paid on April 3, 2012.

On November 28, 2012, the BOD approved the declaration of special cash dividends of ₱0.22 a share (₱1.62 billion) to all stockholders of record as of December 13, 2012. These dividends were paid on January 11, 2013.

On March 5, 2013, the BOD approved the declaration of cash dividends of ₱1.66 a share (₱12.21 billion) to all stockholders of record as of March 19, 2013. These dividends were paid on April 15, 2013.

On March 11, 2014, the BOD approved the declaration of regular cash dividends of ₱1.26 a share (₱9.27 billion) and special cash dividends of ₱0.40 a share (₱2.94 billion) to all stockholders of record as of March 25, 2014. The cash dividends were paid on April 22, 2014.

To comply with the requirements of Section 43 of the Corporation Code, on March 10, 2015, the BOD approved the declaration of regular cash dividends of ₱1.14 a share (₱8.39 billion) and special cash dividends of ₱0.52 a share (₱3.83 billion) to all stockholders of record as of March 24, 2015. The cash dividends are payable on April 20, 2015.

15. Personnel Costs

	2014	2013	2012
Salaries and wages	₱290,005,226	₱235,179,569	₱207,103,673
Employee benefits	136,314,286	124,333,419	14,905,946
Retirement benefit costs (see Note 16)	34,009,039	19,392,567	16,684,674
	₱460,328,551	₱378,905,555	₱238,694,293



16. Retirement Costs

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. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of the Company, is responsible for the investment of the Fund assets. Taking into account the Plans' objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and other comprehensive income and the funded status and amounts recognized in the parent company balance sheets for the Plan.

Net benefit expense (recognized as part of personnel costs):

	2014	2013	2012
Retirement expense to be recognized in the statement of income:			
Current service cost	₱38,656,300	₱24,616,600	₱19,260,100
Net interest income	(4,647,261)	(5,224,033)	(2,575,426)
	₱34,009,039	₱19,392,567	₱16,684,674

Remeasurement effect to be recognized in other comprehensive income:

	2014	2013	2012
Actuarial gains (loss) due to:			
Experience adjustments	₱218,836,363	(₱53,608,504)	(₱145,572,372)
Changes in financial assumptions	(5,560,478)	(30,786,553)	103,402,900
Actual return excluding amount included in net interest cost	553,960	(1,065,907)	341,613
	₱213,829,845	(₱85,460,964)	(₱41,827,859)



Pension liability (asset)

	2014	2013
Present value of obligation	₱199,198,478	₱369,579,453
Fair value of plan assets	(263,870,253)	(254,430,422)
	(₱64,671,775)	₱115,149,031

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
At January 1	₱369,579,453	₱361,542,700
Net benefit expense:		
Current service cost	38,656,300	24,616,600
Interest cost	8,201,475	7,196,470
	46,857,775	31,813,070
Employee transfers	42,092,412	8,060,556
Benefits paid	(46,055,277)	(116,231,930)
Remeasurements in other comprehensive income:		
Actuarial loss (gain) due to:		
Experience adjustments	(218,836,363)	53,608,504
Changes in financial assumptions	5,560,478	30,786,553
	(213,275,885)	84,395,057
At December 31	₱199,198,478	₱369,579,453

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

	2014	2013
At January 1	₱254,430,422	₱214,887,594
Interest income included in net interest cost	12,848,736	12,420,503
Actual return excluding amount included in net interest cost	553,960	(1,065,907)
Actual contributions	-	136,359,606
Transfers	42,092,412	8,060,556
Benefits paid	(46,055,277)	(116,231,930)
At December 31	₱263,870,253	₱254,430,422

Changes in pension asset (liability) recognized in the parent company balance sheets are as follows:

	2014	2013
At January 1	(₱115,149,031)	(₱146,655,106)
Retirement expense for the year	(34,009,039)	(19,392,567)
Actuarial gain (loss) recognized for the year	213,829,845	(85,460,964)
Contribution to retirement fund	-	136,359,606
At December 31	₱64,671,775	(₱115,149,031)



The fair value of plan assets by each class at the end of the reporting period are as follows:

	2014	2013
Cash and fixed income investments	₱162,056,881	₱231,476,624
Equity instruments - financial institution	101,813,372	22,953,798
Fair value of plan assets	₱263,870,253	₱254,430,422

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk. The Board of Trustees reviews the performance of the plan on a regular basis. It assesses whether the retirement plan will achieve investment returns which, together with the contribution, will be sufficient to pay retirement benefits as they fall due. The Company also reviews the solvency position on an annual basis and estimates, through the actuary, the expected contribution to the retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2014, 2013 and 2012 in determining net pension liability for the Company's Plan is shown below:

	2014	2013	2012
Discount rate	4.78%	5.05%	5.78%
Salary increase rate	7.00%	7.00%	6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2014, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱18,665,616)
	(100)	23,214,210
Future salary increases	100	21,766,617
	(100)	(17,978,328)

The Company's defined benefit pension plan is funded by the Company.

The Company will not contribute to the defined benefit plans in 2015. The average duration of the defined benefit obligation as of December 31, 2014 and 2013 is 24.10 years and 19.48 years, respectively.



17. Income Tax

Details of provision for income tax are as follows:

	2014	2013	2012
Current:			
Corporate income tax	₱9,830,618	₱4,761,606	₱13,713,098
Final	45,215,158	14,683,091	35,758,784
	55,045,776	19,444,697	49,471,882
Deferred	4,553,419	20,456,661	101,528,077
	₱59,599,195	₱39,901,358	₱150,999,959

The provision for corporate income tax represents MCIT in 2014, 2013 and 2012.

The reconciliation of income tax computed at the statutory tax rate to the provision for income tax reported in the parent company statements of income is as follows:

	2014	2013	2012
At statutory rate of 30%	₱4,566,439,527	₱4,170,788,992	₱7,233,784,215
Final tax on interest income	45,215,158	14,683,091	35,758,784
Nondeductible interest expense	24,064,308	7,937,944	18,937,034
Unrecognized deferred income tax asset on:			
NOLCO	–	44,212,135	224,376,800
MCIT	9,830,618	4,761,605	8,996,866
Project expenses	6,073,222	1,895,762	6,462,923
Expired NOLCO	–	–	93,873,663
Expired MCIT	–	–	14,535,971
Provision for impairment loss on investment in associate	–	220,566,914	–
Applied NOLCO	(21,261,685)	–	–
Interest income already subjected to final tax at a lower rate	(72,922,146)	(24,054,376)	(57,384,951)
Dividend income	(4,497,839,807)	(4,400,890,709)	(7,428,341,346)
	₱59,599,195	₱39,901,358	₱150,999,959

The components of the Company's net deferred income tax asset (liability) are as follows:

	2014	2013
Deferred income tax assets:		
Remeasurement effects in other comprehensive income	₱37,126,499	₱101,275,452
Unamortized past service cost	39,136,372	45,164,904
	76,262,871	146,440,356

(Forward)



	2014	2013
Deferred income tax liabilities:		
Pension liability	(P56,528,040)	(P66,730,752)
Unrealized foreign exchange gain	(16,126,561)	(11,898,962)
Unrealized valuation gain	(4,500,000)	-
	(77,154,601)	(78,629,714)
	(P891,730)	P67,810,642

As of December 31, 2014, the Company has MCIT that can be claimed as deduction from regular income tax liability as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2011	2012-2014	P7,083,083	P-	P7,083,083	P-
2012	2013-2015	8,996,865	-	-	8,996,865
2013	2014-2016	4,761,605	-	-	4,761,605
2014	2015-2017	9,830,618	-	-	9,830,618
		P30,672,171	P-	P7,083,083	P23,589,088

As of December 31, 2014, the Company has NOLCO which can be claimed as deduction against the regular taxable income as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2011	2012-2014	P1,173,698,366	P70,872,283	P1,102,826,083	P-
2012	2013-2015	747,922,666	-	-	747,922,666
2013	2014-2016	146,850,394	-	-	146,850,394
		P2,068,471,426	P70,872,283	P1,102,826,083	P894,773,060

The Company did not recognize deferred income tax assets on MCIT amounting to P23.6 million and P20.8 million as of December 31, 2014 and 2013, respectively, provision for impairment of investment amounting to P735.2 million as of December 31, 2013 and NOLCO amounting to P894.8 million and P2.07 billion as of December 31, 2014 and 2013, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

18. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.



The Company, in its normal course of business, has transactions with its related parties, which principally consist of the following:

- a. The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, CPPC, and Hedcor, Inc. (HI), for which it is entitled to management fees.
- b. The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.
- c. The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries and associates in connection with certain loans and credit accommodations. As at December 31, 2014, the Company provided SBLCs for CEDC, LHC, SNAP B, SNAP M and STEAG in the amount of ₱1.98 billion; guarantee on the bank loans of DLPC, HI and SEZC in the amount of ₱178.8 million. As at December 31, 2013, the Company provided SBLCs for CEDC, LHC, SNAP B, SNAP M and STEAG in the amount of ₱2.10 billion; guarantee on the bank loans of DLPC, HI and SEZC in the amount of ₱188.1 million.
- d. ACO and AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.
- e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱51.3 million and ₱23.2 million in 2014 and 2013, respectively. Outstanding balances amounted ₱1.02 billion and ₱3.50 billion as of December 31, 2014, and 2013, respectively.
- f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.
- g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The above transactions are expected to be settled in cash.



The Company's balance sheets and statements of income include the following accounts resulting from the above transactions with related parties:

Technical, Management and other Service Fees

	Revenue			Receivable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Subsidiaries</i>							
DLPC	₱279,800,391	₱228,595,342	₱248,137,359	₱71,016,898	₱38,375,839	30-day, non-interest bearing	Unsecured, no impairment
VECO	208,388,954	76,867,225	111,718,760	36,356,727	–	30-day, non-interest bearing	Unsecured, no impairment
Therma Luzon, Inc. (TLI)	76,370,000	29,800,000	24,176,509	43,948,800	–	30-day, non-interest bearing	Unsecured, no impairment
AP Renewables, Inc. (APRI)	48,200,000	29,800,000	24,176,509	27,807,848	–	30-day, non-interest bearing	Unsecured, no impairment
HI	29,134,269	24,825,393	43,783,519	28,260,241	23,889,053	30-day, non-interest bearing	Unsecured, no impairment
CLPC	19,455,130	15,477,504	16,003,564	9,069,522	2,419,871	30-day, non-interest bearing	Unsecured, no impairment
CPPC	18,000,000	18,000,000	18,000,000	–	–	30-day, non-interest bearing	Unsecured, no impairment
Therma Marine, Inc. (Therma Marine)	14,120,000	6,622,000	5,372,558	–	3,324,200	30-day, non-interest bearing	Unsecured, no impairment
Therma Mobile	3,580,000	–	–	2,049,600	–	30-day, non-interest bearing	Unsecured, no impairment
SEZC	2,928,946	–	5,500,000	2,930,670	–	30-day, non-interest bearing	Unsecured, no impairment
BEZC	1,096,853	–	–	1,096,853	–	30-day, non-interest bearing	Unsecured, no impairment
MEZC	1,096,316	–	–	1,096,316	–	30-day, non-interest bearing	Unsecured, no impairment
CIPI	909,544	862,682	900,594	365,275	89,310	30-day, non-interest bearing	Unsecured, no impairment
LUC	890,929	–	–	892,757	–	30-day, non-interest bearing	Unsecured, no impairment
<i>Associates</i>							
SFELAPCO	88,358,280	51,447,501	44,471,000	57,006,074	27,790,033	30-day, non-interest bearing	Unsecured, no impairment
CEDC	66,935,000	106,140,002	85,600,000	14,996,800	51,819,200	30-day, non-interest bearing	Unsecured, no impairment
Redondo Peninsula Energy, Inc. (RPEI)	23,611,501	–	–	–	–	30-day, non-interest bearing	Unsecured, no impairment
EAUC	6,600,000	4,650,000	4,700,000	–	3,952,500	30-day, non-interest bearing	Unsecured, no impairment
	₱889,476,113	₱593,087,649	₱632,540,372	₱296,894,381	₱151,660,006		



Transportation and Travel

	Expense			Payable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Parent</i>							
AEV	₱266,954	₱477,531	₱146,704	₱1,760	₱-	30-day, non-interest bearing	Unsecured
<i>Associate</i>							
AAI	25,536,601	32,809,634	27,091,444	2,218,844	1,361,577	30-day, non-interest bearing	Unsecured
<i>Other Related Parties</i>							
CPDC	-	500,324	2,313,992	-	-	30-day, non-interest bearing	Unsecured
	₱25,803,555	₱33,787,489	₱29,552,140	₱2,220,604	₱1,361,577		

Rent

	Expense			Payable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Parent</i>							
AEV (Parent)	₱1,405,401	₱344,878	₱2,001,620	₱1,503,779	₱-	30-day, non-interest bearing	Unsecured
<i>Other Related Parties</i>							
CPDC	155,880	2,980,873	6,590,925	222,389	166,792	30-day, non-interest bearing	Unsecured
	₱1,561,281	₱3,325,751	₱8,592,545	₱1,726,168	₱166,792		

Professional, Legal and Service Fees

	Service Fees			Payable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Parents</i>							
ACO (Ultimate Parent)	₱9,842,143	₱8,130,000	₱10,750,000	₱1,437,679	₱-	30-day, non-interest bearing	Unsecured
AEV (Parent)	91,694,104	61,267,307	58,082,228	25,471,189	10,982,754	30-day, non-interest bearing	Unsecured
	₱101,536,247	₱69,397,307	₱68,832,228	₱26,908,868	₱10,982,754		

The Company obtained interest free temporary advances from TLI amounting to ₱12.3 billion in 2013. This shall be payable either one time or on a staggered basis, or to be applied against future dividend payments or such other receivables as may be due or demandable from TLI. Outstanding advances amounting to ₱12.3 billion is presented as “Amount owed to related party” in the Company’s balance sheets.



The Company purchased rights, titles and interest in various hydropower plant projects of HI amounting to ₱100.1 million as of December 31, 2013. Purchased rights, titles and interest is presented as “Project development costs” in the Company’s balance sheets.

The Company’s retirement benefit fund (“Fund”) is in the form of a trust being maintained and managed by AEV under the supervision of the Board of Trustees (BOT) of the plan.

The Fund has a carrying amount of ₱263.9 million and ₱254.4 million as of December 31, 2014 and 2013, respectively (see Note 16).

Fixed-income investments represent money market placements with maturities ranging from less than a year up to five years. AFS investments mainly comprise quoted equity securities which are carried at their fair values.

For the years 2014 and 2013, the Company's retirement fund has no transactions with the Company and/or its subsidiaries.

Total compensation and benefits of key management personnel of the Company are as follows:

	2014	2013	2012
Short-term benefits	₱192,769,508	₱266,178,730	₱176,662,124
Post employment benefits (see Note 15)	16,170,492	47,441,270	13,787,876
	₱208,940,000	₱313,620,000	₱190,450,000

The 2014 Amended By-Laws of the Company as approved by the Securities and Exchange Commission on May 16, 2014 defined corporate officers as follows: the Chairman of the Board, the vice Chairman, the Chief Executive Officer, Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary, and such other officers as may be appointed by the Board of Directors. For the year 2014, the Company’s Summary of Executive Compensation covers the compensation of officers which are lesser in number than the previous year.

19. Financial Risk Management Objectives and Policies

The Company’s principal financial instruments comprise of cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise financing for the Company’s operations. The Company has various other financial instruments such as trade and other receivables, trade and other payables, amounts owed to related parties and long-term debts, which arise directly from its operations.

The Company also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 20).



Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Company.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Company's approach to risk issues in order to make relevant decisions.

Treasury Service Group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Company's risks in line with the policies and limits.

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter party default on its cash and cash equivalents, and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on cash in banks and cash equivalents and trade and other receivables pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash in banks and cash equivalents, the risk is mitigated by the short-term and/or liquid nature of its short-term deposits mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The Company has no significant concentration risk to a counterparty or group of counterparties. The credit quality per class of financial assets as of December 31 is as follows (amounts in thousands):

2014

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents	₱20,069,070	₱-	₱-	₱-	₱20,069,070
Trade and other receivables	132,593	-	-	326,247	458,840
Total	₱20,201,663	₱-	₱-	₱326,247	₱20,527,910

2013

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents	₱13,803,035	₱-	₱-	₱-	₱13,803,035
Trade and other receivables	34,829	-	-	173,469	208,298
Derivative asset	257	-	-	-	257
Total	₱13,838,121	₱-	₱-	₱173,469	₱14,011,590



High grade pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

The aging analyses of financial assets as of December 31 are as follows (amounts in thousands):

2014

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	₱20,069,070	₱20,069,070	₱-	₱-	₱-
Trade and other receivables	458,840	132,593	286,372	18,789	21,086
Total	₱20,527,910	₱20,201,663	₱286,372	₱18,789	₱21,086

2013

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	₱13,803,035	₱13,803,035	₱-	₱-	₱-
Trade and other receivables	208,297	34,828	153,743	4	19,722
Derivative asset	257	257	-	-	-
Total	₱14,011,589	₱13,838,120	₱153,743	₱4	₱19,722

Liquidity risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company 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.

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regard to its long-term financing requirements, the Company's policy is that not more than 25% of long-term borrowings should mature in any 12-month period.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31 (amounts in thousands):

2014

	Total Carrying Value	Total	Contractual undiscounted payments			
			On Demand	Less than 1 year	1 to 5 years	More than 5 years
Amounts owed to related parties	₱12,300,000	₱12,300,000	₱12,300,000	₱-	₱-	₱-
Long-term debts	9,901,934	14,793,712	-	558,582	2,795,970	11,439,160
Trade and other payables*	56,470	56,470	-	56,470	-	-
Total	₱22,258,404	₱27,150,182	₱12,300,000	₱615,052	₱2,795,970	₱11,439,160

*excluding statutory liabilities



2013

	Total Carrying Value	Contractual undiscounted payments				
		Total	On Demand	1 year	1 to 5 years	More than 5 years
Amounts owed to related parties	₱12,300,000	₱12,300,000	₱12,300,000	₱-	₱-	₱-
Trade and other payables*	31,631	31,631	-	31,631	-	-
Total	₱12,331,631	₱12,331,631	₱12,300,000	₱31,631	₱-	₱-

*excluding statutory liabilities

Market Risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Company's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Foreign exchange risk

The foreign exchange risk of the Company pertains to its foreign currency-denominated cash and cash equivalents.

	2014		2013	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	\$55,831,442	₱2,496,782,097	\$33,686,881	₱1,495,529,103

The exchange rate for December 31, 2014 and 2013 is ₱44.72 and ₱44.40 per US\$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange gain of ₱14.1 million and ₱15.4 million in 2014 and 2013, respectively.

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2014 and 2013 (amounts in thousands).

	Increase (decrease) in US dollar	Effect on income before tax
2014		
US dollar-denominated accounts	5%	₱124,839
US dollar-denominated accounts	(5%)	(124,839)
2013		
US dollar-denominated accounts	5%	74,776
US dollar-denominated accounts	(5%)	(74,776)

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.

Capital management

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



The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Its policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.

	2014	2013
Long-term debts	₱9,901,933,815	₱-
Cash and cash equivalents	(20,161,489,096)	(13,803,388,532)
Net debt (a)	(10,259,555,281)	(13,803,388,532)
Equity	68,981,852,083	65,885,494,776
Equity and net debt (b)	₱58,722,296,802	₱52,082,106,244
Gearing ratio (a/b)	(17.47%)	(26.50%)

Part of the Company's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Company is in compliance with the financial covenants attached to its long-term debts as of December 31, 2014 and 2013 (see Note 13).

No changes were made in the objectives, policies or processes during the years ended December 31, 2014 and 2013.

20. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price (amounts in thousands).



Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments whose fair values are different from their carrying amounts.

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Long-term debts	₱9,901,934	₱9,823,292	₱-	₱-

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

Cash and cash equivalents, trade and other receivables, trade and other payables and amounts owed to related parties

The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and amounts owed to related parties approximate fair values due to the relatively short-term maturity of these financial instruments.

Long-term debts

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discounts rates used range from 5.21% to 6.10% in 2014.

Derivative asset

The fair value is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity.

Derivative Financial Instruments

The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

As of December 31, 2014, the Company has no outstanding foreign currency forward exchange contracts.

As of December 31, 2013, the Company has outstanding non-deliverable sell US Dollar buy EURO short-term forward exchange contracts with a counterparty bank with an aggregate notional amount of €1.6 million and remaining maturities of 1 month. As at December 31, 2013, the forward rates related to the forward contracts amounted to €1.3800 to €1.3824 per US\$1. The Company recognized derivative asset relating to these contracts amounting to ₱0.3 million.

The movements in fair value changes of all derivative instruments for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
At beginning of year	₱257,355	₱-
Net changes in fair value of derivatives not designated as accounting hedges	130,960	(13,439,782)
Fair value of settled instruments	(388,315)	13,697,137
At end of year	₱-	₱257,355



The Company recognized a loss from the net fair value changes relating to the forward contracts amounting to ₱0.13 million in 2014, and a gain amounting to ₱13.4 million and ₱8.2 million in 2013 and 2012, respectively, under the “Foreign exchange losses - net” in the Company’s statements of income.

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2013, the Company’s derivative instruments, which are classified under Level 2, are measured at fair value. For the years ended December 31, 2014 and 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements were made.

21. Electric Power Industry Reform Act (EPIRA) of 2001

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides 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 of a company, including its contracts with independent power producers and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market; 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 date of the EPIRA. It provides cross ownership restrictions between transmission and generation 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.



22. Renewable Energy Act of 2008

On January 30, 2009, RA No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the Department of Energy (DOE), in consultation with the Board of Investments (BOI), shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company expects that the Act may have significant effect on the operating results of some of its subsidiaries and associates that are RE developers. Impact on the operating results is expected to arise from the effective reduction in taxes.

23. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

The Company also reported and/or paid the following types of taxes for the year:

Value-added tax (VAT)

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

a. Net Receipts and Output VAT declared in the Company's VAT returns in 2014

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sales of services	₱686,573,808	₱82,388,857



The Company's sales that are subject to VAT are reported under the following accounts:

Service Income - Management fees
Service Income - Professional fees
Service Income - Technical fees
Miscellaneous Income - Operating
Miscellaneous Income - Non-operating

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the parent company statement of income.

b. Input VAT for 2014

Balance at January 1	₱20,146,513
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	1,042,159
Capital goods subject to amortization	2,363,659
Capital goods not subject to amortization	312,463
Services lodged under the other accounts	33,831,400
	<hr/>
	57,696,194
Claims for tax credit/refund and other adjustments	(47,493,742)
	<hr/>
Balance at December 31	₱10,202,452

Other taxes and licenses

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2014:

Documentary stamp taxes (DST)*	₱50,000,000
License and permit fees	6,554,503
Fringe benefit taxes	2,890,176
Real estate taxes	133,084
Others	742,495
	<hr/>
	₱60,320,258

**DST for the avilment of long-term debt, charged to deferred financing costs*

Withholding taxes

Withholding taxes on compensation and benefits	₱27,220,522
Final withholding taxes	20,348,197
Expanded withholding taxes	4,684,049
	<hr/>
	₱52,252,768






SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila


STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

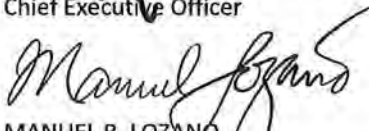
The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014 and 2013, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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


ENRIQUE M. ABOITIZ, JR.
Chairman of the Board


ERRAMON I. ABOITIZ
Chief Executive Officer


MANUEL R. LOZANO
FVP/Chief Finance Officer/Corporate Information Officer

Signed this 10th day of March 2015



Republic of the Philippines)
City of Taguig) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC No.	Date/Place Issued
ENRIQUE M. ABOITIZ, JR.	EB9219812 19663064	September 24, 2013, Manila January 28, 2015, Cebu City
ERRAMON I. ABOITIZ	EB7151577 19659114	January 14, 2013; Cebu City January 26, 2015, Cebu City
MANUEL R. LOZANO	EC1926563 02456853	August 18, 2014, NCR South February 4, 2015, Makati City

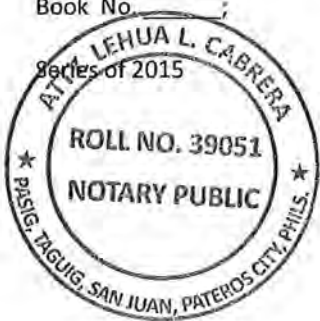
who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal this MAR 10 2015.

Doc. No. 380;

Page No. 77;

Book No. I;



Lehua L. Cabrera
LEHUA L. CABRERA
 Notary Public for Taguig City
 Notarial Commission No. 252
 Valid December 31, 2015
 NAC Tower, 32nd Street, Bonifacio Global City, Taguig City
 PTR No. A-174472, Taguig City, January 7, 2015
 IBP No. 196-196-196-196-196-196
 NAC Tower, 32nd Street, Bonifacio Global City, Taguig City



SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Power Corporation

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

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

SYCIP GORRES VELAYO & CO.

A handwritten signature in black ink that reads "Leovina Mae V. Chu". The signature is written in a cursive, flowing style.

Leovina Mae V. Chu

Partner

CPA Certificate No. 99910

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

March 15, 2012, valid until March 31, 2015

Tax Identification No. 209-316-911

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

January 5, 2015, valid until January 4, 2018

PTR No. 4751341, January 5, 2015, Makati City

March 10, 2015



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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

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

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

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



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November 15, 2012, valid until November 16, 2015

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 10, 2015. 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 Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

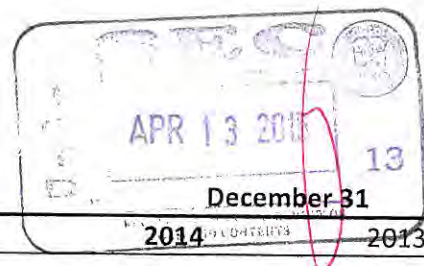
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January 5, 2015, valid until January 4, 2018
PTR No. 4751341, January 5, 2015, Makati City

March 10, 2015

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)



ASSETS

Current Assets

Cash and cash equivalents (Note 5)	P40,231,875	P31,383,499
Trade and other receivables (Note 6)	12,332,513	13,037,999
Derivative assets (Note 35)	53,500	30,900
Inventories (Note 7)	2,168,832	2,841,387
Other current assets (Note 8)	1,939,369	1,736,966
Total Current Assets	56,726,089	49,030,751

Noncurrent Assets

Investments in and advances to associates (Note 10)	24,816,278	25,330,356
Property, plant and equipment (Note 13)	119,646,640	106,754,751
Intangible asset - service concession rights (Note 14)	3,400,354	3,663,275
Investment properties	28,300	13,300
Derivative assets - noncurrent portion (Note 35)	59,044	-
Available-for-sale (AFS) investments - net of impairment of P5,254	3,620	6,654
Goodwill (Note 12)	1,094,687	806,090
Net pension assets (Note 28)	79,000	10,468
Deferred income tax assets (Note 30)	243,756	519,689
Other noncurrent assets (Note 15)	10,663,253	7,803,483
Total Noncurrent Assets	160,034,932	144,908,066

TOTAL ASSETS	P216,761,021	P193,938,817
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LIABILITIES AND EQUITY

Current Liabilities

Bank loans (Note 17)	P103,000	P-
Current portions of:		
Long-term debts (Note 18)	1,388,991	832,877
Finance lease obligation (Note 36)	1,971,739	780,905
Long-term obligation on power distribution system (Note 14)	40,000	40,000
Trade and other payables (Note 16)	12,778,001	15,075,584
Derivative liabilities (Note 35)	-	23
Income tax payable (Note 30)	604,158	348,145
Total Current Liabilities	P16,885,889	17,077,534

(Forward)



	December 31	
	2014	2013
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 18)	₱41,394,084	₱22,455,062
Finance lease obligation (Note 36)	52,489,282	54,421,858
Long-term obligation on power distribution system (Note 14)	216,015	223,865
Customers' deposits (Note 19)	5,686,490	5,138,155
Asset retirement obligation (Note 20)	2,353,250	2,008,669
Net pension liabilities (Note 28)	405,854	452,807
Deferred income tax liabilities (Note 30)	1,249,717	910,110
Total Noncurrent Liabilities	103,794,692	85,610,526
Total Liabilities	120,680,581	102,688,060
Equity Attributable to Equity Holders of the Parent		
Capital stock (Note 21a)	7,358,604	7,358,604
Additional paid-in capital (Note 21a)	12,588,894	12,588,894
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	119,087	88,187
Cumulative translation adjustments (Note 35)	38,091	(24,511)
Share in cumulative translation adjustments of associates (Note 10)	(375,489)	(388,557)
Actuarial losses on defined benefit plans (Note 28)	(519,854)	(694,746)
Share in actuarial losses on defined benefit plans of associates (Note 10)	(48,589)	(31,815)
Acquisition of non-controlling interests	(259,147)	(259,147)
Excess of cost over net assets of investments (Note 9)	(421,260)	-
Retained earnings (Note 21b)		
Appropriated	20,900,000	-
Unappropriated (Notes 10 and 21c)	52,581,755	68,991,854
	91,962,092	87,628,763
Non-controlling Interests	4,118,348	3,621,994
Total Equity (Note 21c)	96,080,440	91,250,757
TOTAL LIABILITIES AND EQUITY	₱216,761,021	₱193,938,817

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****(Amounts in Thousands, Except Earnings Per Share Amounts)**

	Years Ended December 31		
	2014	2013	2012
OPERATING REVENUES			
Sale of power (Notes 22 and 32):			
Generation	₱36,877,070	₱39,436,267	₱46,031,304
Distribution	39,975,961	28,067,236	15,849,591
Retail electricity supply	9,702,714	4,372,597	–
Technical, management and other fees (Note 33)	203,641	179,067	272,270
	86,759,386	72,055,167	62,153,165
OPERATING EXPENSES			
Cost of purchased power (Note 23)	29,834,149	24,715,315	13,184,697
Cost of generated power (Note 24)	21,037,658	17,642,484	18,721,284
General and administrative (Note 25)	5,458,309	4,073,550	3,424,696
Depreciation and amortization (Notes 13, 14 and 15)	4,643,300	3,875,299	3,516,396
Operations and maintenance (Note 26)	3,435,211	2,271,230	2,850,331
	64,408,627	52,577,878	41,697,404
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 33)	471,915	413,795	928,913
Interest expense and other financing costs (Notes 17, 18 and 34)	(5,994,097)	(5,343,728)	(7,001,842)
	(5,522,182)	(4,929,933)	(6,072,929)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates (Note 10)	4,009,488	6,474,370	9,939,763
Other income (expenses) - net (Note 29)	591,925	(1,083,764)	1,983,606
	4,601,413	5,390,606	11,923,369
INCOME BEFORE INCOME TAX	21,429,990	19,937,962	26,306,201
PROVISION FOR INCOME TAX (Note 30)	3,424,089	526,625	1,390,567
NET INCOME	₱18,005,901	₱19,411,337	₱24,915,634
ATTRIBUTABLE TO:			
Equity holders of the parent	₱16,705,184	₱18,576,845	₱24,425,708
Non-controlling interests	1,300,717	834,492	489,926
	₱18,005,901	₱19,411,337	₱24,915,634
EARNINGS PER COMMON SHARE (Note 31)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	₱2.27	₱2.52	₱3.32

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	₱16,705,184	₱18,576,845	₱24,425,708
Non-controlling interests	1,300,717	834,492	489,926
	18,005,901	19,411,337	₱24,915,634
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</i>			
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	30,900	2,891	11,344
Movement in cumulative translation adjustments	62,602	145,334	(112,177)
Share in movement in cumulative translation adjustment of associates (Note 10)	13,068	459,032	(300,836)
Net other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods	106,570	607,257	(401,669)
<i>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (losses) on defined benefit plans, net of tax (Note 28)	170,244	(363,091)	(27,706)
Share in actuarial gains (losses) on defined benefit plans of associates, net of tax (Note 10)	(16,774)	59,659	(6,514)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	153,470	(303,432)	(34,220)
Total other comprehensive income (loss) for the year, net of tax	260,040	303,825	(435,889)
TOTAL COMPREHENSIVE INCOME	₱18,265,941	₱19,715,162	₱24,479,745
ATTRIBUTABLE TO:			
Equity holders of the parent	₱16,969,872	₱18,951,123	₱23,990,873
Non-controlling interests	1,296,069	764,039	488,872
	₱18,265,941	₱19,715,162	₱24,479,745

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Thousands, Except Dividends Per Share Amounts)

	Attributable to Equity Holders of the Parent											
	Capital Stock (Note 21a)	Additional Paid-in Capital	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Movement in Cumulative Translation Adjustments (Note 10)	Share in Cumulative Translation Adjustments of Associates (Note 10)	Actuarial Losses on Defined Benefit Plans (Note 28)	Actuarial Losses on Defined Benefit Plans of Associates (Note 10)	Share in Actuarial Losses on Defined Benefit Plans of Associates (Note 10)	Excess of cost over net assets of investment (Note 9)	Retained Earnings Appropriated (Note 21b)	Non-controlling Interests (Note 21b)	Total
Balances at January 1, 2014	₱7,358,604	₱12,588,894	₱85,187	₱24,511	₱388,557	₱694,746	₱31,815	₱-	₱259,147	₱68,991,854	₱3,621,994	₱91,250,757
Net income for the year	-	-	-	-	-	-	-	-	-	16,705,184	1,300,717	18,005,901
<i>Other comprehensive income</i>												
Share in net unrealized valuation gains on AFS investments of an associate	-	-	30,900	-	-	-	-	-	-	-	-	30,900
Movement in cumulative translation adjustments	-	-	-	62,602	-	-	-	-	-	-	-	62,602
Share in movement in cumulative translation adjustment of associates	-	-	-	-	13,068	-	-	-	-	-	-	13,068
Actuarial gains on defined benefit plans, net of tax	-	-	-	-	-	174,892	-	-	-	-	(4,648)	170,244
Share in actuarial losses on defined benefit plans of associates	-	-	-	-	-	-	(16,774)	-	-	-	-	(16,774)
Total comprehensive income (loss) for the year	-	-	30,900	62,602	13,068	174,892	(16,774)	-	-	16,705,184	1,296,069	18,265,941
Acquisition of a subsidiary (Note 8)	-	-	-	-	-	-	-	(421,260)	-	-	-	(421,260)
Appropriation during the year	-	-	-	-	-	-	-	-	20,900,000	(20,900,000)	-	-
Cash dividends - ₱1.66 a share (Note 21b)	-	-	-	-	-	-	-	-	-	(12,215,283)	-	(12,215,283)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,141,673)	(1,141,673)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	341,958	341,958
Balances at December 31, 2014	₱7,358,604	₱12,588,894	₱119,087	₱38,091	₱375,489	₱519,854	₱48,589	₱421,260	₱259,147	₱52,581,755	₱4,118,348	₱96,080,440

Attributable to Equity Holders of the Parent

	Capital Stock (Note 21a)	Additional Paid-in Capital	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Movement in Cumulative Translation Adjustments (Note 10)	Share in Cumulative Translation Adjustments of Associates (Note 10)	Actuarial Losses on Defined Benefit Plans (Note 28)	Share in Actuarial Losses on Defined Benefit Plans of Associates (Note 10)	Acquisition of Non-controlling Interests	Unappropriated Retained Earnings (Note 21b)	Non-controlling Interests	Total
Balances at January 1, 2013	₱7,358,604	₱12,588,894	₱85,296	(₱169,845)	(₱847,589)	(₱402,108)	(₱91,474)	(₱259,147)	₱62,630,292	₱1,566,040	₱82,458,963
Net income for the year	-	-	-	-	-	-	-	-	18,576,845	834,492	19,411,337
Other comprehensive income	-	-	2,891	-	-	-	-	-	-	-	2,891
Share in net unrealized valuation gains on AFS investments of an associate	-	-	2,891	-	-	-	-	-	-	-	2,891
Movement in cumulative translation adjustments	-	-	-	145,334	-	-	-	-	-	-	145,334
Share in movement in cumulative translation adjustment of associates	-	-	-	-	459,032	-	-	-	-	-	459,032
Actuarial losses on defined benefit plans, net of tax	-	-	-	-	-	(292,638)	-	-	-	(70,453)	(363,091)
Share in actuarial losses on defined benefit plans of associates	-	-	-	-	-	-	59,659	-	-	-	59,659
Total comprehensive income (loss)	-	-	2,891	145,334	459,032	(292,638)	59,659	-	18,576,845	764,039	19,715,162
Cash dividends - ₱1.66 a share (Note 21b)	-	-	-	-	-	-	-	-	(12,215,283)	-	(12,215,283)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(612,229)	(612,229)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	1,904,144	1,904,144
Balances at December 31, 2013	₱7,358,604	₱12,588,894	₱88,187	(₱24,511)	(₱388,557)	(₱694,746)	(₱31,815)	(₱259,147)	₱68,991,854	₱3,621,994	₱91,250,757

Attributable to Equity Holders of the Parent

	Capital Stock (Note 21a)	Additional Paid-in Capital	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Movement in Cumulative Translation Adjustments (Note 10)	Share in Cumulative Translation Adjustments of Associates (Note 10)	Actuarial Losses on Defined Benefit Plans (Note 28)	Share in Actuarial Losses on Defined Benefit Plans of Associates (Note 10)	Acquisition of Non-controlling Interests	Unappropriated Retained Earnings (Note 21b)	Non-controlling Interests	Total
Balances at January 1, 2012	₱7,358,604	₱12,588,894	₱73,952	(₱57,668)	(₱546,753)	(₱375,456)	(₱84,960)	(₱259,147)	₱49,536,835	₱1,623,183	₱69,857,484
Net income for the year, as restated	-	-	-	-	-	-	-	-	24,425,708	489,926	24,915,634
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Share in net unrealized valuation gains on AFS investments of an associate	-	-	11,344	-	-	-	-	-	-	-	11,344
Movement in cumulative translation adjustments	-	-	-	(112,177)	-	-	-	-	-	-	(112,177)
Share in movement in cumulative translation adjustment of associates	-	-	-	-	(300,836)	-	-	-	-	-	(300,836)
Actuarial losses on defined benefit plans, net of tax	-	-	-	-	-	(26,652)	-	-	-	(1,054)	(27,706)
Share in actuarial losses on defined benefit plans of associates	-	-	-	-	-	-	(6,514)	-	-	-	(6,514)
Total comprehensive income (loss) for the year	-	-	11,344	(112,177)	(300,836)	(26,652)	(6,514)	-	24,425,708	488,872	24,479,745
Cash dividends - ₱1.54 a share (Note 21b)	-	-	-	-	-	-	-	-	(11,332,251)	-	(11,332,251)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(431,308)	(431,308)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(114,707)	(114,707)
Balances at December 31, 2012	₱7,358,604	₱12,588,894	₱85,296	(₱169,845)	(₱847,589)	(₱402,108)	(₱91,474)	(₱259,147)	₱62,630,292	₱1,566,040	₱82,458,963

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱21,429,990	₱19,937,962	₱26,306,201
Adjustments for:			
Interest expense and other financing costs (Note 34)	5,994,097	5,343,728	7,001,842
Depreciation and amortization (Notes 13 and 14)	4,630,515	3,861,129	3,509,974
Provision for impairment losses on receivables (Note 25)	563,278	14,055	819,024
Net unrealized foreign exchange losses (gains)	188,018	2,078,138	(1,658,983)
Write-off of project costs and other assets	26,000	85,051	–
Amortization of software (Note 15)	12,787	14,170	6,422
Impairment loss on AFS and investment in an associate (Note 10)	2,834	568,125	–
Unrealized fair valuation losses (gains) on derivatives	897	(395)	(1,826)
Impairment loss on goodwill (Note 12)	–	368,904	–
Gain on remeasurement in step acquisition (Note 9)	–	(964,600)	–
Gain on redemption of shares of associates (Note 29)	(4,904)	(4,792)	(27,087)
Loss (gain) on sale of property, plant and equipment	(13,195)	(1,323)	3,616
Fair valuation gain on investment property	(15,000)	–	–
Interest income (Notes 5 and 33)	(471,915)	(413,795)	(928,913)
Share in net earnings of associates (Note 10)	(4,009,488)	(6,474,370)	(9,939,763)
Operating income before working capital changes	28,333,914	24,411,987	25,090,507
Decrease (increase) in:			
Trade and other receivables	(362,479)	(2,181,712)	(1,379,002)
Inventories	477,019	(311,931)	203,211
Other current assets	(202,403)	(680,254)	68,361
Increase (decrease) in:			
Trade and other payables	(2,834,127)	3,700,017	1,769,105
Customers' deposits	548,335	898,974	240,166
Net cash generated from operations	25,960,259	25,837,081	25,992,348
Income and final taxes paid	(2,482,280)	(1,383,938)	(1,084,609)
Service fees paid (Note 14)	(40,000)	(40,000)	(40,000)
Net cash flows from operating activities	23,437,979	24,413,143	24,867,739
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	4,618,730	4,241,994	13,977,589
Interest received	390,638	364,490	953,637
Proceeds from redemption of shares of associates (Note 10)	31,599	323,717	573,236
Net collection of advances to associates (Note 10)	101,835	25,000	151,947
Proceeds from sale of property, plant and equipment	17,406	10,222	412
Additions to:			
Property, plant and equipment (Note 13)	(15,003,744)	(15,618,273)	(9,856,235)
Intangible assets - service concession rights (Note 14)	(36,286)	(41,694)	(48,920)
(Forward)			

	Years Ended December 31		
	2014	2013	2012
Increase in other noncurrent assets	(P1,915,107)	(P968,892)	(P1,233,808)
Additional investments in associates (Note 10)	(2,500)	(56,250)	(1,648)
Additional AFS investments	-	(200)	-
Acquisitions through business combinations, net of cash acquired (Note 9)	(1,182,366)	217,862	-
Proceeds from sale of AFS	200	-	-
Net cash flows from (used in) investing activities	(12,979,595)	(11,502,024)	4,516,210
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 18)	20,634,755	20,797,150	1,540,280
Cash dividends paid (Note 21b)	(12,215,283)	(13,834,176)	(9,713,358)
Payments of:			
Long-term debt (Note 18)	(854,220)	(8,965,920)	(9,156,183)
Finance lease obligation	(6,970,625)	(6,722,939)	(2,476,221)
Net availments (payments) of bank loans (Note 17)	103,000	(2,332,000)	(337,600)
Changes in non-controlling interests	(949,131)	(612,229)	(625,748)
Interest paid	(1,367,428)	(513,562)	(1,255,161)
Payments to a preferred shareholder of a subsidiary	-	(62,140)	(31,070)
Net cash flows used in financing activities	(1,618,932)	(12,245,816)	(22,055,061)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,839,452	665,303	7,328,888
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	8,924	39,703	(41,956)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	31,383,499	30,678,493	23,391,561
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P40,231,875	P31,383,499	P30,678,493

See accompanying Notes to Consolidated Financial Statements.

ABOITIZ POWER CORPORATION AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts in Thousands, Except Earnings per Share and Exchange Rate Data and When Otherwise Indicated)

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of December 31, 2014, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.88% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

On March 21, 2013, the Board of Directors (BOD) approved the change in registered office address of the Company from Aboitiz Corporate Center, Gov. Manuel A. Cuenco Avenue, Kasambagan, Cebu City to 32nd street, Bonifacio Global City, Taguig City, Metro Manila. The change of principal office address is reflected under Article III of the Amended Articles of Incorporation.

The consolidated financial statements of the Group were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 10, 2015.

2. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and joint operation that are subject to joint control (collectively referred to as “the Group”)(see Note 11). The following are the subsidiaries as of December 31 of each year:

	Nature of Business	Percentage of Ownership					
		2014		2013		2012	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor, Inc. (HI)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Sibulan, Inc. (HSI)	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Tudaya, Inc. (Hedcor Tudaya)	Power generation	–	100.00	–	100.00	–	100.00
Luzon Hydro Corporation (LHC)	Power generation	–	100.00	–	100.00	–	100.00
AP Solar Tiwi, Inc.*	Power generation	–	100.00	–	–	–	–
Bakun Power Line Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Cleanergy, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Cordillera Hydro Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Benguet, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Bukidnon, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Cordillera, Inc.*	Power generation	–	100.00	–	–	–	–
Hedcor Ifugao, Inc.*	Power generation	–	100.00	–	100.00	–	–
Hedcor Kalinga, Inc.*	Power generation	–	100.00	–	100.00	–	–
Hedcor Itogon Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Manolo Fortich, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Mt. Province, Inc. (formerly Hedcor Bokod, Inc.)*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Sabangan, Inc. (Hedcor Sabangan)*	Power generation	–	100.00	–	100.00	–	100.00
Hedcor Tamugan, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Kookaburra Equity Ventures, Inc.	Holding company	–	100.00	–	100.00	–	100.00
Mt. Apo Geopower, Inc.*	Power generation	–	100.00	–	–	–	–

(Forward)

	Nature of Business	Percentage of Ownership					
		2014		2013		2012	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Negron Cuadrado Geopower, Inc. (NCGI)*	Power generation	–	100.00	–	100.00	–	–
Tagoloan Hydro Corporation*	Power generation	–	100.00	–	100.00	–	100.00
Hydro Electric Development Corporation	Power generation	–	99.97	–	99.97	–	99.97
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	–	100.00	–	100.00	–
Therma Luzon, Inc. (TLI)	Power generation	–	100.00	–	100.00	–	100.00
Therma Marine, Inc. (Therma Marine)	Power generation	–	100.00	–	100.00	–	100.00
Therma Mobile, Inc. (Therma Mobile)	Power generation	–	100.00	–	100.00	–	100.00
Therma South, Inc. (TSI)*	Power generation	–	100.00	–	100.00	–	100.00
Therma Power-Visayas, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Central Visayas, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Southern Mindanao, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Subic, Inc.*	Power generation	–	100.00	–	100.00	–	100.00
Therma Visayas, Inc. (TVI)*	Power generation	–	80.00	–	100.00	–	100.00
Abovant Holdings, Inc.	Holding company	–	60.00	–	60.00	–	60.00
Pagbilao Energy Corporation (PEC)*	Power generation	–	–	–	100.00	–	100.00
Aboitiz Energy Solutions, Inc. (AESI)	Retail electricity supplier	100.00	–	100.00	–	100.00	–
Adventenergy, Inc.	Retail electricity supplier	100.00	–	100.00	–	100.00	–
Balamban Enerzone Corporation (BEZ)	Power distribution	100.00	–	100.00	–	100.00	–
Lima Enerzone Corporation (LEZ, formerly Lima Utilities Corporation) (see Note 9)	Power distribution	100.00	–	–	–	–	–
Mactan Enerzone Corporation (MEZ)	Power distribution	100.00	–	100.00	–	100.00	–
Cotabato Light and Power Company (CLP)	Power distribution	99.94	–	99.94	–	99.94	–
Cotabato Ice Plant, Inc.	Manufacturing	–	100.00	–	100.00	–	100.00
Davao Light & Power Company, Inc. (DLP)	Power distribution	99.93	–	99.93	–	99.93	–
Subic Enerzone Corporation (SEZ)	Power distribution	65.00	34.98	65.00	34.98	65.00	34.97
Cebu Private Power Corporation (CPPC)	Power generation	60.00	–	60.00	–	60.00	–
Prism Energy, Inc. (PEI)*	Retail electricity supplier	60.00	–	60.00	–	60.00	–
Visayan Electric Company (VECO) (see Note 9)	Power distribution	55.26	–	55.26	–	49.37	5.88

¹PEC, Hedcor Itogon, Inc. and Hedcor Manolo Fortich, Inc. were incorporated in 2011; Hedcor Ifugao, Inc., Hedcor Kalinga, Inc. and NCGI were incorporated in 2013

AP Solar Tiwi, Inc., Hedcor Cordillera, Inc., and Mt. Apo Geopower, Inc. were incorporated in 2014

²On April 25, 2012, SEC approved the change in corporate name of Vesper Industrial and Development Corporation to TVI

³On February 3, 2014, SEC approved the change in corporate name of Hedcor Bokod, Inc. to Hedcor Mt. Province, Inc.

⁴On July 15, 2014, SEC approved the change in corporate name of Lima Utilities Corporation to LEZ

⁵In 2014, TPI entered into a joint arrangement effectively reducing its ownership in PEC to 50%. As a result, PEC ceased to be classified as a subsidiary (see Note 11)

⁶In 2014, TPI entered into an agreement with Vivant Integrated Generation Corporation for the development, construction and operation of a coal-fired power generation facility, effectively reducing its ownership in TVI to 80%

* No commercial operations as of December 31, 2014.

All of the Company's subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines.

Material partly-owned subsidiary

Information on VECO, a subsidiary that has material non-controlling interests is provided below:

	2014	2013
Summarized balance sheet information		
Current assets	₱2,758,372	₱3,208,267
Noncurrent assets	9,875,843	8,965,370
Current liabilities	2,920,508	2,883,459
Noncurrent liabilities	4,774,151	4,702,362
Non-controlling interests	2,157,189	1,937,321
Summarized comprehensive income information		
Profit for the year	₱1,798,344	₱1,715,607
Total comprehensive income	1,807,749	1,682,278
Other financial information		
Profit attributable to non-controlling interests	₱774,716	₱409,273
Dividends paid to non-controlling interests	704,002	434,176
Summarized cash flow information		
Operating	₱2,291,060	₱2,302,545
Investing	(842,487)	(900,502)
Financing	(1,913,047)	(1,306,540)
Net increase/(decrease) in cash and cash equivalents	(464,474)	95,503

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment properties which are measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rate and as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period.

Statement of Compliance

The consolidated Group financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31 of each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

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

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

Transactions with Non-controlling Interests

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised standards and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which were applied starting January 1, 2014. These new and revised standards and interpretations did not have any significant impact on the Group's financial statements:

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief. These amendments have no impact on the Group since none of the entities within the Group qualifies to be an investment entity under PFRS 10.

- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*
 These amendments, which are to be applied retrospectively, clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments have no impact on the Group since none of the entities in the Group has any offsetting arrangements.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*
 These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria, and require retrospective application. These have no impact on the Group as it has not novated its derivatives during the current or prior periods.
- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*
 These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. The additional disclosure required under PAS 36 is disclosed in Notes 4 and 12.
- *Philippine Interpretation IFRIC 21, Levies (IFRIC 21)*
 IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no impact on the Group as it has applied the recognition principles under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, consistent with the requirements of IFRIC 21 in prior years.

Annual Improvements to PFRSs (2010-2012 cycle)

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

Annual Improvements to PFRSs (2011-2013 cycle)

In the 2011 - 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment has no impact on the Group as it is not a first time PFRS adopter.

New standards and interpretation issued and effective after December 31, 2014

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- *PFRS 9, Financial Instruments - Classification and Measurement (2010 version)*
 PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

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

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

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
 This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. This new interpretation is not relevant to the Group.

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

Effective January 1, 2015

- *PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)*
Amendment to PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. It clarifies that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment, which becomes effective starting January 1, 2015, is not applicable to the Group since the entities in the Group have defined benefit plans which do not require contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

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

- *PFRS 2, Share-based Payment - Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - a. A performance condition must contain a service condition
 - b. A performance target must be met while the counterparty is rendering service
 - c. A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - d. A performance condition may be a market or non-market condition
 - e. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

- *PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39 (or PFRS 9, *Financial Instruments*, if early adopted). The Group shall consider this amendment for future business combinations.

- *PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
 - a. An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.

- b. The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Depreciation and Amortization*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.
 - *PAS 24, Related Party Disclosures - Key Management Personnel Services*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

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

They include:

- *PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - a. Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - b. This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
 - *PFRS 13, Fair Value Measurement - Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39.
 - *PAS 40, Investment Property*
The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Effective January 1, 2016

- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a

revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments have no impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

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

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

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

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.

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

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

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

The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not

remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

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

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

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have any material impact on the Group. They include:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations - Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures - Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

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

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

- *PAS 19, Employee Benefits - Regional Market Issue Regarding Discount Rate*

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

- *PAS 34, Interim Financial Reporting - Disclosure of Information 'Elsewhere in the Interim Financial Report'*

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

Effective January 1, 2018

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

PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting. PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

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

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

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

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

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

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

Summary of Significant Accounting Policies

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. 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 acquirer measures the non-controlling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle the holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition-related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be 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 this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

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

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

Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, 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 groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Common control business combination

Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3, *Business Combination*. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.

Fair Value Measurement

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

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

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

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

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

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

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

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

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

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

The Group's valuation team (the Team) determines the policies and procedures for fair value measurement of its investment properties and property, plant and equipment. External valuers (the Valuers) are involved in the periodic valuation of these assets. The respective subsidiary's Team decides the selection of the external valuers after discussion with and approval by its Chief Financial Officer (CFO). Selection criteria include market knowledge, reputation, independence

and whether professional standards are maintained. The Team also determines, after discussions with the chosen Valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Team analyses the movements in the values of the investment properties and property, plant and equipment which are required to be re-measured or re-assessed in accordance with the subsidiary's accounting policies. The team, in coordination with the valuers, also compares each of the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

On the re-appraisal year, the Team and Valuers present the valuation results and the major assumptions used in the valuation to its CFO.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

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

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

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

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

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

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

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

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

Interest in Joint Operations

A joint arrangement is classified as a joint operation if the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. For interest in joint operations, the Group recognizes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

The accounting and measurement for each of these items is in accordance with the applicable PFRS.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of LHC, a subsidiary, and Western Mindanao Power Corporation (WMPC), Southern Philippines Power Corporation (SPPC) and STEAG State Power, Inc. (STEAG), associates, is the United States (US) Dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statement of income are

translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. Upon disposal of the associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Inventories

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined on weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group also classifies them into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

'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.

(a) Financial assets or financial liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes and financial assets and liabilities designated upon initial recognition as at FVPL. 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 and considered as hedging instruments in an effective hedge.

Financial assets and liabilities may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

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

Financial assets and liabilities at FVPL are recorded at the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payments has been established.

The Group's derivative assets and derivative liabilities are classified as financial assets and financial liabilities at FVPL, respectively (see Note 35).

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments 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 classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to 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. Loans and receivables are included in current assets if maturity is within twelve months from the balance sheet date. Otherwise, these are classified as noncurrent assets.

Included under this category are the Group's cash and cash equivalents and trade and other receivables (see Note 34).

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group does not have any HTM investment as of December 31, 2014 and 2013.

(d) AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the consolidated statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the consolidated statement of income when the right of payment has been established. These financial assets are classified as noncurrent assets unless the investment matures or management intends to dispose it within twelve months after the end of the reporting period.

The Group's AFS investments as of December 31, 2014 and 2013 include investments in unquoted shares of stock (see Note 34).

(e) Other financial liabilities

This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the 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.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category are the Group's trade and other payables, customers' deposits, bank loans, finance lease obligation, long-term obligation on power distribution system, and long-term debts (see Note 34).

Derivative financial instruments

Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted 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.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid or combined instrument is not recognized as at FVPL.

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.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

As of December 31, 2014 and 2013, the Group has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered into to economically hedge its foreign exchange risk. In 2014 and 2013, the Group applied hedge accounting treatment on its derivative transactions. The Group has not bifurcated any embedded derivatives as of December 31, 2014 and 2013.

Classification of financial instruments between liability and equity

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

- deliver cash or another financial asset to another entity; or
- 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.

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 income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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.

Redeemable Preferred Shares (RPS)

The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on redemption.

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 where:

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

Impairment of Financial Assets

The Group assesses at each balance sheet date whether 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 an 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 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 debtors or a group of debtors 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 a 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 individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

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 based on the original EIR of the financial asset. 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 period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance

account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

For AFS investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

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

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on rate of interest used to discount future cash flows for measuring impairment loss. Such accrual is recorded as part of "Interest income" in the consolidated statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

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

Property, Plant and Equipment

Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include asset retirement obligation relating to the decommissioning of power

plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Category	Estimated Useful Life (in years)
Buildings, warehouses and improvements	10-40
Power plant equipment	2-38
Transmission, distribution and substation equipment	
Power transformers	30
Poles and wires	20-40
Other components	12-30
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-20
Electrical equipment	5-20
Meters and laboratory equipment	12-25
Steam field assets	20-25
Tools and others	2-10

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts, and any resulting gain or loss is credited or charged to current operations. 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 on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income in the year the asset is derecognized.

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

When each 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.

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

Arrangement Containing a Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 the 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 specific asset; or
- (d) there is a substantial change to the asset.

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

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated balance sheet as finance lease obligation.

Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease

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

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement, are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.

An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

Software and licenses

Software and licenses are initially recognized at cost. Following initial recognition, the software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software and licenses is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the software development costs is available for use. The amortization period and the amortization method for the software development costs are reviewed at each financial year-end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Service concession right

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.

The intangible asset - service concession right is amortized using the straight-line method over the estimated economic useful life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 18 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Franchise

The Group's franchise pertains to VECO's franchise to distribute electricity within an area granted by the Philippine Legislature, acquired in the business combination in 2013. The franchise is initially recognized at its fair value at the date of acquisition. Following initial recognition, the franchise is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's franchise is amortized using the straight-line method over the estimated economic useful life, and assessed for impairment whenever there is an indication that the franchise may be impaired. The estimated economic useful life of the franchise is 40 years. The amortization period and amortization method for franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on franchise is recognized in the consolidated statement of income in the expense category consistent with its function.

Intangible assets - customer contracts

The Group's intangible assets - customer contracts pertain to contracts entered by subsidiaries relating to the provision of utility services to locators within an industrial zone.

These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The remaining contract life is 6 years. The amortization period and method are reviewed at least at each financial year end.

The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Project development costs

Project development costs include power plant projects in the development phase which meet the "identifiability" requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to "Property, plant and equipment" when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure

The Group's policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the consolidated balance sheet if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Investment Properties

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Prior to 2014, the Group carried the investment property at cost, as allowed by PAS 40. The change in accounting policy in 2014 resulted to fair value gain of ₱15.0 million and deferred tax liability of ₱4.5 million. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property 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 property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.

Impairment of Non-financial Assets

Other current assets, property, plant and equipment, intangible assets, investment property, and investment in and advances to associates

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are 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 balance sheet 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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Asset Retirement Obligation

The asset retirement obligation arose from the Group's obligation, under their contracts, to decommission, abandon and perform surface rehabilitation at the end of its useful lives of the steam field assets or upon abandonment of the plant. 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 asset retirement obligation. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income under "Interest expense" account. 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 steam field asset. The amount deducted from the cost of the steam field asset, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the steam field asset, the excess shall be recognized immediately in the consolidated statement of income.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against equity.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of power

Revenue from power distribution and retail energy supply contracts are recognized from retail and wholesale electricity sales upon supply of power to the customers. Revenue from power generation is recognized in the period actual capacity is generated and earned. In the case of ancillary services, revenue for scheduled capacity without energy dispatched is recognized as the scheduled time for the approved reserved capacity occurs. For scheduled capacity with energy dispatched, revenue is recognized as the actual dispatch is performed.

Dividend income

Dividend income is recognized when the Group's right to receive payment is established.

Technical, management and other fees

Technical, management and other fees are recognized when the related services are rendered.

Interest income

Interest is recognized as it accrues taking into account the effective interest method.

Other income

Revenue is recognized when non-utility operating income and surcharges are earned.

Costs and Expenses

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

Pension Benefits

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

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

Defined benefit costs comprise the following:

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

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

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

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

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

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.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxes

Current income tax

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

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred 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 profit will be available against which the temporary differences can be utilized.

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

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

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the consolidated statement of income.

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

Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT, which is presented as part of “Other current assets” and/or “Other noncurrent assets” in the consolidated balance sheets, is recognized as an asset and will be used to offset the Group’s current output VAT liabilities and/or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.

Output VAT

Output VAT represents VAT due on the sale, lease or exchange of taxable goods or properties or service by any person registered or required to register under Philippine taxation laws and regulations.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Contingencies

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

Events After the Reporting Period

Post year-end events that provide additional information about the Group’s position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share

Basic earnings per common share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

Operating Segments

For management purposes, the Group is organized into two major operating segments (power generation and power distribution) according to the nature of the services provided, with each segment representing a significant business segment. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 32.

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosures of contingent liabilities. However, uncertainty about these assumptions could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

Judgments

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

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiary and associates whose functional currency is the US Dollar. The Philippine Peso is the currency of the primary economic environment in which companies in the Group operates and it is the currency that mainly influences the sale of power and services and the costs of power and of providing the services. The functional currency of the Group's subsidiaries and associates is the Philippine Peso except for LHC, STEAG, SPPC and WMPC whose functional currency is the US Dollar.

Service concession arrangements - Companies in the Group as Operators

Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer (BOT) agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). SEZ, MEZ and LHC's service concession agreements were accounted for under the intangible asset model.

The Company's associate, STEAG, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset models. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Determining fair value of customers' deposits

In applying PAS 39 on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using alternative

valuation techniques since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits, which are therefore stated at cost, amounted to ₱5.69 billion and ₱5.14 billion as of December 31, 2014 and 2013, respectively (see Note 19).

Finance lease - Company in the Group as the lessee

In accounting for its Independent Power Producer (IPP) Administration Agreement with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPP Administration Agreement of TLI is an arrangement that contains a lease. The Group's management has made a judgment that TLI has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of power plant and its right to receive the transfer of the power plant at the end of the IPPA Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM (see Note 36).

The power plant is depreciated over its estimated useful life, as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2014 and 2013, the carrying value of the power plant amounted to ₱39.05 billion and ₱40.14 billion, respectively (see Notes 13 and 36). The carrying value of finance lease obligation amounted to ₱54.46 billion and ₱55.20 billion as of December 31, 2014 and 2013, respectively (see Note 36).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its subsidiaries

The Group has 83.33% interest in MORE and has 60% ownership interest in SN Aboitiz Power-Magat, Inc. and SN Aboitiz Power-Benguet, Inc. The Group does not consolidate MORE because of absence of control resulting from the shareholder's agreement, which, among others, stipulate the management and operation of MORE. Management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which includes financial and operating undertakings (see Note 10).

Determining a joint operation

The Group has 50% interest in PEC. The Group assessed that the joint arrangement is a joint operation as the financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

Classification of financial instruments

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition 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.

Estimation Uncertainty

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

Acquisition accounting

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date (see Note 9).

Estimating allowance for impairment losses on investments in and advances to associates

Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2014 and 2012 based on management's assessment. In 2013, it was determined that the carrying value of the investment in Hijos exceeded its recoverable amount. As a result, an impairment loss amounting to ₱568.1 million was recognized. The carrying amounts of the investments in and advances to associates amounted to ₱24.82 billion and ₱25.33 billion as of December 31, 2014 and 2013, respectively (see Note 10). The recoverable amount of Hijos was determined to be ₱122.8 million as of December 31, 2013.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2014 and 2013 amounted to ₱1.09 billion and ₱806.1 million, respectively (see Note 12). Goodwill impairment recognized in 2013 amounted to ₱368.9 million. No impairment of goodwill was recognized in 2014 and 2012.

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances

mentioned above. As of December 31, 2014 and 2013, the net book values of property, plant and equipment excluding land amounted to ₱118.3 billion and ₱105.68 billion, respectively (see Note 13)

Estimating residual value of property, plant and equipment

The residual value of the Group's property, plant and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property, plant and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ from previous estimates due to changes in the prevailing price of a property, plant and equipment of similar age and condition. As of December 31, 2014 and 2013, the aggregate net book values of property, plant and equipment excluding land amounted to ₱118.3 billion and ₱105.68 billion, respectively (see Note 13).

Estimating useful lives of intangible asset - franchise

The Group estimates the useful life of VECO distribution franchise based on the period over which the asset is estimated to be available for use over 40 years, which consist of the 15 years remaining contract period from the date of business combination and an expected probable renewal covering another 25 years. As of December 31, 2014 and 2013, the carrying value of the franchise amounted to ₱2.96 billion and ₱3.05 billion, respectively (see Note 15).

Estimating useful lives of intangible asset - customer contracts

The Group estimates the useful lives of intangible asset arising from customer contracts based on the period over which the asset is expected to be available for use which is six years. The Group has not included any renewal period on the basis of uncertainty, as of reporting date, of the probability of securing renewal contract at the end of the original contract term. As at December 31, 2014 and 2013, the net book values of intangible assets - customer contracts amounted to ₱54.3 million and nil, respectively (see Note 15). The intangible asset - customer contract in 2014 was acquired in a business combination.

Estimating useful lives of intangible asset - service concession rights

The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contracts at the end of the original contract term. As of December 31, 2014 and 2013, the aggregate net book values of intangible asset - service concession rights amounted to ₱3.40 billion and ₱3.66 billion, respectively (see Note 14).

Assessing impairment of nonfinancial assets

The Group assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property, plant and equipment, intangible asset - service concession rights, investment property, and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Determining the recoverable amount of non-financial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, intangible asset - service concession rights, investment property, and other current and noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income.

As of December 31, 2014 and 2013, the aggregate net book values of these assets amounted to ₱135.68 billion and ₱119.97 billion, respectively (see Notes 8, 13, 14 and 15). No impairment losses were recognized in 2014, 2013 and 2012.

Estimating allowance for impairment of trade and other receivables

The Group maintains allowance for impairment of trade and other receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively. The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2014 and 2013, allowance for impairment of trade and other receivables amounted to ₱1.56 billion and ₱1.09 billion, respectively. Trade and other receivables, net of allowance for impairment, amounted to ₱12.33 billion and ₱13.04 billion as of December 31, 2014 and 2013, respectively (see Note 6).

Estimating allowance for inventory obsolescence

The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2014 and 2013, allowance for inventory obsolescence amounted to ₱54.4 million. The carrying amount of the inventories amounted to ₱2.17 billion and ₱2.84 billion as of December 31, 2014 and 2013, respectively (see Note 7).

Estimating asset retirement obligation

Under the Geothermal Resource Service Contract (GRSC), which took effect in 2013, the Group has a legal obligation to decommission, abandon and perform surface rehabilitation on its steam field asset at the end of its useful life. The Group recognizes the present value of the obligation to decommission, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of this cost as part of the balance of the related steam field asset, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest of 4.4% and 6.0% in 2014 and 2013, respectively, to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Interest expense" in the consolidated statement of income.

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of income as it occurs.

While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Asset retirement obligation amounted to ₱2.35 billion and ₱2.01 billion as of December 31, 2014 and 2013, respectively, (see Note 20). On December 31 2014, the Group revised its discount rate to align with the prevailing market rates. In addition, the Group moved the forecast of the plug and abandonment of its steam wells to begin in 2015. This change in estimate did not result in any charge to income for the year ended December 31, 2014 and the asset and liability as of December 31, 2014 increased by ₱220 million. Future yearly depreciation will increase by ₱4.49 million and future accretion of interest will increase by 9.90%

Recognition of deferred income tax assets

The Group reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. The Group recognize deferred taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱243.8 million and ₱519.7 million as of December 31, 2014 and 2013, respectively. The Company did not recognize deferred income tax assets on minimum corporate income tax (MCIT) amounting to ₱23.6 million and ₱20.7 million as of December 31, 2014 and 2013, respectively, and NOLCO amounting to ₱895.3 million and ₱2.80 billion as of December 31, 2014 and 2013, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized (see Note 30).

Pension benefits

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

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 28.

Net benefit expense amounted to ₱212.4 million in 2014, ₱141.4 million in 2013 and ₱78.3 million in 2012. The net pension assets as of December 31, 2014 and 2013 amounted to ₱79.0 million and ₱10.5 million, respectively. Net pension liabilities as of December 31, 2014 and 2013 amounted to ₱405.9 million and ₱452.8 million, respectively.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Group's financial instruments are presented under Note 35.

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized in the Group's consolidated financial statements for the years ended December 31, 2014, 2013 and 2012.

5. Cash and Cash Equivalents

	2014	2013
Cash on hand and in banks	₱4,707,517	₱7,235,538
Short-term deposits	35,524,358	24,147,961
	₱40,231,875	₱31,383,499

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱471.9 million in 2014, ₱413.8 million in 2013 and ₱920.3 million in 2012.

6. Trade and Other Receivables

	2014	2013
Trade receivables - net of allowance for impairment losses of ₱1.56 billion in 2014 and ₱1.09 billion in 2013 (see Note 34)	₱9,530,244	₱10,660,692
Others		
Dividends receivable (see Note 10)	1,498,000	1,692,000
Accrued revenue	474,356	185,702
Non-trade	333,093	42,005
Interest receivable	135,735	33,732
Advances to contractors	42,967	120,257
Others	318,118	303,611
	₱12,332,513	₱13,037,999

Trade and other receivables are non-interest bearing and are generally on 10 - 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 33.

Advances to contractors refer to non-interest bearing advance payments made for project mobilization which are offset against progress billings to be made by the contractors.

The rollforward analysis of allowance for impairment losses of receivables, which pertains to trade receivables, is presented below:

	2014	2013
January 1	₱1,093,015	₱1,103,793
Provision (see Note 25)	563,278	14,055
Write-off	(97,279)	(24,833)
December 31	₱1,559,014	₱1,093,015

Allowance for impairment losses as of December 31, 2014 and 2013 pertains to receivables that are either individually or collectively determined to be impaired at balance sheet date.

These individually determined accounts relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

7. Inventories

	2014	2013
Fuel and lube oil	₱1,241,252	₱1,535,580
Transmission and distribution supplies	486,476	705,015
Plant spare parts and supplies	431,554	590,270
Other parts and supplies	9,550	10,522
	₱2,168,832	₱2,841,387

Inventories are carried at cost as of December 31, 2014 and 2013.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to ₱15.15 billion in 2014, ₱12.71 billion in 2013 and ₱13.89 billion in 2012 (see Note 24). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to ₱840.8 million in 2014, ₱190.3 million in 2013 and ₱227.5 million in 2012 (see Note 26).

8. Other Current Assets

	2014	2013
Input VAT	₱830,890	₱774,046
Prepaid tax	776,246	498,641
Prepaid expenses	221,739	100,091
Prepaid rent (see Note 36)	42,909	43,357
Others	67,585	320,831
	₱1,939,369	₱1,736,966

Prepaid expenses mainly include prepayments for insurance.

Others in 2013 include prepayments made to a regulatory agency amounting to ₱255.6 million.

9. Business Combination**Acquisition of Lima Enerzone Corporation**

In June 2014, AP completed the acquisition of 100% ownership of LEZ, from its parent, Lima Land, Inc., after the execution of the Share Purchase Agreement and transfer documents for cash consideration of ₱1.33 billion. Lima Land, Inc. is a wholly-owned subsidiary of AEV. LEZ is the licensed electricity distributor for Lima Technology Center (LTC) located in Lipa City and Malvar, Batangas. The primary reason for acquiring LEZ was to expand the Group's power distribution business.

The transaction was a business combination involving entities under common control of AEV, and control was not transitory. The acquisition was accounted for as a pooling of interests, applied on a prospective basis. The pooling of interests method affected only the values assigned to the assets and liabilities of LEZ, which is now under direct control of the Company. Accordingly, there was no restatement of financial information made in the consolidated financial statements

for the periods prior to the combination under common control, and the pre-acquisition income and expenses of LEZ in the current year were excluded.

The following assets and liabilities of LEZ were consolidated at their carrying values on acquisition date:

	Carrying value on acquisition
Assets:	
Cash and cash equivalents	₱147,331
Trade and other receivables	128,779
Materials and supplies	16,819
Other current assets	394
Property, plant, and equipment	357,146
Intangible asset	60,068
Goodwill	467,586
Other assets	8,999
	1,187,122
Liabilities:	
Trade and other payables	153,343
Income tax payable	1,849
Customers' deposit	109,334
Pension liability	9,189
Deferred income tax liabilities	4,970
	278,685
Total identifiable net assets at carrying value	₱908,437
Total consideration satisfied by cash	₱1,329,697
Share in net assets of LEZ	(908,437)
Excess of cost over net assets	₱421,260
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱147,331
Cash paid	(1,329,697)
Net cash outflow	(₱1,182,366)

The acquisition of LEZ resulted to an excess of acquisition cost over the book value amounting to ₱421.3 million, which was recognized by the Company under "Excess of cost over net assets of investments" in the equity section of the consolidated balance sheets.

In 2014, LEZ contributed ₱492.2 million to the consolidated revenue and ₱70.2 million to the net income of the Group. If the combination had taken place at the beginning of 2014, the Group's revenue would have been ₱87.3 billion and net income would have been ₱18.0 billion.

Step-acquisition of VECO

VECO is primarily engaged in the construction, operation and maintenance of a distribution system for the conveyance of electric power to the end-users in the cities of Cebu, Mandaue, Talisay and Naga and the municipalities of Minglanilla, San Fernando, Consolacion and Lilo-an, province of Cebu. It originally has a 50-year distribution franchise granted by the Philippine Legislature which was extended for two 25-year terms up to December 2028.

Prior to the step acquisition in 2013, AP directly owns 43.49% of VECO. It also owns 11.77% of VECO through 46.73% owned associate, Hijos de F. Escaño, Inc. (Hijos).

In 2013 and 2012, Hijos declared property dividends in the form of VECO shares to its shareholders. As a result of the property dividends, AP's direct ownership in VECO increased to 55.26%, allowing it to obtain control in VECO. The transaction was accounted for as a business combination achieved in stages.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The fair values of the identifiable assets and liabilities of VECO as at the date of acquisition were:

	Fair value recognized on acquisition
Assets:	
Cash and cash equivalents	₱217,862
Trade and other receivables	1,616,240
Materials and supplies	355,457
Property, plant, and equipment	5,783,425
Investment properties	3,300
Investment in preferred shares	18,489
Available-for-sale investments	2,710
Franchise	3,078,432
Pension assets	41,205
Other assets	89,001
	<u>11,206,121</u>
Liabilities:	
Trade and other payables	₱2,209,027
Income tax payable	144,135
Loans payable	1,137,800
Customers' deposit	1,834,820
Deferred income tax liabilities	1,072,186
	<u>6,397,968</u>
Total identifiable net assets at fair value	<u>4,808,153</u>
Fair value of property dividends received	565,258
Fair value of previously-held interest in VECO	2,091,258
Non-controlling interest in VECO	2,151,637
	<u>4,808,153</u>
Goodwill arising from acquisition	<u>₱-</u>
Cash flow on acquisition:	
Net cash acquired with the subsidiary	<u>₱217,862</u>

Remeasurement of the previously-held interest in VECO as at the date of acquisition follows:

Carrying value of the previously held interest	₱1,126,658
Fair value of previously-held interest	2,091,258
Gain on the remeasurement of previously held interest	₱964,600

The accounting for the business combination recognized in the December 31, 2013 consolidated financial statements was based on a provisional assessment of fair values while the Group sought an independent valuation for the property, plant and equipment of VECO and was still finalizing the valuation of intangible assets arising from the acquisition. The valuation had not been completed when the 2013 consolidated financial statements were approved for issue by management.

In 2014, the valuation was completed and the acquisition date fair value of property, plant and equipment was ₱5.78 billion, ₱475.8 million over the provisional value. A ₱13.0 million decrease in the fair value of franchise was also recognized. As a result, there was an increase in the deferred tax liability of ₱138.8 million and an increase in the non-controlling interest of ₱145.0 million. As a result of the completion of the valuation, provisional goodwill amounting to ₱179.0 million was derecognized.

The adjustments to the provisional amounts are to be taken up prospectively as the impact to the December 31, 2013 financial statements is not significant.

From the date of acquisition in May 2013, revenue of VECO amounting to ₱11.33 billion now forms part of the consolidated revenue of the Group. If the combination had taken place at the beginning of 2013, Group's revenue would have increased by ₱8.1 billion. There is no additional increase in net income because prior to the date of step-acquisition, share in the net income of VECO, an associate then, was already taken up in the books.

10. Investments in and Advances to Associates

	2014	2013
Acquisition cost:		
Balance at beginning of the year	₱18,142,549	₱18,700,407
Additions during the year	2,500	426,149
Step-acquisition to subsidiary (see Note 9)	-	(667,078)
Disposals during the year	(26,695)	(316,929)
Balance at end of year	18,118,354	18,142,549
Accumulated equity in net earnings:		
Balance at beginning of the year	7,668,703	7,137,367
Share in net earnings	4,009,488	6,474,370
Dividends received or receivable	(4,424,730)	(5,203,981)
Step-acquisition to subsidiary (see Note 9)	-	(739,053)
Balance at end of year	7,253,461	7,668,703

(Forward)

	2014	2013
Share in cumulative translation adjustments of associates	(₱375,489)	(₱388,557)
Share in actuarial losses of associates	(48,589)	(31,815)
Share in net unrealized valuation gains on AFS investment of an associate	119,087	88,187
	25,066,824	25,479,067
Less allowance for impairment loss (see Note 29)	568,125	568,125
Investments in associates at equity	24,498,699	24,910,942
Advances to associates	317,579	419,414
	₱24,816,278	₱25,330,356

As of December 31, 2014 and 2013, the undistributed earnings of the associates included in the Group's retained earnings amounting to ₱7.25 billion and ₱7.67 billion, respectively, are not available for distribution to the stockholders unless declared by the associates.

In July 2014, SPPC redeemed 96,775 redeemable preferred shares (RPS) at a redemption price of ₱31.6 million or ₱326.52 per share attributable to the Company. The book value of the redeemed shares amounted to ₱26.7 million. Gain on redemption amounted to ₱4.9 million.

In April 2014, CEDC returned shareholder's deposits to the Group amounting to ₱88.0 million.

In December 2013, Manila-Oslo Renewable Enterprise, Inc. (MORE) returned shareholder's deposits to the Group amounting to ₱292.2 million.

In July 2013, SPPC redeemed 96,775 RPS at a redemption price of ₱31.5 million or ₱325.36 per share attributable to the Company. The book value of the redeemed shares amounted to ₱26.7 million. Gain on redemption amounted to ₱4.8 million.

In February 2012, SPPC redeemed 193,550 RPS at a redemption price of ₱61.6 million and WMPC redeemed in full the 632,241 RPS at a redemption price of ₱203.4 million, both attributable to the Company. The book value of the redeemed shares amounted to ₱53.4 million for SPPC and ₱184.6 million for WMPC. Gain on redemption of preferred shares from SPPC and WMPC in 2012 amounted to ₱8.2 million and ₱18.8 million, respectively.

The Group's associates and the corresponding equity ownership are as follows:

	Nature of Business	Percentage of Ownership		
		2014	2013	2012
MORE	Holding company	83.33	83.33	83.33
VECO (see Note 9)	Power distribution	-	-	55.25
SN Aboitiz Power-Magat, Inc. (SNAP M)	Power generation	50.00	50.00	50.00
SN Aboitiz Power-Benguet, Inc. (SNAP B)	Power generation	50.00	50.00	50.00
EAUC	Power generation	50.00	50.00	50.00
AEV Aviation, Inc. (AAI)	Service	49.25	49.25	49.25
Hijos de F. Escaño, Inc. (Hijos)	Holding company	46.73	46.73	46.73
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	Power distribution	43.78	43.78	43.78
Pampanga Energy Ventures, Inc. (PEVI)	Holding company	42.84	42.84	42.84
STEAG	Power generation	34.00	34.00	34.00
CEDC	Power generation	26.40	26.40	26.40
Redondo Peninsula Energy, Inc. (RP Energy)*	Power generation	25.00	25.00	25.00
SPPC	Power generation	20.00	20.00	20.00
WMPC	Power generation	20.00	20.00	20.00

* No commercial operations as of December 31, 2014.

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's associates is in the Philippines.

All ownership percentages presented in the table above are direct ownership of the Group except for the following:

- SNAP M and SNAP B - MORE has direct ownership in SNAP M and SNAP B of 60% each while the Group's direct ownership in MORE is 83.33% resulting to the Group's effective ownership in SNAP M and SNAP B of 50%.
- VECO - Hijos has direct ownership in VECO of 12.58% in 2012 while the Group's direct ownership in VECO is 49.37% in 2012 resulting to the Group's effective ownership in VECO of 55.25% in 2012. The Company's 55.26% interest in 2013 represents direct ownership as a result of the property dividend received from Hijos (see Note 9).
- SFELAPCO - PEVI has direct ownership in SFELAPCO of 54.83% while the Group's direct ownership in SFELAPCO is 20.29% resulting to the Group's effective ownership in SFELAPCO of 43.78%.

The Group does not consolidate MORE because of absence of control resulting from the shareholders' agreement, which among others, stipulate the management and operation of MORE. Management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include financial and operating undertakings. In 2012, the Group also did not consolidate VECO as the other shareholders' group have the control over the financial and operating policies of VECO.

Impairment of investment in Hijos

In 2013, it was determined that the carrying value of the investment in Hijos exceeded its recoverable amount. As a result, an impairment loss amounting to ₱568.1 million was recognized.

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

	2014	2013
MORE	₱15,352,082	₱15,166,649
STEAG	4,252,177	5,126,476
CEDC	2,955,873	2,691,354
PEVI	390,352	349,424
RPEI	330,018	337,037
SFELAPCO	316,549	274,873
AAI	268,763	267,606
EAUC	224,757	218,422
WMPC	193,986	214,648
HIJOS	122,846	122,846
SPPC	91,296	141,607
	₱24,498,699	₱24,910,942

Following is the summarized financial information of significant associates:

	2014	2013	2012
MORE:			
Total current assets	₱1,024,283	₱1,214,975	₱656,022
Total noncurrent assets	18,420,732	18,197,774	15,986,830
Total current liabilities	(999,803)	(1,217,972)	(668,741)
Total noncurrent liabilities	(22,714)	(25,104)	(19,921)
Equity	₱18,422,498	₱18,169,673	₱15,954,190
Gross revenue	₱166,636	₱181,785	₱231,840
Operating profit	3,098,681	5,464,695	8,774,122
Net income	3,087,584	5,443,857	8,768,983
Other comprehensive income (loss)	49,978	232,247	(26,578)
Group's share in net income	₱2,552,580	₱4,538,352	₱7,333,592
VECO (see Note 9)*:			
Total current assets	N/A	N/A	₱2,566,548
Total noncurrent assets	N/A	N/A	8,331,329
Total current liabilities	N/A	N/A	(2,640,800)
Total noncurrent liabilities	N/A	N/A	(3,498,875)
Equity	N/A	N/A	₱4,758,202
Gross revenue	N/A	N/A	₱18,574,242
Operating profit	N/A	N/A	1,084,695
Net income	N/A	N/A	1,038,258
Other comprehensive income	N/A	N/A	963
Group's share in net income	N/A	N/A	₱507,348
WMPC:			
Total current assets	₱982,321	₱903,464	₱886,581
Total noncurrent assets	391,953	833,267	1,033,667
Total current liabilities	(357,644)	(363,058)	(339,842)
Total noncurrent liabilities	(46,701)	(300,434)	(476,329)
Equity	₱969,929	₱1,073,239	₱1,104,077
Gross revenue	₱1,441,632	₱1,385,924	₱1,361,590
Operating profit	758,494	785,228	711,725
Net income	617,781	620,297	620,517
Other comprehensive income (loss)	1,490	(524)	(4,707)
Group's share in net income	₱123,556	₱132,689	₱115,682
SPPC:			
Total current assets	₱432,433	₱522,843	₱576,221
Total noncurrent assets	305,304	586,581	703,493
Total current liabilities	(174,915)	(191,808)	(159,207)
Total noncurrent liabilities	(106,344)	(209,581)	(274,338)
Equity	₱456,478	₱708,035	₱846,169
Gross revenue	₱742,717	₱716,856	₱707,096
Operating profit	312,739	306,109	289,635
Net income	456,478	266,063	251,041
Other comprehensive income (loss)	300	(743)	(3,300)
Group's share in net income	₱50,256	₱53,933	₱47,861

(Forward)

SFELAPCO*:

Total current assets	₱1,317,304	₱1,048,331	₱1,080,377
Total noncurrent assets	2,145,415	1,833,986	1,949,103
Total current liabilities	(814,231)	(736,821)	(789,221)
Total noncurrent liabilities	(618,794)	(509,292)	(538,374)
Equity	₱2,029,694	₱1,636,204	₱1,701,885
Gross revenue	₱4,140,738	₱3,980,252	₱3,851,714
Operating profit	191,652	124,502	156,989
Net income	249,413	109,278	194,571
Other comprehensive income (loss)	310,688	(18,698)	–
Group's share in net income	₱61,845	₱46,812	₱45,018

STEAG:

Total current assets	₱3,005,932	₱3,171,335	₱3,907,785
Total noncurrent assets	9,921,145	10,073,983	9,581,969
Total current liabilities	(1,737,831)	(1,483,567)	(1,228,936)
Total noncurrent liabilities	(3,899,890)	(2,368,601)	(2,377,019)
Equity	₱7,289,356	₱9,393,150	₱9,883,799
Gross revenue	₱4,351,273	₱5,006,570	₱6,137,873
Operating profit	658,167	1,542,600	2,337,606
Net income	495,672	1,020,201	2,300,222
Other comprehensive income (loss)	3,095	(11,133)	24,339
Group's share in net income	₱9,520	₱185,553	₱618,732

EAUC:

Total current assets	₱499,712	₱662,744	₱612,618
Total noncurrent assets	376,152	165,780	202,563
Total current liabilities	(96,393)	(226,011)	(188,785)
Total noncurrent liabilities	(23,180)	(14,149)	(13,097)
Equity	₱756,291	₱588,364	₱613,299
Gross revenue	₱1,204,811	₱1,066,284	₱1,120,235
Operating profit	219,004	308,504	307,646
Net income	199,344	237,806	301,522
Other comprehensive income (loss)	8,334	(2,791)	4,518
Group's share in net income	₱123,598	₱176,953	₱199,191

CEDC:

Total current assets	₱5,602,608	₱5,810,072	₱5,713,555
Total noncurrent assets	16,023,078	16,697,916	17,400,323
Total current liabilities	(4,755,207)	(5,003,268)	(4,466,455)
Total noncurrent liabilities	(10,152,587)	(11,388,005)	(12,670,097)
Equity	₱6,717,892	₱6,116,715	₱5,977,326
Gross revenue	8,037,147	7,699,359	8,719,037
Operating profit	3,439,164	3,264,960	3,469,133
Net income	2,325,609	1,933,739	2,117,902
Other comprehensive income (loss)	(24,431)	5,648	(3,024)
Group's share in net income	₱1,023,268	₱850,845	₱931,877

(Forward)

Others**:			
Total current assets	₱398,334	₱474,479	₱713,922
Total noncurrent assets	2,368,857	2,358,093	2,070,267
Total current liabilities	(11,124)	(39,643)	(523,751)
Total noncurrent liabilities	(36,855)	(34,653)	(28,436)
<hr/>			
Gross revenue	127,791	143,224	108,448
Net loss	(24,080)	(180,855)	(168,466)

*Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment, depreciation and amortization amounted to ₱298.6 million in 2012 for VECO; and ₱116.4 million, ₱104.9 million and ₱109.1 million in 2014, 2013 and 2012, respectively, for SFELAPCO. Under the same method, net income amounted to ₱1.16 billion in 2012 for VECO; and ₱301.1 million, ₱237.0 million and ₱221.9 million in 2014, 2013 and 2012, respectively, for SFELAPCO.

**The financial information of insignificant associates is indicated under "Others".

11. Joint Operation

Name of Joint Operation	Nature of Business	Percentage of Ownership		
		2014	2013	2012
PEC	Power generation	50.00	100.00	100.00

* PEC's principal place of business and country of incorporation is the Philippines;
No commercial operations as of December 31, 2014.

On May 15, 2014, the Group entered into a shareholders' agreement with TPEC Holdings Corporation (TPEC) for the development, construction and operation of the 400 MW Pagbilao Unit III in Pagbilao, Quezon through PEC. TPI and TPEC both agreed to provide their respective capital contributions and subscribe to common shares such that each stockholder owns 50% of the issued and outstanding shares of stock of PEC. This effectively reduced the Group's ownership in PEC from 100% to 50%.

The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis.

12. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual CGUs.

The carrying amount of goodwill follows:

	2014	2013
LEZ (see Note 9)	₱467,586	₱–
BEZ	237,404	237,404
HI	220,228	220,228
MEZ	169,469	169,469
VECO (see Note 9)	–	178,989
	₱1,094,687	₱806,090

The recoverable amounts of the investments have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2014 and 2013

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

Discount rates and growth rates

The discount rates applied to cash flow projections are from 12.05% to 13.87% in 2014 and 13.08% to 15.01% in 2013, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Revenue assumptions

Revenue assumptions are based on the expected electricity to be sold. In 2014, revenue growth of 24% in year 1, 14% in year 2, 10% in year 3, 5% in year 4 and 0% in the year 5 was applied for LEZ; 2% in year 1 and 1% for the next four years was applied to MEZ; 8% for year 1 and 1% for the next four years was applied to BEZ; and 6% in year 1 and 0% for the next four years for HI.

In 2013, revenue growth of 6% in year 1, 4% for the 2nd and 3rd year and 3% for the 4th and 5th year was applied for VECO; 1% in year 1 and 0% for the next four years was applied to MEZ; 0% for year 1 and 2, 2% for year 3 and 0% for year 4 and 5 for BEZ; and 4% in year 1 and 0% for the next four years for HI.

Materials price inflation

The assumption used to determine the value assigned to the materials price inflation is 3.90% in 2015 and increases by 10 basis points in the next year. It remains at 4.00% until 2019. The starting point of 2015 is consistent with external information sources.

Based on the assumptions used in impairment testing, no impairment on goodwill was recognized in 2014 and 2012. In 2013, the Group recognized an impairment loss on goodwill amounting to ₱368.9 million on the investment in MEZ (see Note 29). The recoverable amount of MEZ CGU was determined to be ₱319.2 million as of December 31, 2013.

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

13. Property, Plant and Equipment

December 31, 2014

	Land improvements	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 20)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱1,079,468	₱3,239,327	₱84,148,750	₱10,886,448	₱903,676	₱342,447	₱621,144	₱2,433,283	₱1,076,246	₱533,276	₱20,662,391	₱125,926,456
Additions (see Notes 15 and 20)	116,817	30,090	1,281,957	957,752	61,395	38,443	20,313	26,230	83,876	43,315	13,643,476	16,303,664
Business combinations (see Note 9)	105,058	694	—	869,281	20,046	11,858	3,268	100	8,721	12,383	7,015	1,038,424
Disposals	—	—	(24,455)	(5,184)	(36,068)	(2,577)	—	(365)	—	(187)	—	(68,836)
Reclassifications and others	—	10,151	1,833,042	6,989	(4,819)	(115,685)	2,678	13	199	1,989	(1,744,210)	(9,653)
Balances at end of year	1,301,343	3,280,262	87,239,294	12,715,286	944,230	274,486	647,403	2,459,261	1,169,042	590,776	32,568,672	143,190,055
Accumulated Depreciation and Amortization:												
Balances at beginning of year	—	1,234,259	12,160,092	3,361,694	486,788	192,110	121,517	953,378	362,285	299,582	—	19,171,705
Business combinations (see Note 9)	—	303	—	167,647	12,760	8,562	3,090	100	2,296	10,760	—	205,518
Depreciation and amortization	—	120,804	2,945,730	714,942	80,057	52,756	35,803	162,126	70,041	47,588	—	4,229,847
Disposals	—	—	(24,455)	(5,184)	(31,933)	(2,570)	108	(297)	—	(294)	—	(64,625)
Reclassifications and others	—	28	11,579	32	17	(11,145)	—	15	—	444	—	970
Balances at end of year	—	1,355,394	15,092,946	4,239,131	547,689	239,713	160,518	1,115,322	434,622	358,080	—	23,543,415
Net book values	₱1,301,343	₱1,924,868	₱72,146,348	₱8,476,155	₱396,541	₱34,773	₱486,885	₱1,343,939	₱734,420	₱232,696	₱32,568,672	₱119,646,640

December 31, 2013

	Land improvements	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 20)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Cost:												
Balances at beginning of year	₱854,556	₱2,628,001	₱75,733,614	₱5,879,842	₱622,169	₱326,682	₱448,001	₱1,934,437	₱540,541	₱399,368	₱11,585,972	₱100,953,183
Additions (see Notes 15 and 20)	87,819	276	2,796,826	746,088	181,113	44,818	64,482	68,976	23,804	41,991	15,807,246	19,863,439
Business combinations (see Note 9)	137,093	130,336	—	4,121,899	126,669	10,981	18,320	146,099	513,803	102,466	—	5,307,666
Disposals	—	—	(42,269)	(5,072)	(21,680)	(34,473)	(48,349)	(8,483)	(45)	(249)	(22,456)	(183,076)
Reclassifications and others	—	480,714	5,660,579	143,691	(4,595)	(5,561)	138,690	292,254	(1,857)	(10,300)	(6,708,371)	(14,756)
Balances at end of year	1,079,468	3,239,327	84,148,750	10,886,448	903,676	342,447	621,144	2,433,283	1,076,246	533,276	20,662,391	125,926,456
Accumulated Depreciation and Amortization:												
Balances at beginning of year	—	1,134,371	9,681,208	2,945,417	417,692	198,445	107,522	764,843	302,132	256,255	—	15,807,885
Depreciation and amortization	—	144,880	2,476,909	421,586	91,689	44,918	53,151	176,143	59,902	43,803	—	3,512,981
Disposals	—	—	(42,269)	(5,072)	(23,295)	(33,677)	(39,156)	(7,434)	(45)	(249)	—	(151,197)
Reclassifications and others	—	(44,992)	44,244	(237)	(237)	(17,576)	—	19,826	296	(227)	—	2,036
Balances at end of year	—	1,234,259	12,160,092	3,361,694	486,788	192,110	121,517	953,378	362,285	299,582	—	19,171,705
Net book values	₱1,079,468	₱2,005,068	₱71,988,658	₱7,524,754	₱416,888	₱150,337	₱499,627	₱1,479,905	₱713,961	₱233,694	₱20,662,391	₱106,754,751

In 2014 and 2013, additions to power plant equipment and steam field assets include asset retirement obligation amounting to ₱220.7 million and ₱1.94 billion, respectively (see Note 20).

TSI and PEC entered into loan agreements for the construction of their power plant facilities in 2013 and 2014, respectively. Borrowing costs capitalized and included in “Construction in progress” accounts follows:

Company	Borrowing Cost (in millions)		Capitalization Rate
	2014	2013	
TSI (see Note 18)	₱956.4	₱103.3	4.67%-5.32%
PEC (see Note 11)	89.6	–	6.06%-6.96%
Total	₱1,046	₱103.3	

The rehabilitation of the power barges acquired in 2011 was completed on November 27, 2013. The amount of rehabilitation cost included in the carrying amount of the power barges amounted to ₱7.89 million as of December 31, 2014.

Property, plant and equipment with carrying amounts of ₱29.25 billion and ₱18.31 billion as of December 31, 2014 and 2013, respectively, are used to secure the Group’s long-term debts (see Note 18).

Fully depreciated property and equipment with gross carrying amount of ₱4.36 billion and ₱3.90 billion as of December 31, 2014 and 2013, respectively, are still in use.

A significant portion of the Group’s property, plant and equipment relates to various projects under “Construction in progress” as of December 31, 2014 and 2013, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2014	2013	2014	2013
PEC	₱19,416	₱–	13%	–
TSI	6,686	14,817	79%	54%
Hedcor Sabangan	742	1,647	61%	12%
HSI	–	484	100%	58%
Hedcor Tudaya	–	450	100%	64%

14. Intangible Asset - Service Concession Rights

	2014	2013
Cost:		
At January 1	₱4,792,017	₱4,502,913
Additions from internal development	36,286	41,694
Effect of translation	18,968	247,410
	4,847,271	4,792,017
Accumulated amortization:		
At January 1	1,128,742	817,496
Amortization	318,175	311,246
	1,446,917	1,128,742
	₱3,400,354	₱3,663,275

The amortization of intangible asset is included in “Depreciation and amortization” under “Operating Expenses” in the consolidated statements of income.

Service concession arrangements entered into by the Group are as follows:

- a. On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

The Power Station is treated as intangible asset and is amortized over a period of 25 years, which is the service concession period, in accordance with Philippine Interpretation IFRIC 12. The intangible asset with a carrying value of ₱2.50 billion and ₱2.74 billion as of December 31, 2014 and 2013, respectively, was used as collateral to secure LHC’s long-term debt (see Note 18).

- b. On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA for the privatization of the SBMA Power Distribution System (PDS) on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures and machineries in the Subic Bay Freeport Zone (SBFZ).

Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA. The DMSA shall be effective for 25-year period commencing on the turnover date.

For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittances may be reduced by the outstanding power receivables from SBMA, including streetlights power consumption and maintenance, for the immediate preceding year.

Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying value of the intangible asset arising from the service concession arrangement amounted to ₱811.6 million and ₱806.1 million as of December 31, 2014 and 2013, respectively.

- c. The transmission and distribution equipment of MEZ are located within Mactan Export Processing Zone (MEPZ) II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying amount of the intangible asset arising from the service concession arrangement amounts to ₱109.9 million and ₱114.8 million as of December 31, 2014 and 2013, respectively.

15. Other Noncurrent Assets

	2014	2013
Input VAT and tax credit receivable	₱5,708,855	₱3,549,838
Intangible assets:		
Franchise (see Note 9)	2,956,576	3,046,311
Project development costs	246,595	121,988
Customer contracts (see Note 9)	54,347	–
Software and licenses	37,744	13,036
Receivable from NGCP	608,482	–
Refundable deposits	412,949	286,840
Prepaid rent - net of current portion (see Note 36)	369,109	388,679
Advances to contractors	5,294	170,282
Others	263,302	226,509
	₱10,663,253	₱7,803,483

The customer contracts pertain to agreements between LEZ and the locators within LTC relating to the provision of utility services to the locators. These contracts are treated as intangible assets and are amortized over a period of 6 years.

Receivable from NGCP pertains to cost of installation and construction of substation and transmission facilities to be reimbursed by NGCP as part of the agreement on the advance implementation of network assets.

Intangible assets

Rollforward of intangible assets follow:

	2014				2013		
	Franchise	Project development costs	Customer contracts	Software and licenses	Franchise	Project development costs	Software and licenses
Cost:							
Balances at beginning of year	₱3,091,394	₱121,988	₱-	₱39,965	₱-	₱99,431	₱37,380
Additions	-	143,820	-	37,495	-	51,952	2,585
Business combinations (see Note 9)	(12,963)	-	60,068	-	3,091,394	-	-
Write-off	-	(19,213)	-	-	-	-	-
Transfers	-	-	-	-	-	(29,395)	-
Balances at end of year	3,078,431	246,595	60,068	77,460	3,091,394	121,988	39,965
Accumulated amortization:							
Balances at beginning of year	(45,083)	-	-	(26,929)	-	-	(12,759)
Amortization	(76,772)	-	(5,721)	(12,787)	(45,083)	-	(14,170)
Balances at end of year	(121,855)	-	(5,721)	(39,716)	(45,083)	-	(26,929)
	₱2,956,576	₱246,595	₱54,347	₱37,744	₱3,046,311	₱121,988	₱13,036

16. Trade and Other Payables

	2014	2013
Trade payables (see Notes 23 and 33)	₱5,445,210	₱8,451,070
Output VAT	2,443,718	1,974,692
Amounts due to contractors and other third parties	941,168	1,001,932
Accrued expenses:		
Taxes and fees	581,008	386,851
Materials and supplies cost	542,064	650,810
Interest	272,766	120,250
Claims conversion costs	205,890	136,480
Energy fees and fuel purchase	78,846	45,278
Insurance	799	11,610
Unearned revenues	35,663	504,330
Dividends payable	33,363	24,579
Nontrade	1,807,628	1,103,980
Others	389,878	663,722
	₱12,778,001	₱15,075,584

Trade payables are non-interest bearing and generally on 30-day terms.

Accrued taxes and fees represent accrual of real property tax, transfer tax and other fees.

Nontrade payables include amounts due to PSALM pertaining to Generation Rate Adjustment Mechanism (GRAM) and Incremental Currency Exchange Rate Adjustment (ICERA).

Others include withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

17. Bank Loans

	Interest Rate	2014	2013
Peso loans - financial institutions - unsecured			
DLP	1.90%	₱103,000	₱-

Bank loans represent unsecured interest-bearing short-term loan obtained from a local bank to meet working capital requirements. The loan is covered by DLP's existing credit lines with the bank and is not subject to any significant covenants and warranties.

Interest expense on bank loans amounted to ₱61.9 million in 2014, ₱47.4 million in 2013 and ₱64.5 million in 2012 (see Note 34).

18. Long-term Debts

	Interest Rate	2014	2013
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱-
Bonds due 2026	6.10%	3,400,000	-
Subsidiaries:			
TSI			
Financial institution - secured	4.50% - 6.43% in 2014 4.50% - 5.00% in 2013	24,000,000 -	- 16,437,658
VECO (see Note 9)			
Financial institution - unsecured	3.50% - 4.81%	1,792,000	2,000,000
Non-financial institution - secured	6.20%	-	48,010
LHC			
Financial institutions - secured	2.00% - 2.75%	1,728,428	1,978,240
DLP			
Financial institution - unsecured	3.50% - 4.81%	1,344,000	1,500,000
HI			
Financial institution - secured	5.25%	810,000	900,000
SEZ			
Financial institution - unsecured	5.61% - 6.06%	395,500	452,000
CLP			
Financial institution - unsecured	3.50% - 4.81%	268,800	300,000
Joint operation (see Note 11)			
Financial institutions - secured	4.70% - 6.68%	3,173,501	-
		43,512,229	23,615,908
Less deferred financing costs		729,154	327,969
		42,783,075	23,287,939
Less current portion - net of deferred financing costs		1,388,991	832,877
		₱41,394,084	₱22,455,062

Interest expense and other financing costs on long-term debt amounted to ₱478.0 million in 2014, ₱360.8 million in 2013, and ₱1.38 billion in 2012 (see Note 34).

Company***Retail Bonds***

In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at a fixed rate equivalent to 5.21% p.a. and a ₱3.40 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Prior to the maturity date, the Company may redeem in whole the outstanding bonds on the following relevant dates. The amount payable in respect of such early redemption shall be the accrued interest on the principal amount, and the product of the principal amount and the early redemption price in accordance with the following schedule:

Bonds	Early Redemption Option Dates	Early Redemption Price
7-year	5.25 years from Issue Date	101.00%
	6.00 years from Issue Date	100.50%
12-year	7.00 years from Issue Date	102.00%
	8.00 years from Issue Date	101.75%
	9.00 years from Issue Date	101.50%
	10.00 years from Issue Date	101.00%
	11.00 years from Issue Date	100.25%

Unless previously redeemed, the principal amount of the bonds shall be payable on a lump sum basis on the respective maturity date at its face value.

Under the bond trust agreement, the Company shall not permit its DE ratio to exceed 3:1 calculated based on the Company's year-end debt and the consolidated equity. The Company is in compliance with the debt covenant as of December 31, 2014.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱98.1 million as of December 31, 2014.

2011 Fixed Rate Corporate Notes

On April 14, 2011, the Company availed a total of ₱5.00 billion from the Notes Facility Agreement (NFA) it signed with First Metro Investment Corporation as Issue Manager. The NFA provided for the issuance of 5-year corporate notes in a private placement to not more than 19 institutional investors pursuant to Section 9.2 of the Securities Regulation Code (SRC) and Rule 9.2(2) (B) of the SRC Rules. This unsecured loan bears an annual interest of 6.17%.

The notes were fully prepaid in January 2013. The ₱30.5 million unamortized deferred financing cost was charged to the 2013 consolidated statement of income.

TSI

On October 14, 2013, TSI entered into an Omnibus Agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014. The loan is secured by a mortgage of all its assets with carrying amount of ₱33.53 billion as of December 31, 2014, and a pledge of TSI's shares of stock held by TPI.

Interest rate is fixed for the first seven years and will be repriced and fixed for another five years. For the first seven-year period, interest is fixed at the applicable or interpolated PDST-F, based on the remaining tenor to Interest Repricing Date plus a spread of 1.0%, with a floor of 4.5% p.a. Upon release of the Company Guarantee but prior to the Interest Repricing Date, the initial interest rate shall increase by 0.5%. For the remaining five-year period, interest will be calculated at the prevailing five-year PDST-F rate on the Interest Repricing Date plus a spread of 1.5%, with a floor of 5.0% p.a.

Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date. TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a prepayment penalty of 2% on the amount prepaid.

The Agreement provides for certain financial ratios and negative covenants with respect to, among others, indebtedness, investments, mergers, leases and abandonment. TSI is required to maintain a maximum DE ratio of 75:25 and a DSCR of at least 1.05x at all times computed annually based on its year-end audited financial statements, starting one year after project completion date until final maturity date. Dividend distribution to its shareholders requires a minimum DSCR of 1.2x. TSI is in compliance with the loan covenants as of December 31, 2014 and 2013.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱278.5 million and ₱299.9 million as of December 31, 2014 and 2013, respectively.

VECO (see Note 9)

2013 Fixed Rate Corporate Notes

On December 20, 2013, VECO availed of ₱2.00 billion from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱200M balloon payment on maturity date
C	December 20, 2016	₱1M each on first 2 years; ₱198M on maturity date
D	December 20, 2017	₱1M each on first 3 years; ₱197M on maturity date
E	December 20, 2018	₱1M each on first 4 years; ₱196M on maturity date
F	December 20, 2019	₱1M each on first 5 years; ₱195M on maturity date
G	December 20, 2020	₱1M each on first 6 years; ₱194M on maturity date
H	December 20, 2021	₱1M each on first 7 years; ₱193M on maturity date
I	December 20, 2022	₱1M each on first 8 years; ₱192M on maturity date
J	December 20, 2023	₱1M each on first 9 years; ₱191M on maturity date

Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a prepayment fee of two percent (2%) on the principal amount to be prepaid shall be imposed.

Under the NFA, VECO shall not permit its DE ratio to exceed 3:1 calculated based on its year-end audited financial statements. As of December 31, 2014 and 2013, VECO has complied with the debt covenants.

Unamortized deferred financing cost reduced the carrying amount of the loan by ₱7.1 million and ₱9.9 million as of December 31, 2014 and 2013, respectively.

Yen-denominated Long-term Debt

VECO's Yen-denominated government loan is a "subloan" granted by the Government of the Republic of the Philippines (the Government) through the National Electrification Administration (NEA) on January 26, 1995. Under the loan agreement entered into by the Government and the Overseas Economic Cooperation Fund (OECF) of Japan, the OECF had made available to the Government a loan of which a part of it was granted to VECO, through the NEA, to finance its power development project in its franchise area. Pursuant to the relending agreement, NEA made available to VECO an aggregate principal amount not exceeding ¥1,428.0 million which is payable in 25 semi-annual payments of ¥56.4 million starting August 10, 2002 at 6.2% p.a.

The NEA loan is collateralized by a Mortgage Trust Indenture covering VECO's utility plant, property and equipment with carrying amount of ₱6.77 billion as of December 31, 2013 (see Note 13).

In 2014, the loan was fully paid upon maturity.

LHC

On April 24, 2012, LHC entered into an Omnibus Agreement with Philippine National Bank and Banco De Oro to borrow a 10-year loan amounting to \$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments.

Intangible asset arising from service concession arrangement with carrying value of ₱2.50 billion and ₱2.74 billion as of December 31, 2014 and 2013, respectively was used as collateral to secure LHC's long-term debts (see Note 14).

The Agreement requires a debt-equity ratio of not more than 70:30 and DSCR of 1.10x. LHC has complied with the debt covenants as of December 31, 2014 and 2013.

Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱8.9 million and ₱11.7 million as of December 31, 2014 and 2013, respectively.

LHC's debt also includes the balance of the refinanced US dollar loan availed on November 21, 2006. Under the agreement LHC signed with the same lenders, the refinancing was accounted for as a simple extension of its old debt. Annual interest is equal to LIBOR plus margin, repriced and paid semi-annually. The loan was fully paid upon maturity in October 2014.

DLP

On December 20, 2013, DLP availed of ₱1.5 billion from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at fixed rates ranging from 3.50% to 4.81% p.a. and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱150M balloon payment on maturity date
C	December 20, 2016	₱0.75M each on first 2 years; ₱148.5M on maturity date
D	December 20, 2017	₱0.75M each on first 3 years; ₱147.8M on maturity date
E	December 20, 2018	₱0.75M each on first 4 years; ₱147M on maturity date
F	December 20, 2019	₱0.75M each on first 5 years; ₱146.2M on maturity date
G	December 20, 2020	₱0.75M each on first 6 years; ₱145.5M on maturity date
H	December 20, 2021	₱0.75M each on first 7 years; ₱144.8M on maturity date
I	December 20, 2022	₱0.75M each on first 8 years; ₱144M on maturity date
J	December 20, 2023	₱0.75M each on first 9 years; ₱143.2M on maturity date

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a prepayment fee of two percent (2%) on the principal amount to be prepaid shall be imposed.

Under the NFA, DLP shall not permit its DE ratio to exceed 3:1 calculated based on its year-end audited financial statements. As of December 31, 2014 and 2013, DLP is in compliance with the debt covenants.

HI

On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with interest fixed at 5.25% p.a. for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

Loan covenants include, among others, the maintenance of a maximum DE ratio of 80:20 from August 2013 to December 2013 and 75:25 from January 2014 up to loan maturity, and a DSCR of at least 1.1x, computed annually based on its year-end audited financial statements. Dividend distribution to its shareholders requires a minimum DSCR of 1.2x. It is likewise prohibited from redeeming, repurchasing, retiring or otherwise acquiring for value any of its capital stock. HI has complied with the debt covenants as of December 31, 2014 and 2013.

Unamortized deferred financing cost reduced the carrying value of long-term debt by ₱5.4 million and ₱6.5 million as of December 31, 2014 and 2013, respectively.

In 2013, HI prepaid the ₱419.9 million balance of a loan it availed from a local bank in 2006.

SEZ

On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company (MBTC). Interest on the notes is subject to quarterly payment at fixed interest rates ranging from 5.61% - 6.06% p.a. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.

The loan covenant requires, among others, the maintenance of DE ratio of not more than 3:1. As of December 31, 2014 and 2013, SEZ is in compliance with the debt covenants.

CLP

On December 20, 2013, CLP availed of ₱300 million notes from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30 million with interest payable semi-annually at fixed rates ranging from 3.50% - 4.81% p.a. and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱30M balloon payment on maturity date
C	December 20, 2016	₱0.15M each on first 2 years; ₱29.7M on maturity date
D	December 20, 2017	₱0.15M each on first 3 years; ₱29.6M on maturity date
E	December 20, 2018	₱0.15M each on first 4 years; ₱29.4M on maturity date
F	December 20, 2019	₱0.15M each on first 5 years; ₱29.2M on maturity date
G	December 20, 2020	₱0.15M each on first 6 years; ₱29.1M on maturity date
H	December 20, 2021	₱0.15M each on first 7 years; ₱29M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.175M each on first 9 years; ₱28.62M on maturity date

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a prepayment fee of two percent (2%) on the principal amount to be prepaid shall be imposed.

Under the NFA, CLP shall not permit its DE ratio to exceed 3:1 calculated based on its year-end audited financial statements. As of December 31, 2014 and 2013, CLP is in compliance with the debt covenants.

Long-term debt of Joint Operation (see Note 11)

This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an Omnibus Agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years. The loan is subject to a semi-annual interest payment with fixed interest as follows:

Tranche	Borrowing Date to Commercial Operations Date	Commercial Operations Date to 7 th Anniversary from Financial Closing Date	7 th Anniversary from Financial Closing Date to Final Maturity Date
A	Applicable PDST-F plus 2% margin with a floor of 5.50%	Applicable PDST-F plus 1.75% margin with a floor of 5.25%	Applicable PDST-F plus 1.75% margin with a floor of 5.25%
B	Applicable PDST-F plus 1.75% margin with a floor of 5.875%	Applicable PDST-F plus 1.50% margin with a floor of 5.875% From Commercial Operations Date to Final Maturity Date	

The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of all its assets with carrying amount of ₱8.04 billion as of December 31, 2014, and a pledge of the shares of stock held by the joint operators. Loan covenants include, among others, the maintenance of a maximum DE ratio of 75:25 and DSCR of 1.1x. PEC is in compliance with the debt covenant as of December 31, 2014.

Unamortized deferred financing cost reduced the carrying value of long-term debt by ₱331.2 million as of December 31, 2014.

HSI

In 2008, HSI entered into an Omnibus Agreement with local banks for a loan facility in the aggregate principal amount of up to ₱3.57 billion. The outstanding loan balance of ₱3.04 billion was prepaid in full in March 2013. The ₱17.7 million unamortized deferred financing cost was charged to the 2013 consolidated statement of income.

CPPC

In 2010, CPPC issued ₱800 million three-year notes to SB Capital Investment Corporation (₱400 million) and BDO Capital & Investment Corporation (₱400 million). The notes were fully paid upon maturity in August 2013.

19. Customers' Deposits

	2014	2013
Transformers	₱2,195,913	₱2,078,643
Lines and poles	1,471,673	1,319,519
Bill and load	2,018,904	1,739,993
	₱5,686,490	₱5,138,155

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are noninterest-bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest expense on customers' deposits amounted to ₱8.5 million in 2014, ₱1.4 million in 2013, and ₱2.5 million in 2012 (see Note 34).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits.

20. Asset Retirement Obligation

Asset retirement obligation includes the estimated costs to decommission, abandon and perform surface rehabilitation on a subsidiary's steam field assets at the end of their useful lives (see Note 13).

	2014	2013
Balances at beginning of year	₱2,008,669	₱-
Provision during the year	220,691	1,939,751
Accretion of decommissioning liability	123,890	68,918
Balances at end of year	₱2,353,250	₱2,008,669

These technical estimates of probable costs were discounted using applicable PDST-F rates.

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

21. Equity

a. Capital Stock (number of shares in disclosed figures)

	2014	2013
Authorized - ₱1 par value		
Preferred shares - 1,000,000,000 shares		
Common shares - 16,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	₱7,358,604	₱7,358,604

There are no preferred shares issued and outstanding as of December 31, 2014 and 2013.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend,

whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the consolidated balance sheet.

As of December 31, 2014, 2013 and 2012, the Company has 606, 588 and 548 shareholders, respectively.

b. Retained Earnings

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings.

Projects	Full commercial operations by	Appropriation (in billions)
68 MW Manolo Fortich Hydro	End of 4 th quarter 2016	₱2.60
300 MW Davao Coal	End of 1 st half 2015	9.50
14 MW Sabangan Hydro	End of 1 st half 2015	2.80
400 MW Coal Fired Pagbilao Unit 3	End of 4 th quarter 2017	6.00
Total		₱20.90

On March 1, 2012, the BOD approved the declaration of cash dividends of ₱1.32 a share (₱9.71 billion) to all stockholders of record as of March 16, 2012. These dividends were paid on April 3, 2012.

On November 28, 2012, the BOD approved the declaration of special cash dividends of ₱0.22 a share (₱1.62 billion) to all stockholders of record as of December 31, 2012. These dividends were paid on January 11, 2013.

On March 5, 2013, the BOD approved the declaration of cash dividends of ₱1.66 a share (₱12.22 billion) to all stockholders of record as of March 19, 2013. These dividends were paid on April 15, 2013.

On March 11, 2014, the BOD approved the declaration of regular cash dividends of ₱1.26 a share (₱9.27 billion) and special cash dividends of ₱0.40 a share (₱2.94 billion) to all stockholders of record as of March 25, 2014. These dividends were paid on April 22, 2014.

To comply with the requirements of Section 43 of the Corporation Code, on March 10, 2015, the BOD approved the declaration of cash dividends of ₱1.14 a share (₱8.39 billion) and

special cash dividends of ₱0.52 a share (₱3.83 billion) to all stockholders of record as of March 24, 2015. The cash dividends are payable on April 20, 2015.

- c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint operations amounting to ₱24.36 billion and ₱22.82 billion as at December 31, 2014 and 2013, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint operations.

22. Sale of Power

Sale from Distribution of Power

- The Uniform Rate Filing Requirements on the rate unbundling released by the ERC on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.
- Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

	CLP	DLP	VECO	SEZ
Current regulatory period	April 1, 2009 to March 31, 2013	July 1, 2010 to June 30, 2014	July 1, 2010 to June 30, 2014	October 1, 2011 to September 30, 2015
Date of implementation of approved distribution supply and metering charges	May 1, 2009	August 1, 2010	August 1, 2010	November 26, 2011

For CLP, DLP and VECO, a reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 and July 1, 2014 to June 30, 2018, respectively. The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under the RDWR, which seeks to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

Total sale from distribution of power amounted to ₱40.0 billion, ₱28.07 billion and ₱15.85 billion in 2014, 2013 and 2012, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)

Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

Total sale of power to WESM amounted to ₱5.77 billion, ₱6.51 billion and ₱4.89 billion in 2014, 2013 and 2012, respectively.

b. Power Supply Agreements

i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*

Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*

Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA, PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

Total sale of power under power supply agreements amounted to ₱31.11 billion in 2014, ₱32.92 billion in 2013 and ₱41.14 billion in 2012.

c. Retail Electricity Supply Agreements (see Note 40h)

Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱9.70 billion and ₱4.37 billion in 2014 and 2013, respectively.

23. Purchased Power

Distribution

DLP, VECO, CLP and MEZ entered into contracts with NPC/PSALM for the purchase of electricity. The material terms of the contract are as follows:

	Term of Agreement with NPC/PSALM	Contract Energy (megawatt hours/year)
DLP	Ten years; expiring in December 2015	1,569,479
VECO	Contract extension until December 2014	898,632
CLP	Ten years; expiring in December 2015	116,906
MEZ	Ten years; expiring in September 2015	114,680

The Group's distribution utilities also entered into Transmission Service Agreements with NGCP for the transmission of electricity.

Total power purchases from the NPC/PSALM and NGCP, net of discounts, amounted to ₱13.19 billion in 2014, ₱12.20 billion in 2013 and ₱7.19 billion in 2012. The outstanding payable to the NPC/PSALM and NGCP on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱1.09 billion and ₱1.00 billion as of December 31, 2014 and 2013, respectively (see Note 16).

Generation

Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts. Total purchases from WESM amounted to ₱1.83 billion in 2014, ₱5.34 billion in 2013 and ₱2.64 billion in 2012.

The Group entered into Replacement Power Contracts with certain related parties (see Note 33). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

24. Cost of Generated Power

	2014	2013	2012
Fuel costs (see Note 7)	₱15,146,281	₱12,705,303	₱13,887,088
Steam supply costs (see Note 37)	4,935,022	4,260,552	4,159,343
Energy fees	688,059	584,810	581,222
Ancillary charges	240,502	55,636	57,333
Wheeling expenses	27,794	36,183	36,298
	₱21,037,658	₱17,642,484	₱18,721,284

25. General and Administrative

	2014	2013	2012
Personnel costs (see Note 27)	₱1,805,862	₱1,227,618	₱738,990
Outside services (see Note 33)	650,088	508,037	521,765
Provision for impairment of trade receivables (see Note 6)	563,278	14,055	819,024
Taxes and licenses	531,609	567,443	199,386
Repairs and maintenance	271,638	130,824	84,725
Insurance	261,934	211,336	187,559
Transportation and travel (see Note 33)	165,076	160,024	139,823
Professional fees (see Note 33)	119,703	124,302	102,918
Market service and administrative fees	99,107	110,758	65,904
Rent (see Notes 33 and 36)	98,403	68,579	46,178
Corporate social responsibility (CSR) (see Note 40j)	84,249	484,014	126,972
Information technology and communication	74,001	52,505	64,109
Training	29,694	37,223	41,241
Advertisements	28,714	15,014	15,203
Entertainment, amusement and recreation	17,005	14,790	12,930
Guard services	6,963	4,694	6,611
Gasoline and oil	2,772	4,791	13,276
Freight and handling	2,672	1,506	2,070
Supervision and regulatory fees	1,578	1,547	–
Others	643,963	334,490	236,012
	₱5,458,309	₱4,073,550	₱3,424,696

“Others” include host community-related expenses, claims conversion costs and utilities expenses.

26. Operations and Maintenance

	2014	2013	2012
Personnel costs (see Note 27)	₱755,681	₱836,416	₱705,778
Materials and supplies (see Note 7)	587,191	144,692	129,895
Repairs and maintenance	479,356	474,405	747,708
Insurance	455,520	345,160	265,397
Outside services	325,616	189,735	156,694
Taxes and licenses	271,380	(64,718)	479,639
Fuel and lube oil (see Note 7)	253,576	45,623	97,611
Transportation and travel	40,942	27,556	20,066
Rent (see Note 36)	47,096	21,802	2,456
Others	218,853	250,559	245,087
	₱3,435,211	₱2,271,230	₱2,850,331

“Others” include environmental, health and safety expenses, transmission charges and market service fees.

27. Personnel Costs

	2014	2013	2012
Salaries and wages	₱1,883,006	₱1,489,864	₱1,124,151
Employee benefits (see Note 28)	678,537	574,170	320,617
	₱2,561,543	₱2,064,034	₱1,444,768

28. Pension Benefit Plans

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. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, noncontributory, defined retirement benefit plans (“Plan”) covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund (“Fund”) of each subsidiary is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also corporate officers, is responsible for the investment of the Fund assets. Taking into account the Plan’s objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense (recognized as part of personnel costs under operations and maintenance and general and administrative):

	2014	2013	2012
Current service cost	₱164,024	₱114,637	₱76,635
Interest cost	7,411	(7,862)	(1,295)
Past service cost	40,992	34,662	4,299
Curtailment gain	–	–	(1,361)
	₱212,427	₱141,437	₱78,278

Remeasurement effects to be recognized in other comprehensive income:

	2014	2013	2012
Actuarial gains (losses) due to:			
Changes in financial assumptions	₱61	(₱559,040)	₱93,756
Experience adjustments	208,644	107,623	(141,180)
Return on assets excluding amount included in net interest cost	31,427	5,022	8,574
	₱240,132	(₱446,395)	(₱38,850)

Net pension assets

	2014	2013
Fair value of plan assets	₱361,577	₱95,971
Present value of the defined benefit obligation	(282,577)	(85,503)
	₱79,000	₱10,468

Net pension liabilities

	2014	2013
Present value of the defined benefit obligation	₱1,324,165	₱1,541,797
Fair value of plan assets	(918,311)	(1,088,990)
	₱405,854	₱452,807

Changes in the present value of the defined benefit obligation are as follows:

	2014	2013
At January 1	₱1,627,300	₱980,029
Net benefit expense:		
Current service cost	164,024	114,637
Net interest cost	63,054	53,058
Past service cost	40,992	34,662
	268,070	202,357
Benefits paid	(89,713)	(162,257)
Transfers and others	601	(109,653)
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Changes in financial assumptions	(₱61)	559,040
Experience adjustments	(208,644)	(107,623)
	(208,705)	451,417
Increase from business combinations (see Note 9)	9,189	265,407
At December 31	₱1,606,742	₱1,627,300

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

	2014	2013
At January 1	₱1,184,961	₱782,252
Contribution by employer	96,969	263,991
Interest income included in net interest cost	55,643	60,920
Return on assets excluding amount included in net interest cost	31,427	5,022
Fund transfer from affiliates	601	10,831
Benefits paid	(89,713)	(162,257)
Increase from business combinations (see Note 9)	–	224,202
At December 31	₱1,279,888	₱1,184,961

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2014	2013
At January 1	₱442,339	₱197,777
Retirement expense for the year	212,427	141,437
Actuarial loss (gain) recognized for the year	(240,132)	446,395
Contribution to retirement fund	(96,969)	(263,991)
Transfers	–	(120,484)
Increase from business combinations (see Note 9)	9,189	41,205
At December 31	₱326,854	₱442,339

The fair value of plan assets by each class as at the end of the reporting period are as follows:

	2014	2013
Cash and fixed-income investments	₱998,032	₱785,847
Equity instruments:		
Holding	35,687	210,645
Power	31,964	34,977
Financial institution	153,771	59,532
Others	60,434	93,960
	281,856	399,114
Fair value of plan assets	₱1,279,888	₱1,184,961

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets are diverse and do not have any concentration risk.

The Board of Trustees reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2014, 2013 and 2012 in determining pension benefit obligations for the Group's plans are shown below:

	2014	2013	2012
Discount rate	4.21%-7.02%	4.21%-5.26%	5.36%-7.01%
Salary increase rate	7.00%	7.00%	6.00-8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2014, assuming if all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rate	100 (100)	(P184,512) 209,336
Future salary increases	100 (100)	197,257 (174,385)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute P157.9 million to the defined benefit provident plans in 2015. The average durations of the defined benefit obligation as of December 31, 2014 and 2013 are 17.36 years and 15.59 years, respectively.

29. Other Income (Expense) - Net

	2014	2013	2012
Surcharges	P348,666	P231,050	P130,480
Non-utility operating income	179,478	157,157	91,314
Rental income	32,631	11,934	—
Net unrealized fair valuation gain	15,000	—	—
Gain (loss) on sale of property, plant and equipment	13,195	1,323	(3,616)
Gain on redemption of shares (see Note 10)	4,904	4,792	27,087
Wheeling fees	—	18,582	18,582
Gain on remeasurement in step acquisition (see Note 910)	—	964,600	—
Impairment loss on goodwill (see Note 12)	—	(368,904)	—
Write off of project costs and other assets	(26,000)	(85,051)	—
Net foreign exchange gains (losses) (see Note 35)	(173,587)	(2,002,506)	1,630,261
Others	197,638	(16,741)	89,498
	P591,925	(P1,083,764)	P1,983,606

Included in “Net foreign exchange gains (losses)” are the net gains and losses relating to currency forward transactions (see Note 35). “Others” comprise non-recurring items like sale of scrap and sludge oil, and reversal of provisions.

30. Income Tax

The provision for income tax account consists of:

	2014	2013	2012
Current:			
Corporate income tax	₱2,957,769	₱1,321,636	₱853,612
Final tax	84,680	81,853	165,813
	3,042,449	1,403,489	1,019,425
Deferred	381,640	(876,864)	371,142
	₱3,424,089	₱526,625	₱1,390,567

Reconciliation between the statutory income tax rate and the Group’s effective income tax rates follows:

	2014	2013	2012
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	8.58	9.09	6.82
Nondeductible depreciation expense	1.53	1.65	1.25
Deductible lease payments	(9.76)	(10.12)	–
Income under income tax holiday (ITH)	(8.74)	(19.33)	(21.04)
Nontaxable share in net earnings of associates	(5.61)	(9.74)	(11.34)
Interest income subjected to final tax at lower rates - net	(0.61)	(0.17)	(0.40)
Others	0.59	1.27	(0.01)
	15.98%	2.65%	5.28%

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

	2014	2013
Net deferred income tax assets:		
Allowances for impairment and probable losses	₱99,287	₱137,605
NOLCO	–	577,240
Pension asset (liability):		
Unamortized contributions for past service	24,595	(93,221)
Recognized in other comprehensive income	99,753	213,413
Recognized in statements of income	(45,317)	30,456
MCIT	–	402
Unrealized foreign exchange loss (gain)	393	(408,990)
Unamortized customs duties and taxes capitalized	(26,906)	(24,806)
Unamortized streetlight donations capitalized	(1,370)	(3,508)
Others	93,321	91,098
Net deferred income tax assets	₱243,756	₱519,689
Net deferred income tax liabilities:		
Unamortized franchise	₱886,972	₱913,893
Unrealized foreign exchange gains	362,402	8,802
Fair valuation adjustments to property, plant and equipment	140,313	–
Capitalized interest	39,753	–
Unamortized customs duties and taxes capitalized	6,822	3,660
Allowances for impairment and probable losses	(165,395)	(37,241)
Pension asset (liability):		
Recognized in other comprehensive income	(91,667)	(81,594)
Recognized in statements of income	75,443	–
Unamortized past service cost	(45,279)	45,663
Others	40,353	56,927
Net deferred income tax liabilities	₱1,249,717	₱910,110

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 40i).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱895.3 million and ₱23.6 million, respectively, as of December 31, 2014 and ₱2.80 billion and ₱20.7 million, respectively, as of December 31, 2013, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

31. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2014	2013	2012
a. Net income attributable to equity holders of the parent	₱16,705,184	₱18,576,845	₱24,425,708
b. Weighted average number of common shares issued and outstanding	7,358,604,307	7,358,604,307	7,358,604,307
Earnings per common share (a/b)	₱2.27	₱2.52	₱3.32

There are no dilutive potential common shares for the years ended December 31, 2014, 2013 and 2012.

32. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 40h) and electricity related services of the Group such as installation of electrical equipment.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company accounted for 36%, 31% and 55% of the power generation revenues of the Group in 2014, 2013 and 2012, respectively.

Financial information on the operations of the various business segments are summarized as follows:

2014

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱36,877,070	₱39,975,961	₱9,906,355	₱-	₱86,759,386
Inter-segment	10,912,569	-	703,972	(11,616,541)	-
Total Revenue	₱47,789,639	₱39,975,961	₱10,610,327	(₱11,616,541)	₱86,759,386
Segment Results	₱17,460,060	₱4,495,412	₱395,287	₱-	₱22,350,759
Unallocated corporate income - net	(95,975)	670,934	16,966	-	591,925
INCOME FROM OPERATIONS	17,364,085	5,166,346	412,253	-	22,942,684
Interest expense	(5,566,441)	(242,525)	(185,131)	-	(5,994,097)
Interest income	196,330	31,523	244,062	-	471,915
Share in net earnings of associates	3,875,761	132,570	16,536,149	(16,534,992)	4,009,488
Provision for income tax	(1,915,896)	(1,379,703)	(128,490)	-	(3,424,089)
NET INCOME	₱13,953,839	₱3,708,211	₱16,878,843	(₱16,534,992)	₱18,005,901
OTHER INFORMATION					
Investments in Associates	₱23,320,487	₱829,747	₱92,185,215	(₱91,836,750)	₱24,498,699
Capital Expenditures	₱12,821,960	₱2,186,654	₱31,416	₱-	₱15,040,030
Segment Assets	₱173,999,700	₱20,342,183	₱116,756,308	(₱94,337,170)	₱216,761,021
Segment Liabilities	₱93,667,237	₱14,334,634	₱25,582,137	(₱12,903,427)	₱120,680,581
Depreciation and Amortization	₱3,470,689	₱1,048,726	₱20,151	₱103,734	₱4,643,300

2013

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱39,436,267	₱28,067,236	₱4,551,664	₱-	₱72,055,167
Inter-segment	6,084,876	-	430,849	(6,515,725)	-
Total Revenue	₱45,521,143	₱28,067,236	₱4,982,513	(₱6,515,725)	₱72,055,167
Segment Results	₱15,923,907	₱3,532,053	₱21,329	₱-	₱19,477,289
Unallocated corporate income - net	(1,997,682)	515,152	398,766	-	(1,083,764)
INCOME FROM OPERATIONS					
	13,926,225	4,047,205	420,095	-	18,393,525
Interest expense	(5,162,937)	(109,207)	(71,584)	-	(5,343,728)
Interest income	309,381	20,971	83,443	-	413,795
Share in net earnings of associates	5,893,358	589,392	18,295,842	(18,304,222)	6,474,370
Provision for income tax	641,423	(1,097,559)	(70,489)	-	(526,625)
NET INCOME	₱15,607,450	₱3,450,802	₱18,657,307	(₱18,304,222)	₱19,411,337
OTHER INFORMATION					
Investments in Associates	₱23,789,796	₱747,143	₱85,577,649	(₱85,203,646)	₱24,910,942
Capital Expenditures	₱13,591,131	₱1,290,785	₱47,210	₱-	₱14,929,126
Segment Assets	₱162,531,048	₱18,868,694	₱102,002,925	(₱89,463,849)	₱193,938,817
Segment Liabilities	₱85,998,490	₱13,802,458	₱14,577,384	(₱11,690,272)	₱102,688,060
Depreciation and Amortization	₱3,136,961	₱763,744	₱19,182	(₱44,588)	₱3,875,299

2012

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱46,031,304	₱15,849,591	₱272,270	₱-	₱62,153,165
Inter-segment	1,748,186	-	386,050	(2,134,236)	-
Total Revenue	₱47,779,490	₱15,849,591	₱658,320	(₱2,134,236)	₱62,153,165
Segment Results	₱18,036,545	₱2,291,217	₱127,999	₱-	₱20,455,761
Unallocated corporate income - net	1,737,394	285,319	(39,107)	-	1,983,606
INCOME FROM OPERATIONS					
	19,773,939	2,576,536	88,892	-	22,439,367
Interest expense	(5,920,323)	(109,204)	(972,315)	-	(7,001,842)
Interest income	717,062	20,359	191,492	-	928,913
Share in net earnings of associates	9,211,748	740,312	25,252,723	(25,265,020)	9,939,763
Provision for income tax	(587,250)	(652,276)	(151,041)	-	(1,390,567)
NET INCOME	₱23,195,176	₱2,575,727	₱24,409,751	(₱25,265,020)	₱24,915,634
OTHER INFORMATION					
Investments in Associates	₱21,813,646	₱2,758,008	₱78,763,485	(₱78,352,776)	₱24,982,363
Capital Expenditures	₱8,874,828	₱1,013,440	₱16,920	₱-	₱9,905,188
Segment Assets	₱137,377,855	₱10,443,302	₱87,914,173	(₱72,630,505)	₱163,104,825
Segment Liabilities	₱67,564,176	₱5,960,059	₱6,708,757	₱412,870	₱80,645,862
Depreciation and Amortization	₱3,004,831	₱491,503	₱20,062	₱-	₱3,516,396

33. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Group enters into transactions with its parent, associates and other related parties, principally consisting of the following:

- a. The Company provides services to certain associates such as technical and legal assistance for various projects and other services.
- b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates, arising from the following:
 - PPA/PSA or ESA (Note 22)
 - Replacement power contracts (Note 23)
- c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 25).
- d. Aviation services are rendered by AAI, an associate, to the Group.
- e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.
- f. Aboitiz Construction Group, Inc. (ACGI), a wholly owned subsidiary of ACO, rendered its services to the Group for the following projects: Construction of Tudaya 1 and 2 hydroelectric power plants and TSI power plant, tunnel repairs of LHC, and rehabilitation of Tiwi and Makban power plants.
- g. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.

- h. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱1.98 billion in 2014, ₱2.10 billion in 2013 and ₱1.90 billion in 2012.

The above transactions are settled in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

- a. Revenue - Technical, management and other fees

	Revenue			Receivable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Associates</i>							
SFELAPCO	₱88,358	₱51,448	₱44,471	₱57,006	₱27,790	30-day; interest-free	Unsecured; no impairment
CEDC	66,935	106,140	85,600	14,997	51,819	30-day; interest-free	Unsecured; no impairment
RPEI	23,612	–	–	–	–	30-day; interest-free	Unsecured; no impairment
EAUC	6,600	4,650	4,700	–	3,953	30-day; interest-free	Unsecured; no impairment
VECO (see Note 9)	–	–	111,719	–	–	30-day; interest-free	Unsecured; no impairment
	₱185,505	₱162,238	₱246,490	₱72,003	₱83,562		

- b. Revenue - Sale of power

	Revenue			Receivable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>AEV and subsidiaries</i>							
Pilmico Foods Corporation	₱90,895	₱64,792	₱43,142	₱10,021	₱7,627	30-day; interest-free	Unsecured; no impairment
Aboitizland, Inc. and subsidiaries	9,552	5,787	7,685	1,026	491	30-day; interest-free	Unsecured; no impairment
<i>Associates</i>							
SFELAPCO	2,567,959	2,642,512	2,452,070	263,216	209,431	30-day; interest-free	Unsecured; no impairment
SNAP B	48,952	–	–	–	–	30-day; interest-free	Unsecured; no impairment
SNAP M	19,182	44,640	29,160	–	–	30-day; interest-free	Unsecured; no impairment
Lima Water Corporation	10,608	–	–	4	–	30-day; interest-free	Unsecured; no impairment
Lima Land, Inc.	763	–	–	116	–	30-day; interest-free	Unsecured; no impairment
VECO (see Note 9)	–	–	1,800,800	–	–	30-day; interest-free	Unsecured; no impairment
<i>Other related parties</i>							
Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group)	616,373	635,649	721,924	49,538	51,760	30-day; interest-free	Unsecured; no impairment
Metaphil International, Inc. (a subsidiary of ACO)	7,276	8,417	14,552	334	563	30-day; interest-free	Unsecured; no impairment
	₱3,371,560	₱3,401,797	₱5,069,333	₱324,255	₱269,872		

c. Cost of purchased power

	Purchases			Payable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Associates</i>							
CEDC	₱285,774	₱302,186	₱327,175	₱23,790	₱25,261	30-day; interest-free	Unsecured
EAUC	108,354	99,241	93,839	6,163	12,212	30-day; interest-free	Unsecured
SNAP B	–	–	633,134	–	–	30-day; interest-free	Unsecured
SNAP M	–	103,845	31,553	–	–	30-day; interest-free	Unsecured
	₱394,128	₱505,272	₱1,085,701	₱29,953	₱37,473		

d. Expenses

	Nature	Purchases/Expenses			Payable		Terms	Conditions
		2014	2013	2012	2014	2013		
<i>AEV and subsidiaries</i>								
AEV	Professional and Technical fees	₱569,373	₱264,167	₱334,574	₱102,191	₱78,294	30-day; interest-free	Unsecured
AAI	Aviation Services	58,034	57,183	65,682	8,038	8,617	30-day; interest-free	Unsecured
Lima Land, Inc.	Concession fees	50,507	–	–	6,359	–	30-day; interest-free	Unsecured
CPDC	Rental	20,415	12,985	41,408	411	4,462	30-day; interest-free	Unsecured
Aboitizland, Inc. and subsidiaries	Rental	2,109	4,675	2,147	19	1,000	30-day; interest-free	Unsecured
<i>Other related parties</i>								
ACGI	Tunnel Repairs	–	–	254,424	–	–	30-day; interest-free	Unsecured
		₱700,438	₱339,010	₱698,235	₱117,018	₱92,373		

e. Capitalized construction and rehabilitation costs

	Purchases			Payable		Terms	Conditions
	2014	2013	2012	2014	2013		
<i>Other related parties</i>							
ACGI	₱412,980	₱469,333	₱1,456,817	₱–	₱–	30-day; interest-free	Unsecured

f. Cash Deposits and Placements with UBP

	Interest Income			Outstanding Balance		Terms	Conditions
	2014	2013	2012	2014	2013		
Company ARI and subsidiaries	₱70,232	₱23,162	₱65,306	₱3,409,341	₱3,493,860	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	57,100	47,299	97,358	1,792,428	1,951,871	90 days or less; interest-bearing	No impairment
VECO	43,839	57,794	71,780	2,850,616	7,971,358	90 days or less; interest-bearing	No impairment
DLP	10,831	4,491	–	227,525	552,229	90 days or less; interest-bearing	No impairment
SEZ	5,959	2,531	1,782	51,105	408,620	90 days or less; interest-bearing	No impairment
	3,269	2,090	5,429	78,532	289,630	90 days or less; interest-bearing	No impairment

(Forward)

	Interest Income			Outstanding Balance		Terms	Conditions
	2014	2013	2012	2014	2013		
CPPC	2,963	2,982	7,345	15,171	297,070	90 days or less; interest-bearing	No impairment
BEZ	880	657	1,146	56,246	93,982	90 days or less; interest-bearing	No impairment
MEZ	702	503	1,917	57,425	79,858	90 days or less; interest-bearing	No impairment
AI	572	215	3	184,448	54,861	90 days or less; interest-bearing	No impairment
AESI	360	2,985	1	533,213	713,384	90 days or less; interest-bearing	No impairment
CLP	62	178	90	2,164	114,282	90 days or less; interest-bearing	No impairment
PEI	49	62	113	5,082	5,069	90 days or less; interest-bearing	No impairment
LEZ	-	-	-	100,272	-	interest-bearing	No impairment
	₱196,818	₱144,949	₱252,270	₱9,363,568	₱16,026,074		

The Company's retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV. In 2014 and 2013, other than contributions to the Fund, no transactions occurred between the Company or any of its direct subsidiaries and the Fund.

Compensation of BOD and key management personnel of the Group follows:

	2014	2013	2012
Short-term benefits	₱413,429	₱462,710	₱334,464
Post-employment benefits	31,351	61,751	26,159
	₱444,780	₱524,461	₱360,623

34. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, AFS investments, bank loans, trade and other payables, finance lease obligation, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 35).

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Group.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Group's approach to risk issues in order to make relevant decisions.

Treasury service group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. 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 any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 3.27% and 1.93% of the Group's debt will mature in less than one year as of December 31, 2014 and 2013, respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱40.23 billion and ₱12.33 billion, respectively, as of December 31, 2014 and ₱31.38 billion and ₱13.04 billion, respectively, as of December 31, 2013 (see Notes 5 and 6). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2014 and 2013 based on contractual undiscounted payments:

December 31, 2014

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Trade and other payables	₱9,717,612	₱9,717,612	₱1,532	₱9,716,080	₱-	₱-
Customers' deposits	5,686,490	5,686,490	-	-	26,266	5,660,224
Bank loans	103,000	103,163	-	103,163	-	-
Finance lease obligation	54,461,021	94,324,983	-	7,353,623	41,724,000	45,247,360
Long-term obligation on power distribution system	256,015	520,000	-	40,000	200,000	280,000
Long-term debts	42,783,075	61,007,138	-	3,669,788	20,388,802	36,948,548
	₱113,007,213	₱171,359,386	₱1,532	₱20,882,654	₱62,339,068	₱88,136,132

December 31, 2013

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Trade and other payables	₱12,209,711	₱12,209,711	₱7,655	₱12,202,056	₱–	₱–
Customers' deposits	5,138,155	5,138,155	–	–	25,319	5,112,836
Bank loans	–	–	–	–	–	–
Finance lease obligation	55,202,763	100,961,864	–	6,301,339	41,256,215	53,404,310
Long-term obligation on power distribution system	263,865	560,000	–	40,000	200,000	320,000
Long-term debts	23,287,939	32,330,262	–	1,115,071	11,112,669	20,102,522
Derivative liabilities	23	23	–	23	–	–
	₱96,102,456	₱151,200,015	₱7,655	₱19,658,489	₱52,594,203	₱78,939,668

Market risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2014, 4% of the Group's long-term debt had floating interest rates ranging from 2.00% to 2.75%, and 96% have fixed rates ranging from 3.50% to 6.68%. As of December 31, 2013, 8% of the Group's long-term debt had floating interest rates ranging from 2.00% to 2.75%, and 92% have fixed rates ranging from 3.50% to 6.20%.

The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

As of December 31, 2014

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱243,658	₱1,223,456	₱252,436	₱1,719,550

As of December 31, 2013

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱259,502	₱1,212,049	₱495,004	₱1,966,555

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 35).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

	Increase (decrease) in basis points	Effect on income before tax
December 2014	200	(P34,391)
	(100)	17,196
December 2013	200	(P39,331)
	(100)	19,666

The Group's sensitivity to an increase/decrease in interest rates pertaining to derivative instruments is expected to be insignificant in 2014 and 2013 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

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

The interest expense and other finance charges recognized according to source are as follows:

	2014	2013	2012
Finance lease obligation (see Note 36)	P5,289,650	P4,804,072	P5,505,482
Bank loans and long-term debt (see Notes 17 and 18)	539,909	408,231	1,445,880
Payable to a preferred shareholder of subsidiary	–	16,072	14,168
Customers' deposits (see Note 19)	8,498	1,411	2,515
Other long-term obligations (see Notes 14 and 20)	156,040	113,942	33,797
	P5,994,097	P5,343,728	P7,001,842

Foreign exchange risk

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 30% and 38% of total consolidated borrowings as of December 31, 2014 and 2013, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2014 and 2013, translated to Philippine Peso:

	December 31, 2014		December 31, 2013	
	US Dollar	Philippine Peso equivalent ¹	US Dollar	Philippine Peso equivalent ²
Loans and receivables:				
Cash and cash equivalents	37,065	1,657,547	\$54,134	₱2,403,279
Trade and other receivables	469	20,967	12,665	562,251
Total financial assets	37,534	1,678,514	66,799	2,965,530
Other financial liabilities:				
Trade and other payables	5,252	234,860	7,582	336,577
Long-term debt	38,650	1,728,428	44,560	1,978,240
Finance lease obligation	614,635	27,486,477	627,812	27,871,714
Total financial liabilities	658,537	29,449,765	679,954	30,186,531
Total net financial liabilities	(621,003)	(27,771,251)	(\$613,155)	(₱27,221,001)

¹\$1 = ₱44.720

²\$1 = ₱44.395

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

	Increase/ (decrease) in US Dollar	Effect on income before tax
2014		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,388,563)
US Dollar denominated accounts	US Dollar weakens by 5%	1,388,563
2013		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,361,050)
US Dollar denominated accounts	US Dollar weakens by 5%	1,361,050

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.

The Group's sensitivity to an increase/decrease in foreign currency pertaining to derivative instruments is expected to be insignificant in 2014 and 2013 due to their short-term maturities and immateriality relative to the total assets and liabilities of the Group.

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

Credit risk

For its cash investments (including restricted portion), AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and AFS investments, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk.

The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.

Concentration risk

Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2014 and 2013 is summarized in the following table:

	2014	2013
Power distribution:		
Industrial	₱2,968,690	₱2,312,050
Residential	1,218,810	1,034,845
Commercial	547,802	473,117
City street lighting	15,630	33,782
Power generation:		
Power supply contracts	4,652,728	7,292,173
Spot market	1,685,598	607,740
	₱11,089,258	₱11,753,707

The above receivables were provided with allowance for doubtful accounts amounting to ₱1.56 billion in 2014 and ₱1.09 billion in 2013 (see Note 6).

Maximum exposure to credit risk after collateral and other credit enhancements

The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the consolidated balance sheet and related notes, except that the credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2014			2013		
	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade receivables:						
Power distribution	₱4,750,932	₱4,750,932	₱-	₱3,853,794	₱3,853,794	₱-

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality

The credit quality per class of financial assets is as follows:

December 31, 2014

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱4,707,517	₱-	₱-	₱-	₱4,707,517
Short-term deposits	35,524,358	-	-	-	35,524,358
	40,231,875	-	-	-	40,231,875
Trade receivables:					
Power supply contracts	1,913,221	-	-	2,739,507	4,652,728
Spot market	495,172	-	-	1,190,426	1,685,598
Industrial	2,398,768	78,698	227,425	263,799	2,968,690
Residential	448,741	10,980	53,015	706,074	1,218,810
Commercial	263,999	4,669	40,862	238,272	547,802
City street lighting	5,447	17	1,481	8,685	15,630
	5,525,348	94,364	322,783	5,146,763	11,089,258
Other receivables	2,695,032	375	5,495	101,367	2,802,269
AFS investments	3,620	-	-	-	3,620
Derivative assets	112,544	-	-	-	112,544
Total	₱48,568,419	₱94,739	₱328,278	₱5,248,130	₱54,239,566

December 31, 2013

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱7,235,538	₱-	₱-	₱-	₱7,235,538
Short-term deposits	24,147,961	-	-	-	24,147,961
	31,383,499	-	-	-	31,383,499
Trade receivables:					
Power supply contracts	4,276,690	-	-	3,015,483	7,292,173
Spot market	225,472	-	-	382,268	607,740
Industrial	1,968,797	14,916	29,605	298,732	2,312,050
Residential	415,168	9,021	39,351	571,305	1,034,845
Commercial	252,856	3,428	9,150	207,683	473,117
City street lighting	15,080	495	2,230	15,977	33,782
	7,154,063	27,860	80,336	4,491,448	11,753,707
Other receivables	2,205,783	123	-	171,401	2,377,307
AFS investments	6,654	-	-	-	6,654
Derivative assets	30,900	-	-	-	30,900
Total	₱40,780,899	₱27,983	₱80,336	₱4,662,849	₱45,552,067

High grade - pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade - pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade - pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.

The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, AFS investment and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

December 31, 2014

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	₱4,880,668	₱4,880,668	₱-	₱-	₱-	₱-
Short-term deposits	35,351,207	35,351,207	-	-	-	-
	40,231,875	40,231,875	-	-	-	-
Trade receivables:						
Power supply contracts	4,652,728	1,913,221	1,270,302	157,415	1,131,418	180,372
Spot market	1,685,598	495,172	1,306	-	30,578	1,158,542
Industrial	2,968,690	2,704,891	78,130	9,884	164,045	11,740
Residential	1,218,810	512,736	291,029	66,037	179,790	169,218
Commercial	547,802	309,530	104,687	21,722	73,959	37,904
City street lighting	15,630	6,945	811	362	6,274	1,238
	11,089,258	5,942,495	1,746,265	255,420	1,586,064	1,559,014
Other receivables	2,802,269	2,700,902	891	1,607	98,869	-
AFS investments	3,620	3,620	-	-	-	-
Derivative assets	112,544	112,544	-	-	-	-
Total	₱54,239,566	₱48,991,436	₱1,747,156	₱257,027	₱1,684,933	₱1,559,014

December 31, 2013

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	₱7,235,538	₱7,235,538	₱-	₱-	₱-	₱-
Short-term deposits	24,147,961	24,147,961	-	-	-	-
	31,383,499	31,383,499	-	-	-	-
Trade receivables:						
Power supply contracts	7,292,173	4,276,690	1,235,721	115,369	975,734	688,659
Spot market	607,740	225,472	28	481	130,389	251,370
Industrial	2,312,050	2,013,318	123,136	12,788	157,413	5,395
Residential	1,034,845	463,540	257,151	63,298	133,700	117,156
Commercial	473,117	265,434	88,134	20,033	69,211	30,305
City street lighting	33,782	17,805	4,616	1,886	9,345	130
	11,753,707	7,262,259	1,708,786	213,855	1,475,792	1,093,015
Other receivables	2,377,307	2,205,906	61,366	3,537	106,498	-
AFS investments	6,654	6,654	-	-	-	-
Derivative assets	30,900	30,900	-	-	-	-
Total	₱45,552,067	₱40,889,218	₱1,770,152	₱217,392	₱1,582,290	₱1,093,015

Capital Management

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

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

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and finance lease obligation) less cash and short-term deposits.

Gearing ratios of the Group as of December 31, 2014 and 2013 are as follows:

	2014	2013
Bank loans	₱103,000	₱-
Long-term debt	97,244,096	78,490,702
Cash and cash equivalents	(40,231,875)	(31,383,499)
Net debt (a)	57,115,221	47,107,203
Equity	96,080,439	91,250,757
Equity and net debt (b)	₱153,195,660	₱138,357,960
Gearing ratio (a/b)	37.28%	34.05%

Part of the Group's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2014 and 2013 (see Note 18).

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2014 and 2013, these entities have complied with the requirement as applicable (see Note 38).

No changes were made in the objectives, policies or processes during the years ended December 31, 2014 and 2013.

35. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

	2014		2013	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Liabilities				
Finance lease obligation	₱54,461,021	₱67,425,952	₱55,202,763	₱69,828,432
Long-term debt - fixed rate	41,063,525	41,804,240	21,321,384	21,784,973
Long-term obligation on power distribution system	256,015	415,314	263,865	426,172
	₱95,780,561	₱109,645,506	₱76,788,012	₱92,039,577

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

Cash and cash equivalents, trade and other receivables, bank loans and trade and other payables. The carrying amounts of cash and cash equivalents, trade and other receivables, bank loans and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.10% to 6.17% in 2014 and 1.36% to 5.27% in 2013.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.

Finance lease obligation. The fair value of the finance lease obligation was calculated by discounting future cash flows using interest rates of 5.86% to 10.05% in 2014 and 5.82% to 9.34% in 2013 for dollar payments and 1.79% to 5.99% in 2014 and 1.76% to 5.74% in 2013 for peso payments.

Long-term obligation on PDS. The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 2.70% to 4.66% in 2014 and 0.93% to 4.38% in 2013.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments. These are carried at cost less impairment because fair value cannot be determined reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at reliable fair value.

Derivative financial instruments

The fair value is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The Group enters into non-deliverable short-term forward contracts with counterparty banks to manage its foreign currency risks associated with foreign currency-denominated liabilities and purchases.

The Group also entered into an interest rate swap agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

Interest rate swap

In August 2012, LHC entered into an interest rate swap agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar denominated loan. Under the interest rate swap agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the interest rate swap has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.

As of December 31, 2014, the outstanding notional amount and derivative asset as a result of the swap amounted to \$38.7 million and ₱13.0 million, respectively. As of December 31, 2013, the outstanding notional amount and derivative asset as a result of the swap amounted to \$41.3 million and ₱30.2 million, respectively.

Par forward contracts

In 2014, the Group's Joint Operation entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the EPC contract related to the construction of a power plant. The par forward contracts were designated as cash flow hedges. As of December 31, 2014, the aggregate notional amount of the par forward contracts is ₱1.58 billion. The Group's share in the derivative asset of the Joint Operation amounted to ₱99.5 million, out of which ₱53.5 million is expected to be settled within the next twelve months.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2014 and 2013 are as follows:

	2014	2013
At beginning of year	₱30,877	(₱26,542)
Net changes in fair value of derivatives	54,703	21,093
Fair value of settled instruments	26,964	36,326
At end of year	₱112,544	₱30,877

The loss of ₱1.0 million and ₱18.9 million in 2014 and 2013, respectively, from the net fair value changes relating to the forward contracts are included under “Net foreign exchange gains (losses)” in Note 29. The changes in the fair value of the interest rate swap were deferred in equity under “Cumulative translation adjustments.”

The net movement of changes to Cumulative translation adjustment is as follows:

	2014	2013
Balance at beginning of year (net of tax)	₱27,185	(₱26,256)
Changes in fair value recorded in equity	55,600	39,946
	82,785	13,690
Changes in fair value transferred to profit or loss	26,738	19,433
Balance at end of year before deferred tax effect	109,523	33,123
Deferred tax effect	(28,135)	(5,938)
Balance at end of year (net of tax)	₱81,388	₱27,185

The Group has not bifurcated any embedded derivatives as of December 31, 2014 and 2013.

Fair Value Hierarchy

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of December 31, 2014 and 2013, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2014

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative asset	₱112,544	₱-	₱112,544	₱-
Disclosed at fair value:				
Finance lease obligation	67,425,952	-	-	67,425,952
Long-term debt - fixed rate	41,804,240	-	-	41,804,240
Long-term obligation on PDS	415,314	-	-	415,314

December 31, 2013

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative asset	₱30,900	₱-	₱30,900	₱-
Derivative liability	23	-	23	-
Disclosed at fair value:				
Finance lease obligation	69,828,432	-	-	69,828,432
Long-term debt - fixed rate	21,784,973	-	-	21,784,973
Long-term obligation on PDS	426,172	-	-	426,172

During the years ended December 31, 2014 and 2013, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

36. Lease Agreements

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the financial statements as "Power plant" and "Finance lease obligation" accounts, respectively. The discount determined at inception of the IPP Administration Agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2014, 2013 and 2012 amounted to ₱5.29 billion, ₱4.80 billion and ₱5.51 billion, respectively (see Note 34).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2014 and 2013 are as follows:

	Dollar payments	Peso equivalent of dollar payments ¹	Peso payments	2014 Total
Within one year	\$79,310	₱3,546,743	₱3,806,880	₱7,353,623
After one year but not more than five years	450,000	20,124,000	21,600,000	41,724,000
More than five years	488,000	21,823,360	23,424,000	45,247,360
Total contractual payments	1,017,310	45,494,103	48,830,880	94,324,983
Unamortized discount	402,675	18,007,618	21,856,344	39,863,962
Present value	\$614,635	₱27,486,485	₱26,974,536	54,461,021
Less current portion				1,971,739
Noncurrent portion of finance lease obligation				₱52,489,282

	Dollar payments	Peso equivalent of dollar payments ¹	Peso payments	2013 Total
Within one year	\$68,200	₱3,027,739	₱3,273,600	₱6,301,339
After one year but not more than five years	446,520	19,823,255	21,432,960	41,256,215
More than five years	578,000	25,660,310	27,744,000	53,404,310
Total contractual payments	1,092,720	48,511,304	52,450,560	100,961,864
Unamortized discount	464,908	20,639,607	25,119,494	45,759,101
Present value	\$627,812	₱27,871,697	₱27,331,066	55,202,763
Less current portion				780,905
Noncurrent portion of finance lease obligation				₱54,421,858

¹\$1 = ₱44.720 in 2014; ₱44.395 in 2013

APRI

On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of twenty-five (25) years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 15). Total lease charged to operations amounted to ₱19.7 million in 2014, 2013 and 2012 (see Note 26).

Therma Mobile

Lease agreements with the Philippine Fisheries Development Authority:

- On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines and
- On December 1, 2014, a 10-year lease for the ground floor of NFPC's administrative building.

Future minimum lease payments are as follows (amounts in millions):

	2014	2013
Not later than one year	₱11.7	₱1.0
Later than 1 year but not later than 5 years	71.7	69.1
Later than 5 years	59.1	73.4

Rental expense amounted to ₱19.7 million in 2014, ₱2.6 million in 2013 and ₱1.5 million in 2012 (see Note 26).

HI, HTI and HSI

HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 25 years renewable upon mutual agreement by the parties. Future minimum rental contract provisions are as follows (amounts in millions):

	2014	2013
Not later than one year	₱9.8	₱9.8
Later than 1 year but not later than 5 years	38.5	38.5
Later than 5 years	143.9	143.9

Total lease charged to operations related to these contracts amounted to ₱12.8 million in 2014, ₱9.5 million in 2013 and ₱9.5 million in 2012 (see Note 26).

37. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

- a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
- b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

- a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
- b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
- d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011 (see Note 22).

In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 36).

Agreements with Contractors and Suppliers

- a. APRI total steam supply cost reported as part of “Cost of generated power” amounted to ₱4.94 billion in 2014, ₱4.26 billion in 2013 and ₱4.16 billion in 2012 (see Note 24).

On May 26, 2013, APRI’s steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government’s existing contract with Chevron when the Tiwi-Makban facilities were bidded out under the former’s privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until February 25, 2015.

- b. Construction of civil works and electro-mechanical works and project management related to the construction of the Tudaya 1 and 2 hydro power plants. Total purchase commitments entered into by the Hedcor Sibulan and Hedcor Tudaya amounted to ₱52.7 million and €2.0 million as of December 31, 2014, respectively, and ₱458.6 million and \$0.2 million, as of December 31, 2013, respectively. Total payments made for the commitments of Hedcor Sibulan amounted to ₱49.4 million and ₱405.0 million as of December 31, 2014 and 2013, respectively. Whereas the total payments made for the commitments of Hedcor Tudaya amounted to €0.5 million and \$0.2 million as of December 31, 2014 and 2013, respectively.
- c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2014 have aggregate supply amounts of 560,000 MT (equivalent dollar value is estimated to be at \$32 million) which are due for delivery from January 2015 to April 2015. The coal supply agreements for the past three years had terms of payment by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.

38. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

- a. ITH for a period of four (4) to six (7) years, as follows:

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
APRI	June 19, 2009	June 1, 2009	6 years
TLI ²	February 26, 2010	January 1, 2010	4 years
Hedcor Sibulan ³	December 27, 2007	March 1, 2010	7 years

(Forward)

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan ⁴	April 23, 2013	September 1, 2014 ¹	7 years
Hedcor, Inc. ⁵	February 20, 2013	February 1, 2013	7 years
Hedcor Tudaya	January 31, 2013	August 1, 2014 ¹	7 years
Therma Marine ²	May 28, 2010	May 1, 2010	4 years
TSI	July 15, 2011	June 1, 2015 ¹	4 years
TVI	July 17, 2012	July 1, 2017 ¹	4 years
Hedcor Bukidnon	January 7, 2015	Start of commercial operations	4 years

¹ or actual start of commercial operations, whichever is earlier

² Expired ITH: TLI - December 31, 2013; Therma Marine - May 27, 2014

³ for Sibulan hydroelectric plants with 1 year extension

³ for Tudaya-1 hydroelectric plant

⁴ for Irisan-1 hydroelectric plant

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

- b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
- c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.
- d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.
- e. For APRI, it may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order No. 528 and its Implementing Rules and Regulations.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2014 and 2013, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

39. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

The Company obtained SBLC and is acting as surety for the benefit of certain associates and a subsidiary in connection with loans and credit accommodations. The Company provided SBLC for STEAG, SNAP M, SNAP B, CEDC and LHC in the amount of ₱1.98 billion in 2014, ₱2.10 billion in 2013 and ₱1.90 billion in 2012.

40. Other Matters**a. Temporary Restraining Order (TRO) affecting Power Generation Companies trading in WESM**

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the Energy Regulatory Commission (ERC) and the Manila Electric Company (MERALCO) with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the legality of Sections 6, 29 and 45 of the EPIRA, the failure of ERC to protect consumers from the high energy prices and the perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013 (the TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC).

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The Supreme Court set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were ordered to file their comments and/or memorandum. The case is pending before the SC.

As a result of the TRO, Meralco has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the Meralco price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the “Must-Offer” rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the “Must-Offer Rule” during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.

Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to Meralco. Although Therma Mobile’s rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile’s engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

Last February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. Last February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC. Therma Mobile and PEMC have agreed to maintain the status-quo until the RTC rules on the Therma Mobile’s application for preliminary injunction.

c. Therma Marine Case

As of December 31, 2010, Therma Marine has outstanding cases with the ERC regarding the approved ancillary service and procurement rates under the ASPAs approved on October 4, 2010. The rates approved by ERC are lower than the rates approved under the provisional authority it granted in March 2010.

Consequently, in November 2010, Therma Marine filed a motion for reconsideration with ERC negotiating the increase in rates. While waiting for the ERC decision on the motion for reconsideration, Therma Marine started to recognize revenues using the approved rates by ERC.

On January 24, 2011, ERC granted Therma Marine's motion for reconsideration to use different rates which were higher than the ERC approved rates in 2010.

On July 9, 2012, a new order was released by ERC approving new recomputed capital recovery fee rates related to the Company's ASPA with NGCP which were lower than the rates previously approved on January 24, 2011.

In 2013, ERC issued Final Approval of various ESAs of the Company with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. To date, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2014.

f. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the financial statements. The case remains pending as of December 31, 2014.

g. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The IRR were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides 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 of a company, including its contracts with IPPs and electricity rates;
- ii. Creation of a WESM; 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 date of the EPIRA. It provides cross ownership restrictions between transmission and generation 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.

h. Open Access and Retail Competition

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition are as follows:

- (a) Establishment of the WESM;
- (b) Approval of unbundled transmission and distribution wheeling charges;
- (c) Initial implementation of the cross subsidy removal scheme;
- (d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- (e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Under the Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier (RES) license from the ERC.

In June 2011, ERC declared December 26, 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. In September 2012, the ERC declared the start of Open Access on December 26, 2012. Open Access commercial operations under an interim development system have been implemented starting June 26, 2013.

The implementation of Open Access enabled the Group to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. The Group has two wholly owned subsidiaries that are licensed RES. Open Access allowed the Group's RES subsidiaries to enter into contracts with the eligible contestable customers.

On December 19, 2013, the ERC issued Resolution 22 Series of 2013, revising the licensing regulation for RES companies. Items amended include the following:

- Restriction for Generator, IPPA and DU affiliates in securing license as a RES company;
- Transfer of live Retail Supply Contracts (RSCs) for RES with expired license to another licensed RES;
- Determination of full retail competition to be made by ERC not later than June 25, 2015;

- Contracted capacities of RES affiliates to be included in the grid limitations imposed on Generation Companies;
- End-user affiliate RES limited to supplying up to 50% of its total contestable customer affiliates;
- RES companies are limited to procuring up to 50% of its generation requirements from affiliate Generation Companies;
- Annual submission of 5-year Business Plan; and
- Submission of live Retail Supply Contracts for review by the ERC.

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, then the Retail Electricity Suppliers Association (RESA) challenged its legality at the Pasig RTC. Trial is currently on-going to clarify legality of such issuance.

i. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the “Renewable Energy Act of 2008” (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country’s dependence on fossil fuels and thereby minimize the country’s exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

As provided for in the Act, renewable energy (RE) developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the BOI, shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Group expects that the Act may have significant effects on the operating results of some of its subsidiaries and associates that are RE developers. Impact on the operating results is expected to arise from the effective reduction in taxes.

j. CSR Projects

The Group has several CSR projects in 2014, 2013 and 2012 which are presented as part of “General and administrative expenses” (see Note 25).

**Aboitiz Power Corporation
and Subsidiaries**

**Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2014**

and

Independent Auditors' Report

**Philippine
Pesos**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**Supplementary Schedules Required
By the Securities and Exchange Commission
As of and for the Year Ended December 31, 2014**

			Page
A	-	Financial Assets	1
B	-	Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	NA
C	-	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	2
D	-	Intangible Assets – Other Assets	3
E	-	Long-Term Debt	4
F	-	Indebtedness to Related Parties (Long-Term Loans from Related Companies)	NA
G	-	Guarantees of Securities of Other Issuers	NA
H	-	Capital Stock	5
I	-	Trade and Other Receivables from Related Parties which are Eliminated during the Consolidation of Financial Statements	6
J	-	Trade and Other Payables from Related Parties which are Eliminated during the Consolidation of Financial Statements	7
		Reconciliation of Retained Earnings Available for Dividend Declaration	8
		Conglomerate Mapping	9
		Financial Ratios	10
		Schedule of PFRS Effective as of December 31, 2014	11

NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2014

(Amounts in Thousands except number of shares)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Income received and accrued
CASH IN BANK			
Banco de Oro		P815,786	P272
Bank of Commerce		62	
Bank of the Philippine Islands		172,649	250
Citibank		1,066	
Development Bank of the Philippines		874	
Land Bank of the Philippines		1,551	
Metropolitan Bank and Trust Company		475,917	983
Mizuho Corporate Bank, Ltd.		65,400	632
One Network Bank		10,765	
Philippine National Bank		385,049	60
Rizal Commercial Banking Corporation		101,433	296
Security Bank Corporation		241,951	19
Union Bank of the Philippines		2,239,528	36,379
TOTAL		P4,512,031	P38,891
MONEY MARKET PLACEMENT			
Banco de Oro		P3,256,288	P33,810
Bank of the Philippine Islands		75,781	7,017
City Savings Bank		8,731,352	80,013
First Metro Investment Corporation		4,700,000	44,712
Metropolitan Bank and Trust Company		11,427,458	106,421
Rizal Commercial Banking Corporation		16,963	172
Mizuho Corporate Bank, Ltd.		-	196
United Coconut Planters Bank		19,325	244
Union Bank of the Philippines		7,124,040	160,439
TOTAL		P35,351,207	P433,024
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,049,637	P-
Commercial		510,092	-
Industrial		2,959,860	-
City street Lighting		14,400	-
Spot market		527,056	-
Power supply contracts		4,469,199	-
Dividends Receivable		1,648,000	-
Accrued Revenues		474,356	-
Non-trade Receivables		333,093	-
Other Receivables		346,820	
TOTAL		P12,332,513	P-
AFS INVESTMENTS			
Apo Golf & Country Club	3	P2	P-
Banco De Oro	8,050	793	-
Philippine Long Distance Telephone Co.	36,463	458	-
PICOP Resources, Inc.	164	8	
Alta Vista Golf & Country Club	1	2,265	
Others	938	94	
TOTAL		P3,620	P-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTSAS OF DECEMBER 31, 2014
(Amounts in Thousands)

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non-Current	Ending Balance
			Amounts Collected	Amounts Written-Off			
Davao Light & Power Co., Inc.	P162,832	P2,778,904	(P2,633,144)	P-	P308,592	P-	P308,592
Therma Power, Inc. and Subsidiaries	3,324	94,070	(51,396)	-	45,998	-	45,998
Cotabato Light & Power Company	2,509	20,365	(13,439)	-	9,435	-	9,435
Aboitiz Renewables, Inc. and Subsidiaries	23,889	77,334	(45,155)	-	56,068	-	56,068
Subic Enerzone Corporation	-	2,929	2	-	2,931	-	2,931
Visayan Electric Co., Inc.	276,586	1,713,539	(1,853,145)	-	136,980	-	136,980
Aboitiz Energy Solutions, Inc.	561,143	5,279,479	(4,990,876)	-	849,746	-	849,746
Mactan Enerzone Corporation	-	1,096	-	-	1,096	-	1,096
Balamban Enerzone Corporation	-	1,097	-	-	1,097	-	1,097
Cebu Private Power Corporation	-	18,000	(18,000)	-	-	-	-
Lima Enerzone Corporation	-	328,897	(229,744)	-	99,153	-	99,153
Adventenergy, Inc.	43,308	1,300,831	(840,398)	-	503,741	-	503,741
T O T A L	P1,073,591	P11,616,541	(P10,675,295)	P-	P2,014,837	P-	P2,014,837

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2014

(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS		Other Changes Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
A. Intangibles						
Goodwill	P806,090	P-	P-	P-	P288,597	P1,094,687
Service concession rights	3,663,275	36,286	(318,175)	-	18,968	3,400,354
Project development costs	121,988	143,820	(19,213)	-	-	246,595
Franchise	3,046,311	-	(76,772)	-	(12,963)	2,956,576
Customer contracts	-	-	(5,721)	-	60,068	54,347
Software and licenses	13,036	37,495	(12,787)	-	-	37,744
Total	P7,650,700	P217,601	(P432,668)	P-	P354,670	P7,790,303
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	388,679	-	-	-	(19,570)	369,109
Deferred input vat and tax credit receivable	3,549,838	-	-	-	2,159,017	5,708,855
Advances to contractors	170,282	-	-	-	(164,988)	5,294
Receivable from NGCP	-	-	-	-	608,482	608,482
Refundable deposits	286,840	-	-	-	126,109	412,949
Others	226,509	-	-	-	36,793	263,302
Total	P4,622,148	P-	P-	P-	P2,745,843	P7,367,991
Total	P12,272,848	P217,601	(P432,668)	P-	P3,100,513	P15,158,294

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2014
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent:				
Aboitiz Power Corporation	P9,901,934	P-	P9,901,934	
Subsidiaries:				
Hedcor, Inc.	804,625	88,955	715,670	
Subic Enerzone Corporation	395,500	56,500	339,000	
Luzon Hydro Corporation	1,719,550	243,658	1,475,892	
Davao Light & Power Co., Inc.	1,344,000	156,000	1,188,000	
Cotabato Light & Power Company	268,800	30,000	238,800	
Therma South, Inc.	23,721,481	603,089	23,118,392	
Pagbilao Energy Corp. (Joint Operation)	2,842,311	-	2,842,311	
Visayan Electric Co., Inc.	1,784,874	210,789	1,574,085	
Total	P42,783,075	P1,388,991	P41,394,084	

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2014

(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	16,000,000	7,358,604	-	5,821,935	106,341	1,430,328
PREFERRED SHARES	1,000,000	-	-	-	-	-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES**SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS****AS OF DECEMBER 31, 2014
(Amounts in Thousands)**

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P237,575	P71,017	P308,592	2,778,904.00	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	-	45,998	45,998	94,070.00	-	-	30 days
Cotabato Light & Power Company	-	9,435	9,435	20,365.00	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	56,068	56,068	77,334.00	-	-	30 days
Subic Enerzone Corporation	-	2,931	2,931	2,929.00	-	-	30 days
Visayan Electric Co., Inc.	100,623	36,357	136,980	1,713,539.00	-	-	30 days
Aboitiz Energy Solutions, Inc.	849,746	-	849,746	5,279,479.00	-	-	30 days
Mactan Enerzone Corporation	-	1,096	1,096	1,096.00	-	-	30 days
Balamban Enerzone Corporation	-	1,097	1,097	1,097.00	-	-	30 days
Cebu Private Power Corporation	-	-	-	18,000.00	-	-	30 days
Lima Enerzone Corporation	98,260	893	99,153	328,897.00	-	-	30 days
Adventenergy, Inc.	503,741	-	503,741	1,300,831.00	-	-	30 days
TOTAL	P1,789,945	P224,892	P2,014,837	11,616,541.00	P-	P-	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2014
(Amounts in Thousands)**

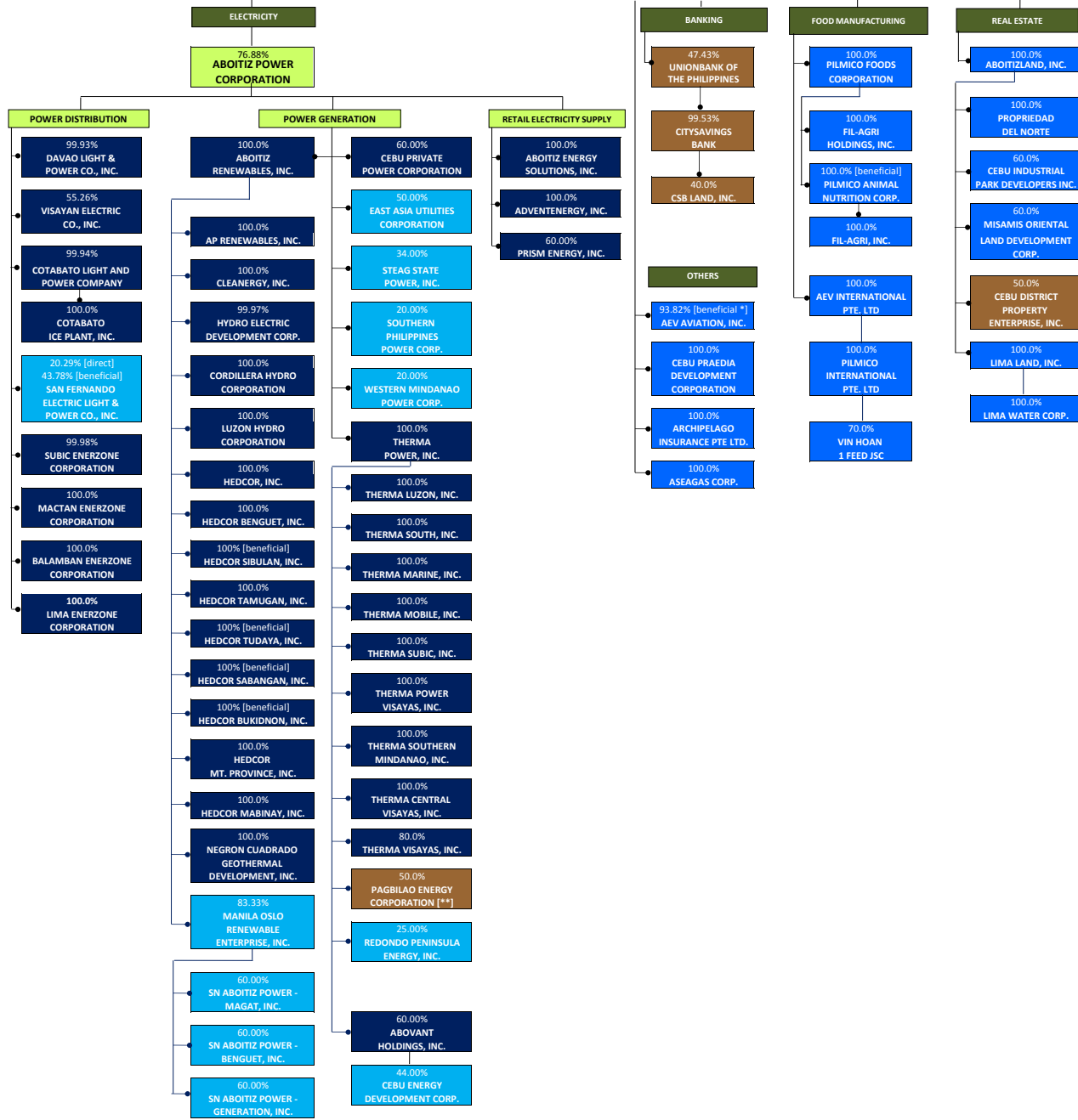
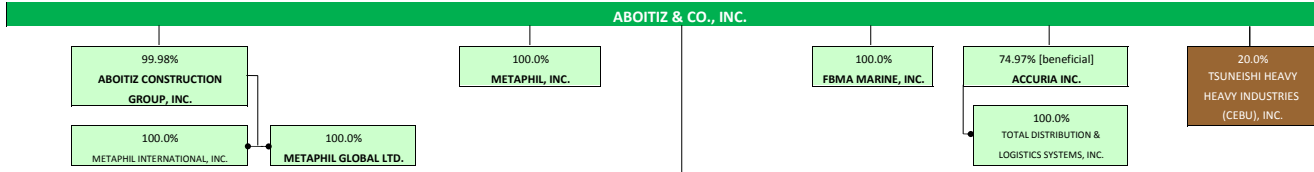
Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P224,892	P224,892	P703,971	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	751,860	-	751,860	5,797,255	-	-	30 days
Cebu Private Power Corporation	100,623	-	100,623	1,505,150	-	-	30 days
Therma Power, Inc. and Subsidiaries	937,462	-	937,462	3,610,165	-	-	30 days
TOTAL	P1,789,945	P224,892	P2,014,837	P11,616,541	P-	P-	

Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2014
(Amount in Philippine Currency)

Unappropriated Retained Earnings, <i>beginning</i>		P46,174,305,525
Less:		
Appropriation for the year 2014		(20,900,000,000)
		25,274,305,525
Net income based on face of audited financial statements	P15,161,865,895	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period	15,161,865,895	
Less:		
Dividend declaration during the period		(12,215,283,149)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		P28,220,888,271

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAPPING
 As of December 31, 2014

- Legend:**
- Ultimate Parent Company
 - Subsidiary of Ultimate Parent
 - Parent Company
 - Reporting Company
 - Co-Subsidiary
 - Subsidiary
 - Associate
 - Other Related Parties



*AP has a 26.69% direct ownership in AEV Aviation, Inc.
 ** Joint arrangement

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2014	2013
LIQUIDITY RATIOS			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	3.36	2.87
Acid test ratio	$\frac{\text{Cash + Marketable securities} + \text{Accounts receivable} + \text{Other liquid assets}}{\text{Current liabilities}}$	3.12	2.60
SOLVENCY RATIOS			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	1.26	1.13
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	2.26	2.13
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity}}$	0.59	0.52
Gearing ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity} + (\text{Debt - Cash \& cash equivalents})}$	37.28%	34.05%
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	4.88	5.04
PROFITABILITY RATIOS			
Operating margin	$\frac{\text{Operating profit}}{\text{Total revenues}}$	25.76%	27.03%
Return on equity	$\frac{\text{Net income after tax}}{\text{Total equity}}$	21.29%	26.50%

Aboitiz Power Corporation and Subsidiaries
Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2014

Standards and Interpretations		Remarks
Philippine Financial Reporting Standards (PFRS)		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	Adopted
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	Not Applicable
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	Not Applicable
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	Not Applicable
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	Not Applicable
	Amendments to PFRS 1: Government Loans	Not Applicable
PFRS 2	Share-based Payment	Not Applicable
	Amendments to PFRS 2: Vesting Conditions and Cancellations	Not Applicable
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	Not Applicable
	Amendments to PFRS 2: Definition of Vesting Condition	See footnote ¹
PFRS 3 (Revised)	Business Combinations	Adopted
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	See footnote ¹
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures	See footnote ¹
PFRS 4	Insurance Contracts	Not Applicable
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Adopted
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
	Amendment to PFRS 5: Changes in Methods of Disposal	See footnote ¹
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable
PFRS 7	Financial Instruments: Disclosures	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	Adopted
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	Adopted
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	Adopted
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	Adopted
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Adopted
	Amendments to PFRS 7: Servicing Contracts	See footnote ¹
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	See footnote ¹
PFRS 8	Operating Segments	Adopted
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	See footnote ¹
PFRS 9	Financial Instruments	Not Early Adopted
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	Not Early Adopted
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)	See footnote ¹
PFRS 10	Consolidated Financial Statements	Adopted
	Amendments to PFRS 10: Transition Guidance	Adopted
	Amendments to PFRS 10: Investment Entities	Adopted
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote ¹
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	See footnote ¹
PFRS 11	Joint Arrangements	Adopted
	Amendments to PFRS 11: Transition Guidance	Adopted
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	See footnote ¹
PFRS 12	Disclosure of Interests in Other Entities	Adopted
	Amendments to PFRS 12: Transition Guidance	Adopted
	Amendments to PFRS 12: Investment Entities	Adopted
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception	See footnote ¹
PFRS 13	Fair Value Measurement	Adopted
	Amendments to PFRS 13: Short-term Receivables and Payables	Adopted
	Amendments to PFRS 13: Portfolio Exception	See footnote ¹
PFRS 14	Regulatory Deferral Accounts	See footnote ¹
Philippine Accounting Standards (PAS)		
PAS 1 (Revised)	Presentation of Financial Statements	Adopted
	Amendment to PAS 1: Capital Disclosures	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Adopted
	Amendment to PAS 1: Disclosure Initiative	See footnote ¹
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	Adopted
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Reporting Period	Adopted
PAS 11	Construction Contracts	Not Applicable
PAS 12	Income Taxes	Adopted
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	Adopted
PAS 16	Property, Plant and Equipment	Adopted
	Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Amortization	See footnote ¹
	Amendments to PAS 16: Classification of Acceptable Methods of Depreciation and Amortization	See footnote ¹
	Amendments to PAS 16: Bearer Plants	See footnote ¹
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19	Employee Benefits	Adopted
PAS 19 (Amended)	Employee Benefits	Adopted
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	Adopted
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted

Aboitiz Power Corporation and Subsidiaries**Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2014**

	Standards and Interpretations	Remarks
	Amendment: Net Investment in a Foreign Operation	Adopted
PAS 23 (Revised)	Borrowing Costs	Adopted
PAS 24 (Revised)	Related Party Disclosures	Adopted
	Amendments to PAS 24: Key Management Personnel Services	See footnote ¹
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27	Consolidated and Separate Financial Statements	Adopted
PAS 27 (Amended)	Separate Financial Statements	Adopted
	Amendments to PAS 27 (Amended): Investment Entities	Adopted
	Amendments to PAS 27: Equity Method in Separate Financial Statements	See footnote ¹
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Adopted
	Amendments to PAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote ¹
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote ¹
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	Adopted
	Financial Instruments: Presentation	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendment to PAS 32: Classification of Rights Issues	Adopted
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	See footnote ¹
PAS 36	Impairment of Assets	Adopted
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	See footnote ¹
	Amendments to PAS 38: Classification of Acceptable Methods of Depreciation and Amortization	See footnote ¹
PAS 39	Financial Instruments: Recognition and Measurement	Adopted
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	Adopted
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	Adopted
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	Adopted
	Amendment to PAS 39: Eligible Hedged Items	Adopted
PAS 40	Investment Property	Adopted
	Amendments to PAS 40: Clarifying the Interrelationship Between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	See footnote ¹
PAS 41	Agriculture	Not Applicable
	Amendments to PAS 41: Bearer Plants	See footnote ¹

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Adopted
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	Adopted
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	Adopted
IFRIC 10	Interim Financial Reporting and Impairment	Adopted
IFRIC 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	Not Applicable
IFRIC 15	Agreements for the Construction of Real Estate	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted
IFRIC 18	Transfers of Assets from Customers	Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not Applicable
IFRIC 21	Levies	Adopted

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable
SIC 15	Operating Leases - Incentives	Adopted
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Adopted
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted
SIC 29	Service Concession Arrangements: Disclosures	Adopted
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable
SIC 32	Intangible Assets - Web Site Costs	Adopted

International Financial Reporting Standards

IFRS 15	Revenue from Contracts with Customers	See footnote ²
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¹ Effective subsequent to December 31, 2014² New standard issued by the IASB but has not yet been adopted by the FRSC.

