

SMC GLOBAL POWER HOLDINGS CORP.
(A Wholly-owned Subsidiary of San Miguel Corporation)
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
SMC Global Power Holdings Corp.

We have audited the accompanying consolidated financial statements of SMC Global Power Holdings Corp. (a wholly-owned subsidiary of San Miguel Corporation) and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes, comprising 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 auditors' 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 auditors consider 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 consolidated financial position of SMC Global Power Holdings Corp. and Subsidiaries as at December 31, 2015 and 2014, and the consolidated financial performance and consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

R.G. Manabat & Co.

March 17, 2016
Makati City, Metro Manila

SMC GLOBAL POWER HOLDINGS CORP.
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AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014
(In Thousands)

	<i>Note</i>	2015	2014
ASSETS			
Current Assets			
Cash and cash equivalents	8, 26, 27	P22,241,361	P38,304,294
Trade and other receivables - net	4, 9, 18, 26, 27	18,473,625	18,208,339
Inventories	4, 10	1,263,218	1,365,033
Prepaid expenses and other current assets	7, 11	15,068,747	9,137,202
Total Current Assets		57,046,951	67,014,868
Noncurrent Assets			
Property, plant and equipment - net	4, 12	255,452,996	228,133,323
Investments and advances - net	4, 13	10,612,937	10,612,277
Deferred exploration and development costs	4, 6	689,548	671,783
Intangible assets and goodwill	4, 6, 14	2,413,249	2,322,241
Deferred tax assets	4, 23	2,745,943	2,779,380
Other noncurrent assets - net	15, 18, 26, 27	2,248,226	2,215,415
Total Noncurrent Assets		274,162,899	246,734,419
		P331,209,850	P313,749,287
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accrued expenses	13, 16, 18, 26, 27, 29	P32,841,050	P28,101,112
Finance lease liabilities - current portion	4, 7, 26, 27	16,546,763	16,205,224
Current maturities of long-term debt - net of debt issue costs	17, 26, 27	15,647,244	1,330,037
Income tax payable		99,275	151,360
Total Current Liabilities		65,134,332	45,787,733
Noncurrent Liabilities			
Long-term debt - net of current maturities and debt issue costs	17, 26, 27	42,960,617	47,383,208
Finance lease liabilities - net of current portion	4, 7, 26, 27	162,646,430	170,098,521
Deferred tax liabilities	23	3,882,930	3,043,470
Other noncurrent liabilities	16, 19, 29	150,283	687,178
Total Noncurrent Liabilities		209,640,260	221,212,377
Total Liabilities		274,774,592	267,000,110

Forward

	<i>Note</i>	2015	2014
Equity	<i>20</i>		
Capital stock		P1,062,504	P1,062,504
Additional paid-in capital		2,490,000	2,490,000
Undated subordinated capital securities		26,933,565	13,110,066
Reserves		785,279	785,279
Reserve for retirement plan		(15,648)	-
Retained earnings		25,179,558	29,301,328
Total Equity		56,435,258	46,749,177
		P331,209,850	P313,749,287

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP.
(A Wholly-owned Subsidiary of San Miguel Corporation)
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CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands, Except Per Share Data)

	<i>Note</i>	2015	2014
REVENUES	5, 7, 18, 28		
Sale of power		P73,849,465	P80,080,157
Retail and other power-related services		3,657,226	4,213,433
		77,506,691	84,293,590
COST AND EXPENSES			
Cost of power sold:			
Energy fees	5, 7	23,224,178	30,775,896
Coal, fuel oil and other consumables	5, 7, 10, 18	10,376,590	11,945,280
Power purchases	5, 7	8,330,550	6,045,468
Depreciation and amortization	5, 7, 12	6,466,398	6,143,866
Plant operations and maintenance fees	5, 18, 21	502,211	575,632
Operating expenses	5, 7, 18, 21	4,904,135	2,911,930
		53,804,062	58,398,072
		23,702,629	25,895,518
INTEREST INCOME	8	414,444	549,977
INTEREST EXPENSE AND OTHER FINANCING CHARGES	7, 17	(13,130,252)	(13,168,470)
EQUITY IN NET LOSSES OF AN ASSOCIATE AND JOINT VENTURES - Net	13	(528,445)	(22,345)
OTHER INCOME (CHARGES) - Net	7, 22	(5,926,050)	68,225
INCOME BEFORE INCOME TAX		4,532,326	13,322,905
INCOME TAX EXPENSE - Net	23, 24	2,703,408	2,693,423
NET INCOME		P1,828,918	P10,629,482
Basic/Diluted Earnings Per Share	25	(P0.07)	P7.73

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP.
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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands)

	<i>Note</i>	2015	2014
NET INCOME		P1,828,918	P10,629,482
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Equity reserve for retirement plan	19	(22,354)	-
Income tax benefit	23	6,706	-
TOTAL COMPREHENSIVE INCOME		P1,813,270	P10,629,482

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP.
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands)

	Capital Stock (Note 20)	Additional Paid-in Capital	Undated Subordinated Capital Securities (Note 20)	Reserves (Note 20)	Reserve for Retirement Plan (Note 19)	Retained Earnings (Note 20)	Total Equity
Balance as of January 1, 2015	P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177
Net income for the year	-	-	-	-	-	1,828,918	1,828,918
Equity reserve for retirement plan - net of tax	-	-	-	-	(15,648)	-	(15,648)
Total comprehensive income for the year	-	-	-	-	(15,648)	1,828,918	1,813,270
Issuance of undated subordinated capital securities	-	-	13,823,499	-	-	-	13,823,499
Dividends declared	-	-	-	-	-	(4,500,000)	(4,500,000)
Distributions paid	-	-	-	-	-	(1,450,688)	(1,450,688)
Balance as of December 31, 2015	P1,062,504	P2,490,000	P26,933,565	P785,279	(P15,648)	P25,179,558	P56,435,258
Balance as of January 1, 2014	P1,062,504	P2,490,000	P -	P785,279	P -	P29,395,060	P33,732,843
Issuance of undated subordinated capital securities	-	-	13,110,066	-	-	-	13,110,066
Net income/total comprehensive income for the year	-	-	-	-	-	10,629,482	10,629,482
Dividends declared	-	-	-	-	-	(10,000,000)	(10,000,000)
Distributions paid	-	-	-	-	-	(723,214)	(723,214)
Balance as of December 31, 2014	P1,062,504	P2,490,000	P13,110,066	P785,279	P -	P29,301,328	P46,749,177

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP.
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CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014
(In Thousands)

	<i>Note</i>	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P4,532,326	P13,322,905
Adjustments for:			
Interest expense and other financing charges	7, 17	13,130,252	13,168,470
Unrealized foreign exchange losses - net	26	7,505,369	1,584,500
Depreciation and amortization	7, 12	6,539,813	6,187,640
Equity in net losses of an associate and joint ventures - net	13	528,445	22,345
Impairment losses on trade and other receivables	9	374,801	144,393
Retirement benefit expense	19	6,611	8,978
Interest income		(414,444)	(549,977)
Operating income before working capital changes		32,203,173	33,889,254
Decrease (increase) in:			
Trade and other receivables - net	9	(749,571)	(3,037,652)
Inventories	10	101,815	134,102
Prepaid expenses and other current assets	11	(6,647,768)	(1,902,310)
Other noncurrent assets	15	221,001	1,290,895
Increase (decrease) in:			
Accounts payable and accrued expenses	16, 29	4,686,593	5,136,893
Other noncurrent liabilities		(565,860)	670,486
Cash generated from operations		29,249,383	36,181,668
Interest income received		426,480	546,350
Finance cost paid	17	(2,907,116)	(2,196,778)
Income taxes paid		(1,517,632)	(1,675,452)
Net cash flows provided by operating activities		25,251,115	32,855,788
CASH FLOWS FROM INVESTING ACTIVITIES			
Net additions to property, plant and equipment	12	(33,832,759)	(17,299,444)
Additions to investments and advances	13	(529,105)	(4,622,823)
Noncurrent receivable	15	(253,812)	-
Additions to intangible assets	14	(117,735)	(593,649)
Additions to deferred exploration and development costs	6	(17,765)	(145,784)
Proceeds from sale of investment		-	16,228,991
Net cash flows used in investing activities		(34,751,176)	(6,432,709)

Forward

	<i>Note</i>	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of undated subordinated capital securities	20	P13,823,499	P13,110,066
Proceeds from long-term debt	17	8,825,000	1,500,000
Payments of finance lease liabilities	7	(22,280,118)	(20,123,987)
Cash dividends paid	20	(4,500,000)	(10,000,000)
Distributions to undated subordinated capital securities holders	20	(1,450,688)	(723,214)
Payment of long-term debt	17	(1,373,100)	(193,200)
Net cash flows used in financing activities		(6,955,407)	(16,430,335)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		392,535	(813,621)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(16,062,933)	9,179,123
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		38,304,294	29,125,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	P22,241,361	P38,304,294

See Notes to the Consolidated Financial Statements.

SMC GLOBAL POWER HOLDINGS CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in Thousands, Except Per Share Data and Number of Shares)

1. Reporting Entity

SMC Global Power Holdings Corp. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on January 23, 2008, and its primary purpose of business is to purchase, sell, lease, develop and dispose of all properties of every kind and description, and shares of stocks or other securities or obligations, created or issued by any corporation or other entity. The Parent Company's registered office address is located at 155 EDSA, Brgy. Wack-Wack, Mandaluyong City, Metro Manila.

The accompanying consolidated financial statements comprise the financial statements of the Parent Company and its Subsidiaries (collectively referred to as the Group) and the Group's interests in an associate and joint ventures.

The Parent Company is a wholly-owned subsidiary of San Miguel Corporation (SMC). The ultimate parent company of the Group is Top Frontier Investment Holdings, Inc. (Top Frontier). SMC and Top Frontier are public companies under Section 17.2 of the Securities Regulation Code and whose shares are listed on The Philippine Stock Exchange, Inc. (PSE).

2. Basis of Preparation

Statement of Compliance

The accompanying consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Financial Reporting Standards Council (FRSC).

The consolidated financial statements are also prepared to comply with the requirements under Section 4.12, *Provision of Financial Statements and Reports*, of the US\$300,000 7% Notes due 2016 issued by the Parent Company (Note 17).

The consolidated financial statements were authorized for issue by the Board of Directors (BOD) on March 17, 2016.

Basis of Measurement

The consolidated financial statements of the Group have been prepared on a historical cost basis of accounting, except for the defined benefit liability which is measured at present value of the defined benefit obligation.

Functional and Presentation Currency

The consolidated financial statements are presented in Philippine peso, which is the Parent Company's functional currency. All financial information are rounded off to the nearest thousand (P000), except when otherwise indicated.

Basis of Consolidation

The Parent Company's subsidiaries, primarily engaged in power generation, retail and other power-related services and coal mining are incorporated in the Philippines and registered with the Philippine SEC. The subsidiaries are as follows:

	<i>Note</i>	Percentage of Ownership	
		2015	2014
<i>Power Generation</i>	<i>7, 18</i>		
San Miguel Energy Corporation (SMEC)		100	100
South Premiere Power Corp. (SPPC)		100	100
Strategic Power Devt. Corp. (SPDC)		100	100
SMC PowerGen Inc. (SPI)		100	100
Limay Power Generation Corporation ^(c)		100	100
SMC Consolidated Power Corporation (SCPC) ^(b)		100	100
San Miguel Consolidated Power Corporation (SMCPC) ^(b)		100	100
PowerOne Ventures Energy Inc. (PVEI)	<i>13</i>	100	100
Central Luzon Premiere Power Corp. (CLPPC) ^(e)		100	-
Limay Premiere Power Corp. (LPPC) ^{(b) (e)}		100	-
Mariveles Power Generation Corporation (MPGC) ^(e)		100	-
<i>Retail and Other Power-related Services</i>	<i>7, 18</i>		
San Miguel Electric Corp. (SMELC)		100	100
SMC Power Generation Corp. (SPGC)	<i>13</i>	100	100
Albay Power and Energy Corp. (APEC)		100	100
<i>Coal Mining</i>	<i>6</i>		
Daguma Agro-Minerals, Inc. (DAMI) ^(a)		100	100
Sultan Energy Phils. Corp. (SEPC) ^(a)		100	100
Bonanza Energy Resources, Inc. (BERI) ^(a)		100	100
<i>Others</i>			
Mantech Power Dynamics Services Inc. (MPDSI) ^(e)		100	-
Safetech Power Services Corp. (SPSC) ^(e)		100	-
Ondarre Holding Corporation (OHC) ^(d)	<i>13</i>	100	-
Golden Quest Equity Holdings Inc. (GQEH) ^{(a) (e)}		100	-
Grand Planters International, Inc. (GPII) ^(f)	<i>13</i>	100	-

(a) Indirectly owned by the Parent Company through SMEC and has not yet started commercial operations as of December 31, 2015.

(b) Construction of power plants on-going as of December 31, 2015.

(c) Indirectly owned by the Parent Company through SPI and has not yet started commercial operations as of December 31, 2015.

(d) Acquired in February 2015 and has not yet started commercial operations as of December 31, 2015.

(e) Incorporated in 2015 and has not yet started commercial operations as of December 31, 2015.

(f) Acquired in September 2015.

A subsidiary is an entity controlled by the Group. The Group controls an entity if and only if, the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

When the Group has less than 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 and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control, and continue to be consolidated until the date when such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Intergroup balances and transactions, including intergroup unrealized profits and losses, are eliminated in preparing the consolidated financial statements.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, except for the changes in accounting policies as explained below.

Adoption of New and Amended Standards and Interpretation

The FRSC approved the adoption of a number of new and amended standards and interpretation as part of PFRS.

Amendments to Standards and Interpretation Adopted in 2015

The Group has adopted the following PFRS effective January 1, 2015 and accordingly, changed its accounting policies in the following areas:

- Annual Improvements to PFRS Cycles 2010-2012 and 2011-2013 contain 11 changes to nine standards with consequential amendments to other standards and interpretations, of which only the following are applicable to the Group:
 - Meaning of 'Vesting Condition' (*Amendment to PFRS 2, Share-based Payment*). PFRS 2 has been amended to clarify the definition of 'vesting condition' by separately defining 'performance condition' and 'service condition'. The amendment also clarifies the following: (i) how to distinguish between a market and a non-market performance condition; and (ii) the basis on which a performance condition can be differentiated from a non-vesting condition. The adoption of the amendment did not have an effect on the consolidated financial statements.
 - Scope Exclusion for the Formation of Joint Arrangements (*Amendment to PFRS 3, Business Combinations*). PFRS 3 has been amended to clarify that the standard does not apply to the accounting for the formation of all types of joint arrangements in PFRS 11, *Joint Arrangements* - i.e. including joint operations - in the financial statements of the joint arrangements themselves. The adoption of the amendment did not have an effect on the consolidated financial statements.
 - Disclosures on the Aggregation of Operating Segments (*Amendment to PFRS 8, Operating Segments*). PFRS 8 has been amended to explicitly require the disclosure of judgments made by management in applying the aggregation criteria. The disclosures include: (i) a brief description of the operating segments that have been aggregated; and (ii) the economic indicators that have been assessed in determining that the operating segments share similar economic characteristics. In addition, the amendments clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets is required only if this information is regularly provided to the entity's chief operating decision maker. This change aligns the disclosure requirements with those for segment liabilities. The adoption of the amendments did not have an effect on the consolidated financial statements.

- Scope of Portfolio Exception (*Amendment to PFRS 13, Fair Value Measurement*). The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis (portfolio exception) applies to contracts within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 9, *Financial Instruments*, regardless of whether they meet the definition of financial assets or financial liabilities under PAS 32, *Financial Instruments: Presentation* - e.g., certain contracts to buy or sell non-financial items that can be settled net in cash or another financial instrument. The adoption of the amendment did not have an effect on the consolidated financial statements.
- Definition of 'Related Party' (*Amendments to PAS 24, Related Party Disclosures*). The definition of a 'related party' is extended to include a management entity that provides key management personnel (KMP) services to the reporting entity, either directly or through a group entity. For related party transactions that arise when KMP services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing KMP services. The reporting entity will also need to disclose other transactions with the management entity under the existing disclosure requirements of PAS 24 - e.g., loans. The adoption of the amendments did not have an effect on the consolidated financial statements.
- Inter-relationship of PFRS 3 and PAS 40, *Investment Property (Amendment to PAS 40)*. PAS 40 has been amended to clarify that an entity should assess whether an acquired property is an investment property under PAS 40 and perform a separate assessment under PFRS 3 to determine whether the acquisition of the investment property constitutes a business combination. Entities will still need to use judgment to determine whether the acquisition of an investment property is an acquisition of a business under PFRS 3. The adoption of the amendment did not have an effect on the consolidated financial statements.

Additional disclosures required by the amended standards were included in the consolidated financial statements, where applicable.

New and Amended Standards and Interpretation Not Yet Adopted

A number of new and amended standards and interpretation are effective for annual periods beginning after January 1, 2015 and have not been applied in preparing these consolidated financial statements. Unless otherwise indicated, none of these is expected to have a significant effect on the consolidated financial statements.

The Group will adopt the following new and amended standards and interpretation on the respective effective dates:

- Disclosure Initiative (*Amendments to PAS 1, Presentation of Financial Statements*). The amendments clarify the following: (i) the materiality requirements in PAS 1; (ii) that specific line items in the consolidated statements of income, consolidated statements of comprehensive income and the consolidated statements of financial position may be disaggregated; (iii) that entities have flexibility as to the order in which they present the notes to the consolidated financial statements; and (iv) that share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss. Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the consolidated statements of financial position, the consolidated statements of income and consolidated statements of comprehensive income. The amendments are required to be applied for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Clarification of Acceptable Methods of Depreciation and Amortization (*Amendments to PAS 16, Property, Plant and Equipment and PAS 38, Intangible Assets*). The amendments to PAS 38 introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments to PAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment. This is because such methods reflect factors other than the consumption of economic benefits embodied in the asset - e.g., changes in sales volumes and prices. The amendments are required to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.
- PFRS 9 (2014) replaces PAS 39 and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment of all financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset, and supplements the new general hedge accounting requirements published in 2013. The new model on hedge accounting requirements provides significant improvements by aligning hedge accounting more closely with risk management. The new standard is required to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

- PFRS 16, *Leases*, supersedes PAS 17, *Leases*, and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced. PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is not permitted until the FRSC has adopted IFRS 15, *Revenue from Contracts with Customers*. The Group is currently assessing the potential impact of PFRS 16 and plans to adopt this new standard on leases on the required effective date once adopted locally.
- IFRS 15 replaces International Accounting Standards (IAS) 11, *Construction Contracts*, IAS 18, *Revenue*, International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 18, *Transfer of Assets from Customers* and Standard Interpretation Committee - 31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRS. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence.

However, the FRSC has yet to issue/approve this new revenue standard for local adoption pending completion of a study by the Philippine Interpretations Committee (PIC) on its impact on the real estate industry. If approved, the standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

Financial Assets and Financial Liabilities

Date of Recognition. The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition is done using settlement date accounting.

Initial Recognition of Financial Instruments. Financial instruments are recognized initially at fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated as at FVPL, includes transaction costs.

‘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 the fair value (a ‘Day 1’ difference) in the consolidated statements of income unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in the consolidated statements 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.

Financial Assets

The Group classifies its financial assets, at initial recognition, in the following categories: financial assets at FVPL, loans and receivables, available-for-sale (AFS) financial assets and held-to-maturity (HTM) investments. The classification depends on the purpose for which the investments are 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.

As of December 31, 2015 and 2014, the Group has no financial assets at FVPL, AFS financial assets and HTM investments.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and maturities 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 designated as AFS financial assets or financial assets at FVPL.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method, less any impairment in value. Any interest earned on loans and receivables is recognized as part of “Interest income” account in the consolidated statements of income on an accrual basis. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The periodic amortization is also included as part of “Interest income” account in the consolidated statements of income. Gains or losses are recognized in the consolidated statements of income when loans and receivables are derecognized or impaired.

Cash includes cash on hand and in banks which are stated at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group’s cash and cash equivalents, trade and other receivables, restricted cash and noncurrent receivable are included under this category (Notes 8, 9, 15, 26 and 27).

Financial Liabilities

The Group classifies its financial liabilities, at initial recognition, in the following categories: financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

As of December 31, 2015 and 2014, the Group has no financial liabilities at FVPL.

Other Financial Liabilities. This category pertains to financial liabilities that are not designated or classified as at FVPL. After initial measurement, other financial liabilities are carried at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any premium or discount and any directly attributable transaction costs that are considered an integral part of the effective interest rate of the liability. The effective interest rate amortization is included in “Interest expense and other financing charges” account in the consolidated statements of income. Gains and losses are recognized in the consolidated statements of income when the liabilities are derecognized as well as through the amortization process.

The Group’s liabilities arising from its trade or borrowings such as accounts payable and accrued expenses, finance lease liabilities and long-term debt are included under this category (Notes 7, 16, 17, 26 and 27).

Embedded Derivatives

The Group assesses whether embedded derivatives are required to be separated from the host contracts when the Group becomes a party to the contract.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- (c) the hybrid or combined instrument is not 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.

The Group does not have any embedded derivatives as of December 31, 2015 and 2014.

Derecognition of Financial Assets and Financial 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 primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; 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.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes the associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or has expired. When 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. The difference in the respective carrying amounts is recognized in the consolidated statements of income.

Impairment of Financial Assets

The Group assesses, at the reporting 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 objective evidence of impairment as a result of one or more events that have 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.

Assets Carried at Amortized Cost. For financial assets carried at amortized cost such as loans and receivables, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If no objective evidence of impairment has been identified for a particular financial asset that was individually assessed, the Group includes the asset as part of a group of financial assets with similar credit risk characteristics and collectively assesses the group 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 the collective impairment assessment.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing financial difficulty, default or delinquency in principal or interest payments, or may enter into bankruptcy or other form of financial reorganization intended to alleviate the financial condition of the borrower. For collective impairment purposes, evidence of impairment may include observable data on existing economic conditions or industry-wide developments indicating that there is a measurable decrease in the estimated future cash flows of the related assets.

If there is objective evidence of impairment, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Time value is generally not considered when the effect of discounting the cash flows is not material. If a loan or receivable has a variable rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. For collective impairment purposes, impairment loss is computed based on their respective default and historical loss experience.

The carrying amount of the asset is reduced either directly or through the use of an allowance account. The impairment loss for the period is recognized in the consolidated statements of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income, to the extent that the carrying amount of the asset does not exceed its amortized cost at the reversal date.

Classification of Financial Instruments between Liability and Equity

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

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

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

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

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.

Debt Issue Costs

Debt issue costs are considered as an adjustment to the effective yield of the related debt and are deferred and amortized using the effective interest rate method. When a loan is paid, the related unamortized debt issue costs at the date of repayment are recognized in the consolidated statements of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using specific identification method or first-in-first-out method for materials and supplies, specific identification method or moving average method for coal inventories and moving average method for fuel oil and other consumables. Net realizable value is the current replacement cost.

Business Combination

Business combination is accounted for using the acquisition method as at the acquisition date. 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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

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 at the acquisition date fair value and any resulting gain or loss is recognized in the consolidated statements of income.

The Group measures goodwill at the acquisition date as: a) the fair value of the consideration transferred; plus b) the recognized amount of any non-controlling interests in the acquiree; plus c) if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less d) the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in the consolidated statements of income. Subsequently, goodwill is measured at cost less any accumulated impairment in value. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated statements of income. Costs related to the acquisition, other than those associated with the issuance of debt or equity securities that the Group incurs in connection with a business combination, are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in the consolidated statements of income.

▪ *Goodwill in a Business Combination*

Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the 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 are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with PFRS 8.

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. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

▪ *Intangible Assets Acquired in a Business Combination*

The cost of an intangible asset acquired in a business combination is the fair value as at the date of acquisition, determined using discounted cash flows as a result of the asset being owned.

Following initial recognition, intangible asset is carried at cost less any accumulated amortization and any impairment losses. The useful life of an intangible asset is assessed to be either finite or indefinite.

An intangible asset with finite life is amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. A change in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for as a change in accounting estimate. The amortization expense on intangible asset with finite life is recognized in the consolidated statements of income.

▪ *Loss of Control*

On the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in consolidated statements of income. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or as an AFS financial asset depending on the level of influence retained.

Transactions under Common Control

Transactions under common control entered into in contemplation of each other and business combination under common control designed to achieve an overall commercial effect are treated as a single transaction.

Transfers of assets between commonly controlled entities are accounted for using book value accounting.

Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary.

Investments in Shares of Stock of an Associate and Joint Ventures

An associate is an entity in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies 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 is similar to those necessary to determine control over subsidiaries.

The Group's investments in shares of stock of an associate and joint ventures are accounted for using the equity method.

Under the equity method, the investment in shares of stock of an associate or joint ventures is initially recognized at cost. The carrying amount of the investment is adjusted to recognize the 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 Group's share in profit or loss of an associate or joint ventures is recognized as "Equity in net losses of an associate and joint ventures - net" account in the consolidated statements of income. Adjustments to the carrying amount may also be necessary for changes in the Group's proportionate interest in the associate or joint venture arising from changes in the associate or joint venture's other comprehensive income. The Group's share on these changes is recognized as "Share in other comprehensive income of an associate" account in the consolidated statements of comprehensive income. 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.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss with respect to the Group's net investment in the shares of stock of an associate or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in shares of stock of an associate or joint ventures is impaired. If there is such evidence, the Group recalculates the amount of impairment as the difference between the recoverable amount and carrying amount of the investment in shares of stock of an associate or joint ventures. Such impairment loss is recognized as part of "Equity in net losses of an associate and joint ventures - net" account in the consolidated statements 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 fair value. Any difference between the carrying amount of the investment in shares of stock of an associate or joint ventures upon loss of significant influence or joint control, and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statements of income.

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.

Property, Plant and Equipment

Property, plant and equipment, except for land, are measured at cost less accumulated depreciation and amortization and any accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment at the time the cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing. Land is stated at cost less any impairment in value.

The initial cost of property, plant and equipment comprises its construction cost or purchase price, including import duties, taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use. Cost also includes any related asset retirement obligation (ARO). Expenditures incurred after the asset has been put into operation, such as repairs, maintenance and overhaul costs, are normally recognized as expense in the period the costs are incurred. Major repairs are capitalized as part of property, plant and equipment only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the items can be measured reliably.

Capital projects in progress (CPIP) represents the amount of accumulated expenditures on unfinished and/or ongoing projects. This includes the costs of construction and other direct costs. Borrowing costs that are directly attributable to the construction of plant and equipment are capitalized during the construction period. CPIP is not depreciated until such time that the relevant assets are ready for use.

Depreciation and amortization, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

	Number of Years
Power plants	10 - 43
Building	15 - 25
Other equipment	2 - 15
Leasehold improvements	5 - 10
	or term of the lease whichever is shorter

The remaining useful lives, residual values, and depreciation and amortization methods are reviewed and adjusted periodically, if appropriate, to ensure that such periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property, plant and equipment.

The carrying amounts of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

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

An item of property, plant and equipment is derecognized when either it has been disposed of or when it is permanently withdrawn from use and no future economic benefits are expected from its use or disposal. Any gain or loss arising from the retirement and disposal of an item of property, plant and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statements of income in the period of retirement and disposal.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Subsequently, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditures are recognized in the consolidated statements of income in the year in which the related expenditures are incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and amortization method used for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income consistent with the function of the intangible asset.

Amortization is computed using the straight-line method over the following estimated useful lives of intangible assets with finite lives:

	Number of Years
Power concession right	25
Mining rights	Life of mine or expiration of right
Computer software and licenses	3

Gains or losses arising from the disposal 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 consolidated statements of income when the asset is derecognized.

Power Concession Assets and Obligations

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group can provide with the infrastructure, to whom it can 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 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 the Interpretation if the conditions in (a) are met.

The Interpretation applies to both: (a) infrastructure that the entities in the Group construct or acquire 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 the Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of the contractual arrangements within the scope of the 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.

The useful lives of power concession right are assessed to be either finite or indefinite. Power concession right arising from a service concession arrangement is amortized using straight-line method over the concession period, which is 25 years from the first day of the commencement of operations, or the estimated useful lives of the infrastructure, whichever is shorter, and assessed for impairment whenever there is an indication that the asset may be impaired. The amortization period and amortization method are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the concession assets are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statements of income in the expense category consistent with the function of the concession assets.

The power concession right is derecognized on disposal or when no further economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of concession assets are recognized in consolidated statements of income and measured as the difference between the net disposal proceeds and the carrying amount of the concession assets.

The Group's power concession right pertains to the right granted by the Government to the Parent Company, through APEC, to operate the Albay Electric Cooperative, Inc. (ALECO). The Group's power concession right is carried at cost less accumulated amortization and any accumulated impairment losses.

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 is allocated by reference to the relative fair values of the services delivered when the amounts are separately identifiable.

When an entity provides construction or upgrade services, the consideration received or receivable by the entity is recognized at 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 proportion of costs incurred to date, to estimated total costs for each contract. The applicable entity 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 entity has contractual obligations to 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 the 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 reporting date.

Concession payable is recognized at the date of inception of the concession agreement. Fixed concession fees are recognized at present value using the discount rate at the inception date. This account is debited upon payment of fixed fees and such payments are apportioned between interest payment and payment of the principal. Interest arising from the accretion of concession payable is presented under “Interest expense and other financing charges” account in the consolidated statements of income.

Concession payable that are expected to be settled within 12 months after the reporting date are classified as current liabilities. Otherwise, these are classified as noncurrent liabilities.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as expenses in the period in which they are incurred unless the applicable entities have a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.

Mining Rights

The mining rights that are acquired by the Group and have finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in the consolidated statements of income as incurred.

Amortization of mining rights is recognized in the consolidated statements of income on a straight-line basis over the estimated useful lives. The estimated useful lives of mining rights pertain to the period from commercial operations to the end of the operating contract. Amortization method and useful lives are reviewed at each reporting date and adjusted as appropriate.

Gain or loss from derecognition of mining rights are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized in the consolidated statements of income.

Deferred Exploration and Development Costs

Deferred exploration and development costs comprise expenditures which are directly attributable to:

- Researching and analyzing existing exploration data;
- Conducting geological studies, exploratory drilling and sampling;
- Examining and testing extraction and treatment methods; and
- Compiling pre-feasibility and feasibility studies.

Deferred exploration and development costs also include expenditures incurred in acquiring mining rights and evaluation assets, entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Exploration assets are reassessed on a regular basis and tested for impairment provided that at least one of the following conditions is met:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

If the project proceeds to development stage, the amounts included within deferred exploration and development costs are transferred to property, plant and equipment.

Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and intangible assets and goodwill with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the consolidated statements 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 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 and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of income. After such a reversal, the depreciation and amortization 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.

Fair Value Measurements

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 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 best economic interest.

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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

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 the categorization 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.

Provisions

Provisions are recognized when: (a) the Group has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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 assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Capital Stock and Additional Paid-in Capital

Common shares. Common shares are measured at par and are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Additional Paid-in Capital. 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 Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Undated Subordinated Capital Securities

Undated subordinated capital securities are classified as equity when there is no contractual obligation to deliver cash or other financial assets to another person or entity or to exchange financial assets or financial liabilities with another person or entity that is potentially unfavorable to the issuer.

Incremental costs directly attributable to the issuance of undated subordinated capital securities are recognized as a deduction from equity, net of tax. The proceeds received net of any directly attributable transaction costs are credited to undated subordinated capital securities.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend, distributions and other capital adjustments. Appropriated retained earnings represent that portion which is restricted and therefore not available for any dividend declaration.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenues are stated at amounts invoiced to customers, inclusive of pass-through charges, net of value-added tax (VAT) and other taxes. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Power. Revenue from power generation and trading is recognized in the period when actual power or capacity is generated, transmitted and/or made available to the customers, net of related discounts and adjustments.

Retail and Other Power-related Services. Revenues are recognized upon the supply of electricity to the customers. The Uniform Filing Requirements (UFR) on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001 specified the following bill components: (a) generation charge, (b) transmission charge, (c) system loss charge, (d) distribution charge, (e) supply charge, (f) metering charge, (g) currency exchange rate adjustments, where applicable and (h) interclass and life subsidies. Feed-in tariffs allowance, VAT, local franchise tax and universal charges are billed and collected on behalf of the national and local government and do not form part of the Group's revenue. Generation, transmission and system loss charges, which are part of revenues, are pass-through charges.

Construction Revenue. Construction revenue related to the Group's recognition of intangible asset on the right to operate ALECO, which is the fair value of the intangible asset, is earned and recognized as the construction progresses. The Group recognizes the corresponding amount as intangible asset as it recognizes the construction revenue. The Group assumes no profit margin in earning the right to operate ALECO.

The Group uses the cost to cost percentage-of-completion method to determine the appropriate amount of revenue to be recognized in a given period. The stage of completion is measured by reference to the costs incurred related to the construction of ALECO infrastructure up to the end of the reporting period as a percentage of total estimated cost of the construction.

Others

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

Dividend. Dividend income is recognized when the Group's right as a shareholder to receive the payment is established.

Rent Income. Rent income from operating lease is recognized on a straight-line basis over the related lease terms. Lease incentives granted are recognized as an integral part of the total rent income over the term of the lease.

Cost and Expense Recognition

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. Cost of power sold is debited for the direct costs related to power generation, retail and distribution of electricity, and/or trading. Expenses are recognized when incurred.

Interest Expense and Other Financing Charges. Interest expense and other financing charges comprise finance charges on finance lease liabilities, loans, concession payable and other borrowings. Finance charges on finance lease liabilities, loans and concession payable are recognized in consolidated statements of income using the effective interest rate method.

Share-based Payment Transactions

Under the Group's Long-term Incentive Plan for Stock Options (LTIP) and Employee Stock Purchase Plan (ESPP), executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby the executives and employees render services as consideration for equity instruments of the Parent Company. Such transactions are handled centrally by the Parent Company.

Share-based transactions in which the Parent Company grants option rights to its equity instruments directly to the Group's employees are accounted for as equity-settled transactions.

The cost of LTIP is measured by reference to the option fair value at the date when the options are granted. The fair value is determined using Black-Scholes option pricing model. In valuing LTIP transactions, any performance conditions are not taken into account, other than conditions linked to the price of the shares of the Parent Company. ESPP is measured by reference to the market price at the time of the grant less subscription price.

The cost of share-based payment transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date when the relevant employees become fully entitled to the award (the vesting date). The cumulative expenses recognized for share-based payment transactions at each reporting date until the vesting date reflect the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. Where the terms of a share-based award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award.

Leases

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 the 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 an extension is 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), and at the date of renewal or extension period for scenario (b) above.

Finance Lease

Finance leases, which transfer to the Group substantially all the risks and rewards 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 statements of financial position as finance lease liabilities.

Lease payments are apportioned between financing charges and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liabilities. Financing charges are recognized in the consolidated statements of income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating Lease

Group as Lessee. Leases which do not transfer to the Group substantially all the risks and rewards of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Associated costs such as maintenance and insurance are expensed as incurred.

Group as Lessor. Leases where the Group does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as rent income. Contingent rents are recognized as income in the period in which they are earned.

Borrowing Costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use.

Employee Benefits

Short-term Employee Benefits. Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Retirement Benefits. The defined benefit liability or asset is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, 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 economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit obligation is actuarially determined using the projected unit credit method. Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

Retirement benefit expense comprise the following:

- Service costs
- Net interest on the defined benefit liability or asset
- Remeasurements of defined benefit liability or asset

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

Net interest on the defined benefit liability or asset is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the defined benefit liability or asset. Net interest on the defined benefit liability or asset is recognized as expense or income in the consolidated statements of income.

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

When the benefits of a plan are changed, or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the consolidated statements of income. The Group recognizes gains and losses on the settlement of a defined benefit liability when the settlement occurs.

Foreign Currency Translations

Transactions in foreign currencies are translated to the functional currency of the Group entities at exchange rates at the dates of the transactions. Monetary assets and monetary liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the reporting date.

Nonmonetary assets and nonmonetary liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date the fair value was determined. Nonmonetary items in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in the consolidated statements of income, except for differences arising on the translation of AFS financial assets, a financial liability designated as an effective hedge of the net investment in a foreign operation or qualifying cash flow hedges, which are recognized in other comprehensive income.

Taxes

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred Tax. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

- where the deferred 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
- with respect to taxable temporary differences associated with investments in shares of stock of 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 tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred 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
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

In determining the amount of current tax and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Current tax and deferred tax are recognized in the consolidated statements of income except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

VAT. Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Accounts payable and accrued expenses” accounts in the consolidated statements of financial position.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are on an arm’s length basis in a manner similar to transactions with non-related parties.

Basic and Diluted Earnings Per Common Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of distributions to the holders of USCS, by the weighted-average number of issued and outstanding common shares during the period.

For the purpose of computing diluted EPS, the net income for the period attributable to equity holders of the Parent Company and the weighted-average number of issued and outstanding common shares are adjusted for the effects of all potential dilutive instruments.

As of December 31, 2015 and 2014, the Group has no dilutive equity instruments as disclosed in Note 25 to the consolidated financial statements.

Operating Segments

The Group's operating segments are organized and managed separately according to the services provided, with each segment representing a strategic business unit that offers different economic characteristic and activities. The Chief Executive Officer (the chief operating decision maker; CODM) reviews management reports on a regular basis.

The measurement policies the Group used for segment reporting under PFRS 8 are the same as those used in the consolidated financial statements. There have been no changes in the measurement methods used to determine reported segment profit or loss from prior periods. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

Contingencies

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

Events After the Reporting Date

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the consolidated financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments, estimates and assumptions are revised and in any future period affected.

Judgments

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

Finance Lease - Group as Lessee. In accounting for its Independent Power Producer Administration (IPPA) Agreements with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPPA Agreements are agreements that contain a lease.

The Group's management has made a judgment that it has substantially acquired all the risks and rewards incidental to the ownership of the power plants. Accordingly, the Group accounted for the agreements as a finance lease and recognized the power plants and finance lease liabilities at the present value of the agreed monthly payments to PSALM (Notes 7 and 12).

Finance lease liabilities recognized in the consolidated statements of financial position amounted to P179,193,193 and P186,303,745 as of December 31, 2015 and 2014, respectively (Note 7).

The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively (Note 12).

Operating Lease Commitments - Group as Lessor/Lessee. The Group has entered into various lease agreements either as a lessor or a lessee. The Group had determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases while the significant risks and rewards for property leased from third parties and related parties are retained by the lessors (Note 7).

Rent income recognized in the consolidated statements of income amounted to P28,104 and P18,434 in 2015 and 2014, respectively (Note 22).

Rent expense recognized in the consolidated statements of income amounted to P360,091 and P115,849 in 2015 and 2014, respectively (Note 21).

Applicability of Philippine Interpretation IFRIC 12 - Concession Right. In accounting for the Group's transactions in connection with its Concession Agreement with ALECO, significant judgment was applied to determine the most appropriate accounting policy to use.

Management used Philippine Interpretation IFRIC 12 as guide and determined that the Concession Agreement is within the scope of the Interpretation and should be accounted for under the intangible asset model (Notes 3, 7 and 14).

Contingencies. The Group is currently involved in various pending claims and cases which could be decided in favor of or against the Group. The Group's estimate of the probable costs for the resolution of these pending claims and cases has been developed in consultation with in-house as well as outside legal counsel handling the prosecution and defense of these matters and is based on an analysis of potential results. The Group's management and legal counsels currently do not believe that these pending claims and cases will have a material adverse effect on its financial position and financial performance. It is possible, however, that future financial performance could be materially affected by the changes in the estimates or in the effectiveness of strategies relating to these proceedings (Note 28).

Estimates and Assumptions

The key estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

Fair Value Measurements. The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has the overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the valuation team assesses the evidence obtained to support the conclusion that such valuations meet the requirements of PFRS, including the level in the fair value hierarchy in which such valuations should be classified.

The Group uses market observable data when measuring the fair value of an asset or liability. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques (Note 3).

If the inputs used to measure the fair value of an asset or a liability can be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy based on the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The methods and assumptions used to estimate the fair values for both financial and non-financial assets and liabilities are discussed in Note 27.

Allowance for Impairment Losses on Trade and Other Receivables. Provisions are made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts on the basis of factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customers and counterparties, the current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience. The amount and timing of the recorded expenses for any period would differ if the Group made different judgments or utilized different methodologies. An increase in the allowance for impairment losses would increase the recorded expenses and decrease current assets.

The allowance for impairment losses on trade and other receivables amounted to P1,241,487 and P866,686 as of December 31, 2015 and 2014, respectively. The carrying amount of trade and other receivables amounted to P18,473,625 and P18,208,339 as of December 31, 2015 and 2014, respectively (Note 9).

Write-down of Inventory. The Group writes down the cost of inventory to its net realizable value whenever net realizable value becomes lower than cost due to damage, physical deterioration, obsolescence, changes in price levels or other causes.

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made of the amount the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the reporting date to the extent that such events confirm conditions existing at the reporting date.

The Group assessed that no write-down of inventories to net realizable value is necessary as of December 31, 2015 and 2014.

The carrying amount of inventories amounted to P1,263,218 and P1,365,033 as of December 31, 2015 and 2014, respectively (Note 10).

Estimated Useful Lives of Property, Plant and Equipment. The Group estimates the useful lives of property, plant and equipment based on the period over which the 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, estimation of the useful lives of property, plant and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future financial performance could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase the recorded cost and expenses and decrease noncurrent assets.

Property, plant and equipment, net of accumulated depreciation and amortization, amounted to P255,452,996 and P228,133,323 as of December 31, 2015 and 2014, respectively. Accumulated depreciation and amortization of property, plant and equipment amounted to P33,916,821 and P27,404,427 as of December 31, 2015 and 2014, respectively (Note 12).

Estimated Useful Lives of Intangible Assets. The useful lives of intangible assets are assessed at the individual asset level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group.

Intangible assets with finite useful lives amounted to P2,404,383 and P2,313,375 as of December 31, 2015 and 2014, respectively (Note 14).

Impairment of Goodwill. The Group determines whether the goodwill acquired in business combination are impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows from the cash-generating unit and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amount of goodwill amounted to P8,866 as of December 31, 2015 and 2014 (Note 14).

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 recognized at the date of acquisition based on 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 property, plant and equipment and intangible assets as well as liabilities assumed at the acquisition date. Moreover, the useful lives of the acquired property, plant and equipment and intangible assets have to be determined. Accordingly, for significant acquisitions, the Group obtains assistance from valuation specialists. The valuations are based on information available at the acquisition date.

Recoverability of Deferred Exploration and Development Costs. A valuation allowance is provided for estimated unrecoverable deferred exploration and development costs based on the Group's assessment of the future prospects of the mining properties, which are primarily dependent on the presence of economically recoverable reserves in those properties.

The Group's mining activities are all in the exploratory stages as of December 31, 2015. All related costs and expenses from exploration are currently deferred as exploration and development costs to be amortized upon commencement of commercial operations. The Group has not identified any facts and circumstances which suggest that the carrying amount of the deferred exploration and development costs exceeded the recoverable amounts as of December 31, 2015 and 2014.

Deferred exploration and development costs amounted to P689,548 and P671,783 as of December 31, 2015 and 2014, respectively (Note 6).

Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Group's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of MCIT and NOLCO is based on the projected taxable income in the following periods.

Deferred tax assets arising from MCIT and NOLCO have not been recognized because the management believes that it is not probable that future taxable income will be available against which the Group can utilize the benefits therefrom (Note 23).

Deferred tax assets from temporary differences amounted to P2,745,943 and P2,779,380 as of December 31, 2015 and 2014, respectively (Note 23).

Impairment of Non-financial Assets. PFRS requires that an impairment review be performed on property, plant and equipment, investments and advances, deferred exploration and development costs and intangible assets and goodwill with finite useful lives when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Determining the recoverable amounts of these assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets. While it is believed that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amounts and any resulting impairment loss could have a material adverse impact on the financial performance.

The Group assessed that its non-financial assets are not impaired as of December 31, 2015 and 2014.

The combined carrying amounts of property, plant and equipment, investments and advances, deferred exploration and development costs and other intangible assets with finite useful lives amounted to P269,159,864 and P241,730,758 as of December 31, 2015 and 2014, respectively (Notes 6, 12, 13 and 14).

Present Value of Defined Benefit Obligation. The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. These assumptions are described in Note 19 to the consolidated financial statements and include discount rate and salary increase rate.

The Group determines the appropriate discount rate at the end of each reporting period. It is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Group considers the interest rates on government bonds that are denominated in the currency in which the benefits will be paid. The terms to maturity of these bonds should approximate the terms of the related retirement obligation.

Other key assumptions for the defined benefit obligation are based in part on current market conditions.

While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's defined benefit obligation.

The present value of defined benefit obligation amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively (Note 19).

Asset Retirement Obligation. Determining ARO requires estimation of the cost of dismantling property, plant and equipment and other costs of restoring the leased properties to their original condition. The Group determined that there are no ARO as of December 31, 2015 and 2014.

5. Segment Information

Operating Segments

The Group's operations are segmented into four businesses: a) power generation, b) retail and other power-related services, c) coal mining and d) others consistent with the reports prepared internally for use by the Group's CODM in reviewing the business performance of the operating segments. The differing economic characteristics and activities of these power plants make it more useful to users of the consolidated financial statements to have information about each component of the Group's profit or loss, assets and liabilities.

The coal mining companies, which were acquired in 2010, have not yet started commercial operations and are in the exploratory stage of mining activities (Note 6). The mining companies' total assets do not exceed 10% of the combined assets of all operating segments. Accordingly, management believes that as of December 31, 2015 and 2014, the information about this component of the Group would not be useful to the users of the consolidated financial statements.

The Group's inter-segment sale of power are accounted for based on contracts entered into by the parties and are eliminated in the consolidation. Segment assets do not include investments and advances, intangible assets and goodwill and deferred tax assets. Segment liabilities do not include long-term debt, deferred tax liabilities and income tax payable. Capital expenditures consist of additions to property, plant and equipment of each reportable segment.

The Group operates only in the Philippines which is treated as a single geographical segment.

Major Customers

The Group sells, retails and distributes power, through power supply agreements, retail supply agreements, concession agreement and other power-related service agreements (Note 7), either directly to customers (other generators, distribution utilities, electric cooperatives and industrial customers) or through the Philippine Wholesale Electricity Spot Market (WESM). Sale, retail and/or distribution of power to individual external customers that represents 10% or more of the Group's total revenues is as follows:

	2015	2014
Meralco	P40,889,098	P47,233,747
WESM	6,217,243	9,622,839

For management reporting purposes, the Group's operating segments are organized and managed separately as follows:

Operating Segments

Financial information about reportable segments follows:

	For the Years Ended December 31											
	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Sale of Power												
External	P73,849,465	P80,080,157	P3,657,226	P4,213,433	P -	P -	P -	P -	P -	P -	P77,506,691	P84,293,590
Inter-segment	6,769,834	4,872,675	-	-	-	-	-	-	(6,769,834)	(4,872,675)	-	-
	80,619,299	84,952,832	3,657,226	4,213,433	-	-	-	-	(6,769,834)	(4,872,675)	77,506,691	84,293,590
Cost and Expenses												
Cost of power sold	51,933,914	56,304,969	3,723,643	4,053,848	-	-	-	-	(6,757,630)	(4,872,675)	48,899,927	55,486,142
Operating expenses	4,791,985	2,697,961	226,397	37,204	17,831	23,919	1,294,215	767,846	(1,426,293)	(615,000)	4,904,135	2,911,930
	56,725,899	59,002,930	3,950,040	4,091,052	17,831	23,919	1,294,215	767,846	(8,183,923)	(5,487,675)	53,804,062	58,398,072
Segment Result	23,893,400	25,949,902	(292,814)	122,381	(17,831)	(23,919)	(1,294,215)	(767,846)	1,414,089	615,000	23,702,629	25,895,518
Equity in net losses of an associate and joint ventures - net											(528,445)	(22,345)
Interest income											414,444	549,977
Interest expense and other financing charges											(13,130,252)	(13,168,470)
Other income (charges) - net											(5,926,050)	68,225
Income tax expense - net											(2,703,408)	(2,693,423)
Consolidated Net Income											P1,828,918	P10,629,482

For the Years Ended December 31

	Power Generation		Retail and Other Power-related Services		Coal Mining		Others		Eliminations		Consolidated	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Other Information												
Segment assets	P297,302,968	P249,966,190	P2,773,437	P2,419,373	P749,318	P683,275	P45,618,031	P54,904,121	(P31,006,033)	(P9,937,570)	P315,437,721	P298,035,389
Investments and advances - net	4,566,249	1,975,929	192,012	191,549	-	-	43,451,916	8,444,799	(37,597,240)	-	10,612,937	10,612,277
Intangible assets and goodwill											2,413,249	2,322,241
Deferred tax assets											2,745,943	2,779,380
Consolidated Total Assets											P331,209,850	P313,749,287
Segment liabilities	P240,770,768	P213,097,395	P2,788,300	P2,081,602	P763,125	P74,665	P1,613,602	P9,875,451	(P33,751,269)	(P10,037,078)	P212,184,526	P215,092,035
Long-term debt											58,607,861	48,713,245
Income tax payable											99,275	151,360
Deferred tax liabilities											3,882,930	3,043,470
Consolidated Total Liabilities											P274,774,592	P267,000,110
Capital expenditures	P31,066,140	P38,878	P2,893	P -	P48	P15,087	P2,763,740	P17,425,124	P -	P -	P33,832,821	P17,479,089
Depreciation and amortization of property, plant and equipment and intangible assets	6,469,103	6,143,959	21,394	14,686	15,136	18,098	22,181	10,897	11,999	-	6,539,813	6,187,640
Noncash items other than depreciation*	6,363,892	1,021,839	164,633	11,074	-	(23)	2,051,797	93,335	(165,097)	-	8,415,225	1,126,225

*Noncash items other than depreciation and amortization include unrealized foreign exchange gain/losses, impairment losses on trade and other receivables, equity in net losses of an associate and joint ventures - net and retirement benefit expense.

6. Deferred Exploration and Development Costs

The movement in deferred exploration and development costs is as follows:

	2015	2014
Balance at beginning of year	P671,783	P525,999
Additions	17,765	145,784
Balance at end of year	P689,548	P671,783

SMEC acquired DAMI, SEPC and BERI in 2010 resulting in the recognition of mining rights of P1,719,726 (Note 14).

DAMI's coal property covered by Coal Operating Contract (COC) No. 126, issued by the Department of Energy (DOE), is located in South Cotabato and consists of 2 coal blocks with a total area of 2,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 93 million metric tons as of December 31, 2015.

SEPC has a coal property and right over an aggregate area of 7,000 hectares, more or less, composed of 7 coal blocks located in South Cotabato and Sultan Kudarat. As of December 31, 2015, COC No. 134 has an In-situ coal resources (measured plus indicative coal resources) of about 35 million metric tons.

BERI's COC No. 138, issued by the DOE is located in Sarangani and South Cotabato consisting of 8 coal blocks with a total area of 8,000 hectares, more or less, and has an In-situ coal resources (measured plus indicative coal resources) of about 24 million metric tons as of December 31, 2015.

Status of Operations

In 2008 and 2009, the DOE approved the conversion of the COC for Exploration to COC for Development and Production of DAMI, SEPC and BERI, respectively, effective on the following dates:

Subsidiary	COC No.	Effective Date	Term*
DAMI	126	November 19, 2008	10 years
SEPC	134	February 23, 2009	10 years
BERI	138	May 26, 2009	10 years

** The term is followed by another 10-year extension, and thereafter, renewable for a series of 3 year periods not exceeding 12 years under such terms and conditions as may be agreed upon with the DOE.*

On January 26, 2015, DOE granted the request by DAMI, SEPC and BERI for further extension of the moratorium of their work commitments under their respective COCs. The request is in connection with a resolution passed by South Cotabato in 2010 prohibiting open-pit mining activities in the area. The moratorium is retrospectively effective from January 1, 2013 and is valid until December 31, 2016 or until the ban on open-pit mining pursuant to the Environment Code of South Cotabato has been lifted, whichever comes first.

As of December 31, 2015, DAMI, SEPC and BERI is in the exploratory stages of its mining activities. All related costs and expenses from exploration are currently deferred as exploration and development costs and will be amortized upon commencement of their commercial operations.

The Group has not identified any facts and circumstances which suggest that the carrying amount of deferred exploration and development costs exceeded recoverable amount as of December 31, 2015 and 2014.

7. Agreements

a. Independent Power Producer (IPP) Administration (IPPA) Agreements

As a result of the biddings conducted by PSALM for the Appointment of the IPP Administrator for the Contracted Capacity of the following power plants, the Group was declared the winning bidder and act as IPP Administrator through the following appointed subsidiaries:

Subsidiary	Power Plant	Location
SMEC	Sual Coal - Fired Power Station (Sual Power Plant)	Sual, Pangasinan Province
SPDC	San Roque Hydroelectric Multi-purpose Power Plant (San Roque Power Plant)	San Roque, Pangasinan Province
SPPC	Ilijan Natural Gas - Fired Combined Cycle Power Plant (Ilijan Power Plant)	Ilijan, Batangas Province

The IPPA Agreements are with the conformity of National Power Corporation (NPC), a government-owned and controlled corporation created by virtue of Republic Act (RA) No. 6395, as amended, whereby NPC confirms, acknowledges, approves and agrees to the terms of the IPPA Agreements and further confirms that for so long as it remains the counterparty of the IPP it will comply with its obligations and exercise its rights and remedies under the original agreement with the IPP at the request and instruction of PSALM.

The IPPA Agreements include, among others, the following common salient rights and obligations:

- i. The right and obligation to manage and control the contracted capacity of the power plant for its own account and at its own cost and risks;
- ii. 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 at its own cost and risks. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- iii. The right to receive a transfer of the power plant upon termination of the IPPA Agreement at the end of the cooperation period or in case of buy-out;
- iv. For SMEC and SPPC, the right to receive an assignment of NPC's interest to existing short-term bilateral power supply contracts;
- v. The obligation to supply and deliver, at its own cost, fuel required by the IPP and necessary for the Sual Power Plant to generate the electricity required to be produced by the IPP;
- vi. Maintain the performance bond in full force and effect with a qualified bank; and

- vii. The obligation to pay PSALM the monthly payments and energy fees in respect of all electricity generated from the capacity, net of outages.

Relative to the IPPA Agreements, SMEC, SPDC and SPPC have to pay PSALM monthly payments for 15 years until October 1, 2024, 18 years until April 26, 2028 and 12 years until June 26, 2022, respectively. Energy fees in 2015 and 2014 amounted to P23,224,178 and P30,775,896, respectively. SMEC, SPDC and SPPC renewed their performance bonds in United States dollar (US\$) amounting to US\$58,187, US\$20,305 and US\$60,000 which will expire on November 3, 2016, January 25, 2016 and June 16, 2016, respectively. Subsequently, the performance bond of SPDC was renewed up to January 25, 2017.

The finance lease liabilities are carried at amortized cost using the US dollar and Philippine peso discount rates as follows:

	US Dollar	Philippine Peso
SMEC	3.89%	8.16%
SPPC	3.85%	8.05%
SPDC	3.30%	7.90%

The discount determined at inception of the agreement is amortized over the period of the IPPA Agreement and recognized as part of “Interest expense and other financing charges” account in the consolidated statements of income. Interest expense in 2015 and 2014 amounted to P10,212,753 and P10,711,071, respectively.

The future minimum lease payments for each of the following periods are as follows:

	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
2015				
Not later than 1 year	US\$250,209	P11,774,823	P11,980,712	P23,755,535
More than 1 year and not later than 5 years	1,071,953	50,446,106	51,333,916	101,780,022
Later than 5 years	1,118,634	52,642,925	53,617,024	106,259,949
	2,440,796	114,863,854	116,931,652	231,795,506
Less: Future finance charges on finance lease liabilities	383,180	18,032,425	34,569,888	52,602,313
Present values of finance lease liabilities	US\$2,057,616	P96,831,429	P82,361,764	P179,193,193
	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
2014				
Not later than 1 year	US\$238,557	P10,668,258	P11,423,146	P22,091,404
More than 1 year and not later than 5 years	1,027,007	45,927,750	49,178,287	95,106,037
Later than 5 years	1,413,789	63,224,641	67,753,365	130,978,006
	2,679,353	119,820,649	128,354,798	248,175,447
Less: Future finance charges on finance lease liabilities	462,375	20,677,383	41,194,319	61,871,702
Present values of finance lease liabilities	US\$2,216,978	P99,143,266	P87,160,479	P186,303,745

The present values of minimum lease payments for each of the following periods are as follows:

2015	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US\$197,094	P9,275,262	P7,271,501	P16,546,763
More than 1 year and not later than 5 years	767,797	36,132,517	25,606,142	61,738,659
Later than 5 years	1,092,725	51,423,650	49,484,121	100,907,771
	US\$2,057,616	P96,831,429	P82,361,764	P179,193,193

2014	US Dollar Payments	Peso Equivalent of US Dollar Payments	Peso Payments	Total
Not later than 1 year	US\$194,970	P8,719,059	P7,486,165	P16,205,224
More than 1 year and not later than 5 years	764,915	34,206,990	26,604,935	60,811,925
Later than 5 years	1,257,093	56,217,217	53,069,379	109,286,596
	US\$2,216,978	P99,143,266	P87,160,479	P186,303,745

b. Market Participation Agreements (MPA)

SMEC, SPDC and SPPC entered into an MPA with the Philippine Electricity Market Corporation (PEMC) to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. Under the WESM Rules, the cost of administering and operating the WESM shall be recovered through a charge imposed on all WESM members or transactions, as approved by the ERC. In 2015 and 2014, PEMC's market fees charged to SMEC, SPDC and SPPC amounted to P219,681 and P233,701, respectively (Note 21).

In March 2013, SMELC entered into an MPA for Supplier as Direct WESM Member - Customer Trading Participant Category with the PEMC to satisfy the conditions contained in the Philippine WESM Rules on WESM membership and to set forth the rights and obligations of a WESM member. SMELC has a standby letter of credit, expiring on December 26, 2016, to secure the full and prompt performance of obligations for its transactions as a Direct Member and trading participant in the WESM.

c. Power Supply Agreements

SMEC, SPPC, SPDC, SMELC and SPI have Power Supply Agreements with various counterparties, including related parties, to sell electricity produced by the power plants. All agreements provide for renewals or extensions subject to mutually agreed terms and conditions by the parties.

Certain customers, like electric cooperatives, are billed based on the time-of-use (TOU) per kilowatt hour (kWh) while others are billed at capacity-based rate. As stipulated in the contracts, each TOU-based customer has to pay the minimum charge based on the contracted power using the basic energy charge and/or adjustments if customer has not fully taken or failed to consume the contracted power. For capacity-based contracts, the customers are charged with the capacity fees based on the contracted capacity even if there is no associated energy taken during the month.

SMEC, SPPC and SPDC purchase power from WESM and other power generation companies during periods when the power generated from the power plants is not sufficient to meet customers' power requirements.

d. Coal Supply Agreements

SMEC and SPI, through its operation and maintenance (O&M) service provider, have supply agreements with various coal suppliers for their power plants' coal requirements.

e. Operations and Maintenance Services Agreement

In exchange for the O&M services rendered by Petron Corporation (Petron), an entity under common control, SPI pays for all the documented costs and expenses incurred in relation to the operation, maintenance and repair of the power plant. The agreement is effective for 25 years from September 2013 until 2038.

f. Retail Supply Agreements

SMELC has retail supply agreements with customers to supply or sell electricity purchased from WESM and SMEC. All agreements provide for renewals or extensions subject to terms and conditions mutually agreed by the parties.

The customers are billed based on the capacity charge and associated energy charge. As stipulated in the contracts, each customer has to pay the capacity charge based on the contracted capacity using the capacity fee and associated energy fee with adjustments if customer has not fully taken or failed to consume the contracted capacity.

g. Lease Agreements

Group as Lessee

- i. The Group has operating lease agreements with San Miguel Properties, Inc. (SMPI), an entity under common control, for a period of 1 to 6 years which is renewable annually or upon agreement between parties.
- ii. SPI subleases its plant premises from New Ventures Realty Corporation (NVR), an entity under common control. The existing lease agreement is for a 25-year period up to September 30, 2038, subject to renewal. The yearly rental is subject to an automatic 3.0% per annum escalation rate for the 4 years following the negotiation under the lease terms.
- iii. SMEC entered into a lease agreement with Challenger Aero Air Corporation (Challenger), an entity under common control, for the lease of certain aircrafts for a period of 1 year from October 1, 2014 to September 30, 2015.

The lease agreement was pre-terminated on April 30, 2015.

Subsequently, SMEC entered into a new lease agreement with Challenger for the lease of the same aircrafts for a period of 1 year from May 1, 2015 to April 30, 2016 for a monthly rental of P25,000. Under the terms of the agreement, SMEC paid security deposits amounting to P572,876.

- iv. On November 3, 2015, SCPC leased a parcel of land with a total area of 96,663 square meters from NVRC for a period of 25 years from the effective date. SCPC has the option to renew the lease for a further 25 years. Upon execution of the agreement, the lump sum of P23,786 and a monthly rental of P1,081 covering 1 year is paid in advance. The monthly rental rate of P1,081 shall be increased annually by 6.0% starting with the second anniversary of the lease execution.
- v. On November 5, 2015, SCPC entered into another agreement with NVRC for the lease of a parcel of land with a total area of 274,265 square meters for the development and construction of an Ash Dump Facility for its power plant. The initial term of the lease is for a period of 25 years with the option to renew for a further 25 years. The rental rate is P1,371 for the first twelve months and thereafter, on each anniversary of the lease execution, the monthly rental shall be increased by 5.5%.
- vi. On December 7, 2015, LPPC leased a total of 11,008 square meters from NVRC for a period of 25 years from the effective date. LPPC has the option to renew this lease for another 25 years. The rental rate is P2,300 for the first 12 months and thereafter, starting with the second anniversary of the lease execution, the agreed monthly rental shall be increased annually by 6.0%.
- vii. DAMI leases its land in General Santos City with SMC. The existing lease agreement is for a 10-year period up to June 30, 2023, subject to renewal. The monthly rental rate is P28 for the first 12 months, subject to an automatic 10.0% per annum escalation rate. Rent for the year, capitalized in "Deferred exploration and development costs" account in the consolidated statements of financial position, amounted to P405 and P336 as of December 31, 2015 and 2014, respectively.

Relative to the lease agreements, the Group was required to pay advance rental and security deposits which are included under "Trade and other receivables - net" or "Prepaid expenses and other current assets" accounts in the consolidated statements of financial position (Notes 9 and 11).

Future minimum lease payments under the non-cancellable operating lease agreements are as follows:

	2015	2014
Within 1 year	P63,593	P24,732
After 1 year but not more than 5 years	138,776	26,315
More than 5 years	1,381,648	2
	P1,584,017	P51,049

Rent expense recognized in the consolidated statements of income amounted to P360,091 and P115,849 in 2015 and 2014, respectively (Note 21).

Group as Lessor

- i. In 2014, the Parent Company has an operating sub-lease agreement with Clariden Holdings, Inc., an entity under common control, for a period of 2 years which is renewable upon agreement between the parties.
- ii. In July 2011, GPII entered into an agreement with Limay Energen Corporation (LEC), an entity under common control, to lease a parcel of land located in Limay, Bataan, with a total area of 25,981 square meters. The lease term is for a period of 10 years up to July 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P2,033 with an escalation rate of 3.0% every year from signing of the contract. LEC executed a deed of assignment lease on July 19, 2012, assigning all rights and obligations to the leased area to Petron. Petron is the assignee for the remaining period of the lease effective June 1, 2012.
- iii. In May 2011, GPII entered into an agreement with NVRC, for the lease of certain parcels of land located in Limay, Bataan with a total area of 612,193 square meters. The lease term is for a period of 10 years up to May 2021, with an option to renew not later than 6 months prior to expiration. Monthly rental for the first year of the term is P1,983 with an escalation rate of 3.0% every year from signing of the contract. This Agreement was amended on December 29, 2015, reducing the leased area to 340,646 square meters effective October 1, 2013.

There are no restrictions imposed on these lease agreements such as those concerning dividends, additional debt and further leasing.

Future minimum lease receivables under the non-cancellable operating lease agreements are as follows:

	2015	2014
Within 1 year	P46,517	P7,200
After 1 year but not more than 5 years	183,394	3,957
More than 5 years	20,204	-
	P250,115	P11,157

Rent income recognized in the consolidated statements of income amounted to P28,104 and P18,434 in 2015 and 2014, respectively (Note 22).

h. Concession Agreement

The Parent Company entered into a 25-year Agreement with ALECO on October 29, 2013. It became effective upon confirmation of the National Electrification Administration on November 7, 2013.

On January 24, 2014, the Parent Company and APEC entered into an Assignment Agreement whereby APEC assumed all the rights, interests and obligations of the Parent Company under the Concession Agreement effective January 2, 2014.

The Concession Agreement include, among others, the following rights and obligations: i) as Concession Fee, APEC shall pay to ALECO: (1) separation pay of ALECO employees in accordance with the Concession Agreement; (2) the amount of P2,100 every quarter for the upkeep of residual ALECO (fixed concession fees); ii) if the net cash flow of APEC is positive within 5 years or earlier from date of signing of the Concession Agreement, 50% of the Net Cash Flow each month shall be deposited in an escrow account until the cumulative nominal sum reaches P4,048,529; iii) on the 20th anniversary of the Concession Agreement, the concession period may be extended by mutual agreement between ALECO and APEC; and iv) at the end of the concession period, all assets and system, as defined in the Concession Agreement, shall be returned by APEC to ALECO in good and usable condition. Additions and improvements to the system shall likewise be transferred to ALECO. In this regard, APEC shall provide services within the franchise area and shall be allowed to collect fees and charges, as approved by the ERC. ALECO formally turned over the operations to APEC on February 26, 2014.

The Group recognized as intangible assets all costs directly related to the Concession Agreement. The intangible assets consist of: a) concession rights, which include fixed concession fees and separation pay of ALECO employees amounting to P384,317. Fixed concession fees are recognized at present value using the discount rate at the inception date with a corresponding concession payable recognized; and b) infrastructure, which includes the costs of structures and improvements, distribution system and equipment. Cost of infrastructure amounted to P159,086 and P111,995 as of December 31, 2015 and 2014, respectively. Interest expense on concession payable is included as part of “Interest expense and other financing charges” account in the consolidated statements of income amounted to P6,254 and P4,769 in 2015 and 2014, respectively. Amortization of concession assets recognized in the “Depreciation and amortization” account in the consolidated statements of income amounted to P21,296 and P14,610 in 2015 and 2014, respectively.

Maturities of the carrying amount of concession payable are as follows:

	2015	2014
Within 1 year	P2,273	P2,146
After 1 year but not more than 5 years	10,515	9,929
More than 5 years	94,110	96,969
	P106,898	P109,044

Power concession assets consist of:

	Note	2015	2014
Cost			
Balance at beginning of year		P496,312	P -
Additions		47,091	496,312
Balance at end of year		543,403	496,312
Accumulated Amortization			
Balance at beginning of year		14,610	-
Amortization		21,296	14,610
Balance at end of year		35,906	14,610
	14	P507,497	P481,702

The Group accounted for revenue and costs relating to construction or upgrade services in accordance with PAS 11 based on the stage of completion of work performed. The fair value of the construction and upgrade services provided is equal to the recorded cost of the intangible asset built up from day one until the construction activity ceases. Construction revenue and construction cost amounted to P47,091 and P111,995 in 2015 and 2014, respectively.

i. Memorandum of Agreement (MOA) with San Roque Power Corporation (SRPC)

On December 6, 2012, SPDC entered into a 5-year MOA with SRPC to sell a portion of the capacity of the San Roque Power Plant. Under the MOA, i) SRPC shall purchase a portion of the capacity sourced from the San Roque Power Plant; ii) SRPC shall pay a settlement amount to SPDC for the capacity; and iii) the MOA may be earlier terminated or extended subject to terms and mutual agreement of the parties.

Revenue from sale of capacity of the San Roque Power Plant amounted to P1,274,893 and P1,488,437 in 2015 and 2014, respectively, and was recognized as part of “Sale of power” account in the consolidated statements of income.

8. Cash and Cash Equivalents

Cash and cash equivalents consist of:

	<i>Note</i>	2015	2014
Cash in banks and on hand		P4,390,785	P9,043,630
Short-term investments		17,850,576	29,260,664
	26, 27	P22,241,361	P38,304,294

Cash in banks earn interest at the respective bank deposit rates. Short-term investments include demand deposits which can be withdrawn at anytime depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income from cash and cash equivalents amounted to P261,338 and P356,852 in 2015 and 2014, respectively.

9. Trade and Other Receivables

Trade and other receivables consist of:

	<i>Note</i>	2015	2014
Trade	18	P13,448,756	P13,195,630
Other receivables		6,266,356	5,879,395
		19,715,112	19,075,025
Less allowance for impairment losses:			
Trade	18	1,031,784	866,686
Other receivables		209,703	-
		1,241,487	866,686
	26, 27	P18,473,625	P18,208,339

Trade and other receivables are non-interest bearing, unsecured and are generally on a 30-day term or an agreed collection period. The balance of trade receivables is inclusive of VAT on the sale of power collectible from customers.

The movements in the allowance for impairment losses on trade and other receivables are as follows:

	2015	2014
Balance at beginning of year	P866,686	P722,293
Impairment losses during the year	374,801	144,393
Balance at end of year	P1,241,487	P866,686

Impairment losses is recognized in profit or loss as follows:

	Note	2015	2014
Operating expenses	21	P142,658	P144,393
Other income (charges)	22	232,143	-
		P374,801	P144,393

The aging of trade and other receivables as of December 31 are as follows:

	2015			2014		
	Trade	Other Receivables	Total	Trade	Other Receivables	Total
Current	P6,318,467	P876,542	P7,195,009	P6,703,992	P3,298,074	P10,002,066
Past due:						
Less than 30 days	577,945	51,634	629,579	1,125,712	137,125	1,262,837
30-60 days	376,895	54,940	431,835	574,608	141,560	716,168
61-90 days	201,639	2,938,954	3,140,593	194,855	3,097	197,952
Over 90 days	5,973,810	2,344,286	8,318,096	4,596,463	2,299,539	6,896,002
	P13,448,756	P6,266,356	P19,715,112	P13,195,630	P5,879,395	P19,075,025

Past due trade receivables by more than 30 days pertain mainly to output VAT. The Group believes that the unimpaired amounts that are past due are still collectible based on historical payment behavior and analyses of the underlying customer credit ratings. There are no significant changes in their credit quality. There were no write-offs or reversals in 2015 and 2014.

Other receivables include the following:

- On June 16, 2011, SMEC entered into a MOA with Hardrock Coal Mining Pty Ltd. (HCML) and Caason Investments Pty Ltd. (Caason), companies registered in Australia, for the acquisition of shares in HCML. SMEC paid Caason Australian dollars 12,000 (equivalent to P550,000), for an option to subscribe to the shares in HCML (the Deposit) with further option for SMEC to decide not to pursue its investment in HCML, which will result in the return of the Deposit to SMEC plus interest. In a letter dated July 15, 2011, SMEC notified Caason and HCML that it shall not pursue the said investment and therefore asked Caason and HCML for the return of the Deposit with corresponding interest (the Amount Due), pursuant to the terms of the MOA.

On September 2, 2014, SMEC, HCML and Caason agreed to a schedule of payment of the outstanding Amount Due to SMEC. As of December 31, 2015 and 2014, HCML and Caason has paid a total amount of P107,086 and P119,841, respectively, inclusive of interest and other payments, such as legal costs and expenses. Interest income amounted to P105,735 and P118,824 as of December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, total outstanding receivables from HCML amounted to P203,099 (net of allowance for impairment loss) and P566,155, respectively.

- b. Pursuant to the MOA in respect of excess capacity of Sual Power Station, SMEC has receivables from Team Philippines Energy Corp. (TPEC) and Team Sual Corporation (TSC) for their share in fuel, market fees, coal and other charges related to the operation of the Sual Power Plant amounting to P33,658 and P59,871 as of December 31, 2015 and 2014, respectively. Likewise, SMEC has receivables from TPEC for share in WESM transactions amounting to P1,083,353 and P926,583 as of December 31, 2015 and 2014, respectively.
- c. Due from PSALM amounting to US\$60,000 which pertains to SPPC's performance bond pursuant to the Ilijan IPPA Agreement that was drawn by PSALM in September 2015. The validity of PSALM's action is the subject of an ongoing case filed by SPPC with the Regional Trial Court of Mandaluyong City (Note 28).
- d. Advances to suppliers for the deposits made to certain suppliers in 2014 for the ongoing construction of 2 x 150 Mega Watt (MW) Coal-Fired Power Plant.
- e. The balance mainly pertains to receivables from customers related to power rate adjustments which will be remitted to the Government upon collection.

10. Inventories

Inventories at cost consist of:

	<i>Note</i>	2015	2014
Coal	7, 18	P1,079,086	P1,179,585
Materials and supplies		109,820	86,242
Fuel oil	18	67,599	93,402
Other consumables		6,713	5,804
		P1,263,218	P1,365,033

There were no inventory write-downs to net realizable value for the years ended December 31, 2015 and 2014. Inventories charged to cost of power sold amounted to P10,376,590 and P11,945,280 in 2015 and 2014, respectively.

11. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of:

	<i>Note</i>	2015	2014
Input VAT		P10,960,202	P7,389,026
Prepaid tax		2,253,885	1,296,666
Prepaid rent and others	<i>7, 18</i>	1,854,660	451,510
		P15,068,747	P9,137,202

Input VAT consists of current and deferred input VAT on purchases of goods and services which can be offset against the output VAT payable (Note 16).

Prepaid tax consists of creditable withholding taxes and excess tax credits of the Group which can be used as a deduction against future income tax payable.

Prepaid rent and others pertain to the following:

- a. Prepaid rent of the Group from various operating lease agreements amounted to P61,961 and P12,173 as of December 31, 2015 and 2014, respectively (Note 7).
- b. PSALM monthly fee outage credits from the approved reduction in future monthly fees payable to PSALM resulting from the outages of the Sual Power Plant in 2015.
- c. Professional services related to project financing of SCPC (Note 28).

12. Property, Plant and Equipment

Property, plant and equipment consist of:

	Power Plants (Note 7)	Building	Land and Leasehold Improvements	Other Equipment	Capital Projects in Progress	Total
Cost						
January 1, 2014	P221,760,866	P3,480,934	P346,602	P960,758	P11,705,540	P238,254,700
Additions	-	-	46	98,542	17,380,501	17,479,089
Disposals	-	-	-	-	(82,420)	(82,420)
Reclassifications	5,027,966	2,350,163	-	98,776	(7,590,524)	(113,619)
December 31, 2014	226,788,832	5,831,097	346,648	1,158,076	21,413,097	255,537,750
Additions	-	10,346	2,649,691	159,223	31,013,561	33,832,821
Disposals	-	-	-	(754)	-	(754)
December 31, 2015	226,788,832	5,841,443	2,996,339	1,316,545	52,426,658	289,369,817
Accumulated Depreciation and Amortization						
January 1, 2014	21,126,707	45,193	9,750	51,531	-	21,233,181
Additions	5,803,956	220,638	36,481	110,171	-	6,171,246
December 31, 2014	26,930,663	265,831	46,231	161,702	-	27,404,427
Additions	6,030,650	301,958	44,848	135,629	-	6,513,085
Disposals	-	-	-	(691)	-	(691)
December 31, 2015	32,961,313	567,789	91,079	296,640	-	33,916,821
Carrying Amount						
December 31, 2014	P199,858,169	P5,565,266	P300,417	P996,374	P21,413,097	P228,133,323
December 31, 2015	P193,827,519	P5,273,654	P2,905,260	P1,019,905	P52,426,658	P255,452,996

- a. The combined carrying amounts of power plants under finance lease amounted to P182,946,297 and P188,132,700 as of December 31, 2015 and 2014, respectively.
- b. Power plant of SPI is used as collateral in securing a loan obtained from a syndicate of banks (Note 17).
- c. Additions to building, land and leasehold improvements and other equipment include acquisition of assets of OHC and GPII for a total consideration of P588,050 and P1,820,972, respectively (Note 13).
- d. Other equipment includes machinery and equipment, transportation equipment, mining equipment, office equipment and furniture and fixtures.
- e. Capital projects in progress pertains to the following:
 - i. Project of SMCPC for the construction of 2 x 150 MW Coal-Fired Power Plant in Malita, Davao.
 - ii. Projects of SCPC and LPPC for the construction of the 2 x 150 MW Coal-Fired Power Plants each in Limay, Bataan.
 - iii. Construction of limestone pulverizing plant and petcoke handling facility of SPI.
 - iv. Plant optimization and pumped-storage hydropower projects of SPDC.
 - v. SMEC, as IPP Administrator, and TSC, as IPP and operator of the Sual Power Plant, intend to improve the coal receiving and unloading capability of the Sual Power Plant as well as increase the coal shipment deliveries thereto (Note 7).

On September 9, 2014, SMEC agreed to provide an additional coal unloader (the Third Unloader) to the Sual Power Plant while TSC agreed to install, operate and maintain the same during the life of the Sual IPPA Agreement or until 2024. Considering, however, that TSC is not allowed to accept and install any equipment in the Sual Power Plant that it does not own, SMEC agreed to donate the same in order to implement the intention of both parties to improve the unloading capability and increase coal shipment deliveries. The Third Unloader will be part of the assets to be turned over to SMEC at the end of the Sual IPPA Agreement or until 2024 and is recognized as part of "Donations" under "Operating expenses" account in the consolidated statements of income (Note 21).

- vi. Computer and system installations, and upgrades and implementation of accounting system recognized as part of capital projects in progress were reclassified to "Intangible assets and goodwill" account in the consolidated statements of financial position in 2014 (Note 14).

Depreciation and amortization are recognized in profit or loss as follows:

	<i>Note</i>	2015	2014
Cost of power sold		P6,445,102	P6,129,256
Operating expenses	21	73,415	43,774
		P6,518,517	P6,173,030

Total depreciation and amortization recognized in profit or loss include annual amortization of capitalized interest amounting to P13,360 and P4,453 in 2015 and 2014, respectively.

The Group has interest amounting to P105,549 and P254,539 which was capitalized in 2015 and 2014, respectively. The capitalization rates used to determine the amount of interest eligible for capitalization range from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The unamortized capitalized borrowing costs amounted to P446,789 and P349,498 as of December 31, 2015 and 2014, respectively.

13. Investments and Advances

Investments and advances consist of:

	2015	2014
Cost		
Balance at beginning of year	P2,074,051	P301,208
Additions	1	1,830,054
Adjustment to subscription payable	-	(57,211)
Balance at end of year	2,074,052	2,074,051
Accumulated Equity in Net Losses		
Balance at beginning of year	(63,719)	(41,374)
Equity in net losses during the year	(526,463)	(32,231)
Adjustment to equity in net earnings (losses) in prior year	(1,982)	9,886
Balance at end of year	(592,164)	(63,719)
	1,481,888	2,010,332
Advances	9,131,049	8,601,945
	P10,612,937	P10,612,277

The Group's investments pertain to the following:

a. Olongapo Electricity Distribution Company, Inc. (OEDC)

In April 2013, SPGC and San Miguel Equity Investments, Inc. (SMEII), an entity under common control, entered into a Deed of Assignment of Subscription Rights whereby SMEII agreed to assign 35% ownership interest in OEDC to SPGC for a consideration of P8,750.

As of December 31, 2015 and 2014, carrying amount of investment in OEDC amounted to P192,012 and P191,550, respectively. Subscription payable amounted to P28,101 as of December 31, 2015 and 2014 (Note 16).

The table below summarizes the financial information of investment in shares of stock of an associate which is accounted for using the equity method:

	2015	2014
	(Unaudited)	(Audited)
Country of Incorporation	Philippines	Philippines
Current assets	P421,640	P390,447
Noncurrent assets	1,098,207	1,024,781
Current liabilities	(655,189)	(899,921)
Noncurrent liability	(353,812)	(9,884)
Net assets	P510,846	P505,423
Revenue	P1,298,687	P1,234,670
Net income (losses)/total comprehensive income (losses)	P7,748	(P66,309)
Share in net income (losses)/total comprehensive income (losses)	P2,712	(P23,208)

- b. Angat Hydropower Corporation (Angat Hydro) and KWPP Holdings Corporation (KWPP)

In accordance with the agreement of the Parent Company, through PVEI, and Korea Water Resources Corporation (K-Water) to enter into a joint venture partnership for the acquisition, rehabilitation, operation and maintenance of the 218 MW Angat Hydroelectric Power Plant (Angat Power Plant) awarded by PSALM to K-Water, PVEI deposited US\$26,448 to an escrow account.

On November 18, 2014, PVEI acquired from the individual stockholders and K-Water, 2,817,270 shares or 60% of the outstanding capital stock of Angat Hydro and from the individual stockholders, 75 shares representing 60% of KWPP outstanding capital stock. Accordingly, PVEI paid K-Water and the individual stockholders a total of US\$39,236 and P15 as full payment of the share purchase price of Angat Hydro and KWPP shares, respectively. The payment was funded in part by the deposit in escrow.

In accordance with the entry of PVEI into Angat Hydro and KWPP, K-Water and PVEI are jointly in control of the management and operation of Angat Hydro and KWPP.

Further, PVEI agreed to pay K-Water a support fee amounting to 3.0% of the total amount of the bridge loan facility which was obtained for the acquisition by Angat Hydro of the Angat Power Plant. This was subsequently reduced to 1.5% of the total amount of the bridge loan facility effective August 4, 2015.

Angat Hydro

Angat Hydro was incorporated on November 15, 2013 and was created to engage in the operations and maintenance of the Angat Power Plant and to supply power generated to power corporations and to electric utilities, to import hydro-electric facilities and equipment, and to do all acts necessary and incidental thereto, in accordance with RA No. 9136 or otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA).

KWPP

KWPP was incorporated on November 27, 2013 and was established for the purpose of acquiring, holding or leasing water and flowage rights.

Details of investments in Angat Hydro and KWPP are as follows:

December 31, 2015	Angat Hydro	KWPP
Cost		
Balance at beginning of year	P1,830,039	P15
Additions	1	-
Balance at end of year	1,830,040	15
Accumulated Equity in Net Losses		
Balance at beginning of year	(11,257)	(15)
Equity in net losses during the year	(529,174)	-
Adjustment to equity in net losses prior period	267	-
Balance at end of year	(540,164)	(15)
	P1,289,876	P -
December 31, 2014	Angat Hydro	KWPP
Acquisition cost	P1,830,039	P15
Equity in net losses during the year	(11,257)	(15)
	P1,818,782	P -

Unrecognized share in net losses in excess of the Group's interest in KWPP amounted to P171 and nil on December 31, 2015 and 2014, respectively.

The table below summarizes the financial information of investments in shares of stock of joint ventures which is accounted for using the equity method:

December 31, 2015 (Unaudited)

	Angat Hydro	KWPP
Country of Incorporation	Philippines	Philippines
Current assets	P1,143,612	P2,049
Noncurrent assets	19,716,594	19,651
Current liabilities	(20,861,349)	(4,957)
Noncurrent liabilities	(17,693)	(17,583)
Net liabilities	(P18,836)	(P840)
Revenue	P1,248,800	P -
Net losses/total comprehensive losses	(P881,957)	(P285)
Share in net losses/total comprehensive losses	(P529,174)	(P171)

December 31, 2014 (Audited)

Country of Incorporation	Angat Hydro	KWPP
	Philippines	Philippines
Current assets	P407,488	P76
Noncurrent assets	20,187,319	17,783
Current liabilities	(19,713,866)	(630)
Noncurrent liabilities	(17,819)	(17,783)
Net assets (liabilities)	P863,122	(P554)
Revenue	P153,772	P -
Net losses/total comprehensive losses	(P72,591)	(P470)
Share in net losses/total comprehensive losses*	(P10,990)	(P15)

*44 day share in net/losses total comprehensive losses for the period from November 18 to December 31, 2014 of Angat Hydro and KWPP.

c. Acquisition of OHC and GPII

On February 10, 2015, the Parent Company acquired 100% outstanding capital stock of OHC for a total consideration amount of P588,050, inclusive of transaction costs. OHC is engaged in the business of acquiring by purchase, lease, donation or otherwise, and to own, use, improve, develop, subdivide, sell, mortgage, exchange, lease, develop and hold for investment or otherwise, real estate of all kinds; to improve, manage or otherwise deal with or dispose of buildings, houses, apartments, and other structures of whatever kind, together with their appurtenances; and to carry on, provide support and manage the general business of any corporation, entity or joint venture.

On September 4, 2015, the Parent Company acquired 100% outstanding capital stock of GPII for a total consideration amount of P1,820,972, inclusive of transaction costs. GPII's primary purpose is to carry on and engage in the business of developing and converting the properties in Limay, Bataan into a multi-use industrial park with all the necessary amenities, in joint venture with any person or entity.

The following summarizes the recognized net assets acquired from OHC and GPII at the acquisition date:

	OHC	GPII
Current assets	P37,609	P126,317
Noncurrent assets	550,441	2,071,882
Current liabilities	-	(5,940)
Noncurrent liabilities	-	(371,287)
Net assets	P588,050	P1,820,972

In accordance with criteria set out in paragraph 2 of PFRS 3 and based on PIC Question and Answer No. 2011 - 06 PFRS 3 (2008), and PAS 40, Investment Property - *Acquisition of Investment Properties - Asset Acquisition or Business Combination*, the Parent Company is exempt from applying acquisition method and should be accounted for as an asset acquisition based on the principles described in other PFRS. The acquired set of assets and activities does not constitute a business as defined in PFRS 3.

Advances pertain to deposits made for future investment in land holding companies and power-related expansion projects.

14. Intangible Assets and Goodwill

Intangible assets and goodwill consist of:

	<i>Note</i>	2015	2014
Mining rights	6	P1,719,726	P1,719,726
Power concession assets - net	7	507,497	481,702
Computer software under development		177,160	111,947
Goodwill		8,866	8,866
		P2,413,249	P2,322,241

Goodwill is attributed to the Group's acquisition of SMEC and SPDC in 2010. Based on management's assessment, goodwill is not impaired since the recoverable amount of the related net assets of SMEC and SPDC for which the goodwill was attributed still exceeds its carrying amount as of December 31, 2015 and 2014.

15. Other Noncurrent Assets

Other noncurrent assets consist of:

	<i>Note</i>	2015	2014
Restricted cash	26, 27	P1,311,740	P1,054,801
Deferred input VAT - net of current portion		682,674	980,057
Noncurrent receivable	18, 26, 27	253,812	179,129
Advances to suppliers		-	1,428
		P2,248,226	P2,215,415

Restricted cash represents: (a) SPI's Cash Flow Waterfall accounts (Trust Fund) with a local bank, as part of the provisions in SPI's Facility Agreement, amounting to P1,208,870 and P1,021,163 as of December 31, 2015 and 2014, respectively (Note 17); and (b) APEC's collected contributions from consumers, membership fees and bill deposits amounting to P102,870 and P33,638 as of December 31, 2015 and 2014, respectively (Note 7).

The deferred input VAT mainly pertains to the input VAT on the purchase of power plant from Petron (Note 17).

Noncurrent receivable pertains to loan granted by SPGC to OEDC which is payable in equal monthly payments of principal and interest at 4.7252% commencing on January 1, 2017 and thereafter on the first day of each month until December 2024 (Note 18). In 2014, this represents receivable from a third party for the sale of the Parent Company's 100% ownership interest in Panasia Energy, Inc., net of current portion. As of December 31, 2015, the entire receivable was classified as current assets and presented as "Other receivables" under the "Trade and other receivables" account in the consolidated statements of financial position.

16. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of:

	<i>Note</i>	2015	2014
Non-trade		P15,115,167	P10,189,569
Trade	7, 18	12,903,186	12,621,078
Output VAT		4,057,706	4,623,037
Accrued interest	7, 17	493,897	487,997
Withholding taxes		242,993	151,330
Subscription payable	13	28,101	28,101
	26, 27	P32,841,050	P28,101,112

Trade payables consist of payable related to energy fees, inventories and power purchases. These are generally on a 30-day term and are non-interest bearing.

Output VAT consists of current and deferred output VAT payable. Deferred output VAT represents the VAT on sale of power which will be remitted to the Government only upon collection from the customers (Note 9).

Non-trade payables include liability relating to power rate adjustments, payables to contractors and other payables to the Government except output VAT and withholding taxes. Power rate adjustments include the adjustments in November and December 2013 sale of power to WESM amounting to P563,587 and P1,352,610 as of December 31, 2015 and 2014, respectively. The noncurrent portion is presented as “Other noncurrent liabilities” account in the consolidated statements of financial position in 2014 (Note 28).

17. Long-term Debt

Long-term debt consists of:

	<i>Note</i>	2015	2014
Bonds payable		P14,118,000	P13,416,000
Less debt issue costs		4,512	61,955
		14,113,488	13,354,045
Loans payable		45,175,700	35,966,800
Less debt issue costs		681,327	607,600
		44,494,373	35,359,200
	26, 27	58,607,861	48,713,245
Less current maturities		15,647,244	1,330,037
		P42,960,617	P47,383,208

a. Bonds Payable

On January 28, 2011, the Parent Company carried out a US\$300,000, 7%, 5-year note (Bonds Payable) issued under Regulations of the U.S. Securities Act of 1933, as amended. The unsecured bond issue is listed in the Singapore Exchange Securities Trading Limited. The terms and conditions of the bonds contain a negative pledge provision with certain limitations on the ability of Parent Company and its material subsidiaries to create or have outstanding any security interest upon, or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions. Upon the occurrence of a change of control, each bondholder has the right, at its option, to require the Parent Company to repurchase all (but not some only) of its bonds, at a redemption price equal to 101% of the principal amount thereof plus accrued interest on the change of control put date.

The Parent Company has agreed to observe certain covenants, including, among other things, maintaining a leverage ratio, limitation on guarantees and loans, limitation on indebtedness, limitation on restricted payments, limitation on dividends and other restrictions affecting material subsidiaries, limitation on transactions with shareholders and affiliates, limitation of asset sales, consolidation, merger and sales of assets and certain other covenants. Interest is payable semi-annually in arrears on January 28 and July 28 of each year, with first interest payment on July 28, 2011. Bonds payable amounted to P14,118,000 and P13,416,000 while accrued interest amounted to P411,775 and P391,300 as of December 31, 2015 and 2014, respectively. Interest expense amounted to P1,147,860 and P1,123,679 in 2015 and 2014, respectively.

On December 5, 2013, the BOD was informed of the need to amend certain provisions of the Bonds Payable, including but not limited to, the definitions of “Asset Sale”, “Material Subsidiary”, “Non-Recourse Project Level Indebtedness”, “Permitted Security Interest” and “Project Subsidiaries” and the leverage and cross-default thresholds in order to align the provisions of the Bonds Payable with the US\$700,000 Loan Facility of the Parent Company, thereby providing flexibility to enable the Parent Company to divest its non-core assets and raise funds in line with its long term growth strategy.

Bonds payable with maturity of January 28, 2016 was paid on January 26, 2016 using the US\$300,000 short-term loan proceeds obtained in 2016 (Note 28).

b. Loans Payable

Parent Company

On September 9, 2013, the Parent Company signed a US\$650,000, 5-year term loan with a syndicate of banks. The amount of the loan will bear interest at the rate of the London interbank offered rate (LIBOR) plus a margin, payable in arrears on the last day of the agreed interest period. Subsequently, on November 15, 2013, the US\$650,000 Facility Agreement was amended extending the loan facility from US\$650,000 to US\$700,000.

The Facility Agreement imposes a number of covenants on the part of the Parent Company including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of the Parent Company and its material subsidiaries to create or have outstanding any security interest upon or with respect to, any of the present or future business, undertaking, assets or revenue (including any uncalled capital) of the Parent Company or any of its material subsidiaries to secure any indebtedness, subject to certain exceptions.

In March 2015, the remaining US\$200,000 was drawn by the Parent Company from the US\$700,000, 5-year term loan, which will mature in September 2018. The drawn amount from the Facility Agreement amounted to US\$700,000 and US\$500,000 as of December 31, 2015 and 2014, respectively.

SPI

On September 27, 2013, SPI has entered into a P13,800,000, 10-year term loan with a syndicate of banks, for the acquisition of a 2 x 35 MW Co-Generation Solid Fuel-Fired Power Plant and all other pertinent machinery, equipment, facilities and structures for the expansion of the capacity. Of this amount, P12,300,000 and P1,500,000 were drawn on September 30, 2013 and 2014, respectively. The loan includes amount payable to a related party amounting to P3,102,750 and P3,451,000 as of December 31, 2015 and 2014, respectively.

Effective interest rate ranges from 6.0606% to 6.2921% and 6.0606% to 6.5446% in 2015 and 2014, respectively. The Facility Agreement has a final maturity date of September 2023.

SPI may, by giving not less than 30 days prior written notice to the Facility Agent, prepay the loan in whole or in part with accrued interest on the amount prepaid and subject to a repayment penalty of 1% of the principal amount being paid to be applied against the outstanding amounts due in the inverse order of maturity. The repayment schedule consists of 40 periods on a quarterly basis. The first repayment of principal started in December 2014.

The annual maturities on this loan are as follows:

Year	Gross Amount	Debt Issue Costs	Net
2016	P1,573,200	P39,444	P1,533,756
2017	1,573,200	35,107	1,538,093
2018	1,573,200	30,581	1,542,619
2019	1,573,200	25,733	1,547,467
2020	1,573,200	20,606	1,552,594
2021 and thereafter	4,367,700	26,601	4,341,099
	P12,233,700	P178,072	P12,055,628

The Facility Agreement imposes a number of covenants on the part of SPI, including, but not limited to, maintaining a debt-to-equity ratio and a specified debt service coverage ratio throughout the duration specified under the Facility Agreement. The terms and conditions of the Facility Agreement contains certain limitations on the ability of SPI to declare or pay any dividend, distribution or other return of capital in respect of any ownership interest to SPI and any other payment to the Parent Company or its affiliates, subject to certain exceptions.

The loan is secured by the mortgage over the power plant and pledge of shares in SPI owned by the Parent Company (Note 12).

Loans payable amounted to P45,175,700 and P35,966,800 while accrued interest amounted to P7,544 and P17,794 as of December 31, 2015 and 2014, respectively. Total interest expense and financing charges on loans payable amounted to P1,756,754 and P1,475,532 (inclusive of P111,147 and P266,655 capitalized in construction in progress in 2015 and 2014, respectively; Note 12) in 2015 and 2014, respectively.

The amortization of debt issue costs of P262,428 and P173,978 is included as part of “Interest expense and other financing charges” account in the consolidated statements of income in 2015 and 2014, respectively.

As of December 31, 2015 and 2014, the Group is in compliance with the covenants of the debt agreements.

The movements in debt issue costs are as follow:

	2015	2014
Balance at beginning of year	P669,555	P727,115
Additions	284,310	128,535
Amortization	(262,428)	(173,978)
Capitalized amount	(5,598)	(12,117)
Balance at end of year	P685,839	P669,555

Contractual terms of the Group’s interest bearing loans and borrowings and exposure to interest rate, foreign currency and liquidity risks are discussed in Note 26.

18. Related Party Disclosures

The Group, in the normal course of business, purchases products and services from and sells products and renders services to related parties. Transactions with related parties are made at normal market prices and terms. An assessment is undertaken at each financial year by examining the financial position of the related party and the market in which the related party operates.

The following are the transactions with related parties and the outstanding balances:

	Note	Year	Revenues from Related Parties	Purchases from Related Parties	Amounts Owed by Related Parties	Amounts Owed to Related Parties	Terms	Conditions
SMC	21	2015 2014	P - -	P1,177,187 267,336	P252 10,557	P106,573 18,009	On demand or 30 days; non-interest bearing	Unsecured; no impairment
Entities Under Common Control	7, 9, 10 12, 21	2015 2014	8,817,828 7,814,823	2,835,155 2,208,319	1,461,602 852,839	358,842 418,116	On demand or 30 days; non-interest bearing	Unsecured; no impairment
Associate		2015 2014	958,043 878,650	- -	92,621 77,816	28,101 28,101	30 days; non-interest bearing	Unsecured; no impairment
	15	2015 2014	- -	- -	256,472 -	- -	8 years; interest bearing	Unsecured; no impairment
Associates of Entities Under Common Control	7, 10	2015 2014	735,355 -	118,896 -	78,952 -	6 -	30 days; non-interest bearing	Unsecured; no impairment
	17	2015 2014	- -	- -	- -	3,102,750 3,451,000	10 years; interest bearing	Secured
Others		2015 2014	7,419 -	321,143 -	1,677 -	160,378 -	On demand or 30 days; non-interest bearing	Unsecured; no impairment
		2015	P10,518,645	P4,452,381	P1,891,576	P3,756,650		
		2014	P8,693,473	P2,475,655	P941,212	P3,915,226		

- Amounts owed by related parties consist of trade and other receivables and security deposits (Note 7).
- Amounts owed to related parties consist of trade and non-trade payables, management fees, purchases of fuel, reimbursement of expenses, rent, insurance and services rendered by related parties.
- Amounts owed by an associate consists of interest bearing loan granted to OEDC included as part of "Other noncurrent assets - net" account in the consolidated statements of financial position.
- The amount owed to associate of an entity under common control consists of interest bearing loan obtained from Bank of Commerce included as part of "Long-term debt" account in the consolidated statements of financial position.
- The compensation of key management personnel of the Group amounted to P37,509 and P32,604 for the years ended December 31, 2015 and 2014, respectively.

- f. SMC offers shares of stock to employees of SMC and its subsidiaries under the ESPP. Under the ESPP, all permanent Philippine-based employees of SMC and its subsidiaries who have been employed for a continuous period of one year prior to the subscription period will be allowed to subscribe at a price equal to weighted average daily closing prices for three months prior to the offer period less 15% discount. A participating employee may acquire at least 100 shares of stock up to a maximum of 20,000 shares, subject to certain conditions, through payroll deductions (Note 3).

The ESPP requires the subscribed shares and stock dividends accruing thereto to be pledged to SMC until the subscription is fully-paid. The right to subscribe under the ESPP cannot be assigned or transferred. A participant may sell his shares after the second year from exercise date. The ESPP also allows subsequent withdrawal and cancellation of participant's subscriptions under certain terms and conditions.

As of December 31, 2015 and 2014, there are no expenses related to ESPP.

19. Retirement Plan

The Parent Company and SMEC have unfunded, noncontributory, defined benefit plan covering all of its eligible employees. Retirement benefits expense pertains to accrual of expected retirement benefits of active employees in accordance with RA No. 7641, *The Philippine Retirement Law*. Retirement benefit expense and liability is determined using the projected unit credit method. The Group's latest actuarial valuation date is December 31, 2015. Valuations are obtained on a periodic basis.

The following table shows reconciliation from the opening balances to the closing balances of defined benefit obligation and its components.

	2015	2014
Balance at January 1	P16,692	P7,714
Included in Profit or Loss		
Current service cost	5,866	8,573
Interest cost	745	405
	6,611	8,978
Included in Other Comprehensive Income		
Actuarial losses arising from experience adjustments	22,354	-
Balance at December 31	P45,657	P16,692

Defined benefit obligation included as part of "Other noncurrent liabilities" account in the consolidated statements of financial position amounted to P45,657 and P16,692 as of December 31, 2015 and 2014, respectively.

The retirement benefit expense amounting to P6,611 and P8,978 in 2015 and 2014, respectively, are recognized as part of "Salaries, wages and benefits" under "Operating expenses" account in the consolidated statements of income (Note 21).

The reserve for retirement plan as of December 31, 2015 comprises of actuarial loss recognized in other comprehensive income during the year amounting to P22,354.

The following were the principal actuarial assumptions at the reporting date:

	2015	2014
Discount rate	4.43% - 4.89%	4.12% - 4.49%
Future salary increase	7.00%	-

Assumptions regarding future mortality have been based on published statistics and mortality tables. Mortality rate is based from the 2001 CSO Table - Generational (Scale AA, Society of Actuaries).

The weighted average duration of the defined benefit obligation as of December 31, 2015 is 8.9 to 9.2 years.

Details of the expected future benefit payments are as follows:

Financial Year	Amount
2016	P -
2017	4,639
2018	3,889
2019	4,899
2020	3,542
2021 - 2025	17,156

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the rates shown below:

	100 bps Increase	100 bps Decrease
Discount rate	(6.6% - 7.4%)	7.3% - 8.1%
Salary increase rate	6.5% - 7.1%	(6.0% - 6.7%)
No attrition rates	1.9% - 19.5%	

Risks and Management of Risks

The defined benefit obligation expose the Group to actuarial risks, such as longevity risk, interest rate risk, and market (investment) risk.

The defined benefit obligation is calculated using a discount rate set with reference to government bond yields as such is exposed to market factors including inflation. Higher inflation will lead to higher liability. Also, the defined benefit obligations are to provide benefits for the life of members, so increase in life expectancy will result in an increase in the plan's liability. These risks are managed with the objective of reducing the impact of these risks to the cash flows of the Group.

The Group does not have a formal retirement plan and therefore has no plan assets to match against the liability under the defined benefit obligation. Also, benefit claims under the defined benefit obligation are paid directly by the Group when they become due.

20. Equity

Capital Stock

As of December 31, 2015 and 2014, the Parent Company's authorized capital stock is P2,000,000, divided into 2,000,000,000 common shares with par value of P1 per share.

Capital stock consists of:

	2015	2014
Subscribed capital stock	P1,250,004	P1,250,004
Less subscription receivable	187,500	187,500
	P1,062,504	P1,062,504

The number of shares subscribed is 1,250,003,500 common shares as of December 31, 2015 and 2014.

Reserves

Reserves consist of the excess of net assets over purchase price of acquired subsidiaries under common control amounting to P785,279 as of December 31, 2015 and 2014. Excess of net assets over purchase price of acquired subsidiaries under common control pertains to the acquisitions of noncontrolling interest in SMEC and SPDC.

Retained Earnings

The Group's unappropriated retained earnings include the Parent Company's accumulated earnings in subsidiaries and equity in net losses of an associate and joint ventures amounting to P1,193,014 and P427 in 2015 and 2014, respectively. Such amounts are not available for declaration as dividends until declared by the respective investees.

The Parent Company's BOD declared cash dividends as follows:

December 31, 2015

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2015	March 25, 2015	March 31, 2015	P1.20	P1,500,000
July 2, 2015	July 2, 2015	July 9, 2015	1.20	1,500,000
November 5, 2015	November 5, 2015	November 10, 2015	1.20	1,500,000
				P4,500,000

December 31, 2014

Date of Declaration	Stockholders of Record	Date Payable	Dividend Per Share	Amount
March 25, 2014	March 25, 2014	April 8, 2014	P1.20	P1,500,000
June 3, 2014	June 3, 2014	June 10, 2014	2.80	3,500,000
August 19, 2014	August 19, 2014	August 29, 2014	2.00	2,500,000
November 4, 2014	November 4, 2014	November 11, 2014	2.00	2,500,000
				P10,000,000

The Group's appropriated retained earnings, net of reversal, are as follows:

	2015	2014
Parent Company	P7,700,000	P11,771,000
SMEC	5,340,000	7,675,000
SPPC	9,158,600	7,352,300
SPDC	2,957,000	2,604,600
	P25,155,600	P29,402,900

The analysis of appropriated retained earnings as of December 31, 2015 is as follows:

	Parent Company	SMEC	SPPC	SPDC	Total
Balance at beginning of year	P11,771,000	P7,675,000	P7,352,300	P2,604,600	P29,402,900
Used/utilized	(11,771,000)	(7,325,000)	-	-	(19,096,000)
Additions	7,700,000	4,990,000	1,806,300	352,400	14,848,700
Balance at end of year	P7,700,000	P5,340,000	P9,158,600	P2,957,000	P25,155,600

The appropriations reversed in 2015 were used for the Group's required capital expenditures and servicing of long-term debt as intended.

On December 23, 2015, the BOD approved the appropriation of retained earnings amounting to P4,990,000, P1,806,300 and P352,400 for fixed monthly payments to PSALM of SMEC, SPPC and SPDC, respectively, pursuant to the IPPA Agreements. On the same day, the BOD approved the appropriation of retained earnings of the Parent Company amounting to P7,700,000 for the payment of the US\$700,000, 5-year term loan to mature in September 2018 (Note 17).

Undated Subordinated Capital Securities (USCS)

The Parent Company issued and listed on the Singapore Stock Exchange the following USCS at an issue price of 100%:

Date of Issuance	Distribution Payment Date	Initial Rate of Distribution	Step-Up Date	Amount of USCS Issued	Amount in Philippine Peso
August 26, 2015	August 26 and February 26 of each year	6.75% per annum	February 26, 2021	US\$300,000	P13,823,499
May 7, 2014	May 7 and November 7 of each year	7.5% per annum	November 7, 2019	300,000	13,110,066
				US\$600,000	P26,933,565

The holders of the USCS have conferred a right to receive distributions on a semi-annual basis from their issuance dates at the initial rate of distribution, subject to the step-up rate. The Parent Company has a right to defer this distribution under certain conditions.

The USCS have no fixed redemption date and are redeemable in whole, but not in part, at the Parent Company's option on step-up date, or any distribution payment date thereafter or upon the occurrence of certain other events at the principal amounts of the USCS plus any accrued, unpaid or deferred distribution.

The proceeds were used by the Parent Company to finance investments in power-related assets and other general corporate purposes.

Details of distributions paid to USCS holders are as follows:

Year	Date of Last Payment	Amount Paid
2015	May 6	P714,616
	November 6	736,072
		P1,450,688
2014	November 6	P723,214

On February 24, 2016, the Parent Company paid distributions to USCS holders amounting to P689,223.

21. Plant Operations and Maintenance Fees and Operating Expenses

Plant operations and maintenance consist of:

	Note	2015	2014
Plant operations and maintenance fees	7, 18	P467,444	P499,850
Supplies and metering		21,314	22,510
Salaries, wages and employee benefits		13,330	41,720
Others		123	11,552
		P502,211	P575,632

Operating expenses consist of:

	Note	2015	2014
Management fees	18	P1,196,789	P456,727
Taxes and licenses		946,801	406,979
Outside services		723,269	143,492
Rent	4, 7, 18	360,091	115,849
Corporate special program		243,045	127,116
Market fees	7	219,681	233,701
Salaries, wages and benefits	18, 19	190,523	149,106
Impairment losses on trade receivables	9	142,658	144,393
Repairs and maintenance		138,067	65,952
Professional fees		124,221	130,019
Supplies		105,617	46,451
Travel and transportation		83,531	45,467
Depreciation and amortization	12	73,415	43,774
Donations	12	59,781	662,752
Miscellaneous		296,646	140,152
		P4,904,135	P2,911,930

Donations represent contributions to registered donee institutions for their programs on education, environment and disaster-related projects. Corporate special program pertains to the Group's corporate social responsibility projects.

22. Other Income (Charges)

Other income (charges) - net consists of:

	<i>Note</i>	2015	2014
Foreign exchange losses - net	26	(P7,582,548)	(P813,621)
PSALM monthly fees reduction	7	1,858,506	814,565
Miscellaneous income (charges)	4, 7, 9	(202,008)	67,281
		(P5,926,050)	P68,225

Miscellaneous income (charges) pertain to impairment losses on other receivables, service fees from TPEC and sale of fly ash to a related party (Notes 9 and 18).

23. Income Taxes

The components of income tax expense are as follows:

	<i>Note</i>	2015	2014
Current	24	P2,181,771	P1,608,293
Deferred		521,637	1,085,130
		P2,703,408	P2,693,423

Current income tax expense in 2015 and 2014 represents regular corporate income tax of 30% on taxable income, MCIT on gross income and final tax paid on interest income.

Deferred tax assets (liabilities) arise from the following:

	<i>Note</i>	2015	2014
Items recognized in profit or loss			
Allowance for impairment losses on trade and other receivables	9	P170,443	P60,005
Defined benefit obligation	19	6,991	-
Difference of depreciation and other related expenses over monthly payments		(849,032)	(324,095)
Accrued expenses and others		(114,129)	-
Items recognized directly in other comprehensive income			
Fair value adjustment		(357,966)	-
Equity reserve for retirement plan		6,706	-
		(P1,136,987)	(P264,090)

The difference of depreciation and other related expenses over monthly payments represents timing difference between tax and accounting recognition of expenses.

The amounts above are reported in the consolidated statements of financial position as follows:

	2015	2014
Deferred tax assets	P2,745,943	P2,779,380
Deferred tax liabilities	(3,882,930)	(3,043,470)
	(P1,136,987)	(P264,090)

As of December 31, 2015, the NOLCO and MCIT of the Group that can be claimed as deduction from future taxable income and deduction from corporate income tax due, respectively, are as follows:

Year Incurred/Paid	Carryforward Benefits Up To	NOLCO	MCIT
Year 2015	December 31, 2018	P3,014,845	P38,415
Year 2014	December 31, 2017	2,073,953	14,230
Year 2013	December 31, 2016	2,187,455	12,766
		P7,276,253	P65,411

The reconciliation between the statutory income tax rate on income before income tax and the Group's effective income tax rate is as follows:

	2015	2014
Statutory income tax rate	30.00%	30.00%
Increase (decrease) in the income tax rate resulting from:		
Unrecognized deferred tax assets	30.43%	-
Availment of optional standard deduction and others	(0.78%)	(1.91%)
Income subject to ITH	-	(7.87%)
Effective income tax rate	59.65%	20.22%

24. Registrations and License

Registrations with the Board of Investments (BOI)

On August 21, 2007, SEPC was registered with the BOI under the Omnibus Investment Code of 1987 (Executive Order No. 226), as New Domestic Producer of Coal on a Non-pioneer Status and was entitled to certain incentives that include, among others, an Income Tax Holiday (ITH) for four (4) years from June 2011 or date of actual start of commercial operations, whichever is earlier, but in no case earlier than the date of registration.

SMEC, SPDC and SPPC are registered with the BOI as administrator/operator of their respective power plants on a pioneer status with non-pioneer incentives and were granted ITH for 4 years without extension beginning August 1, 2010 up to July 31, 2014, subject to compliance with certain requirements under their registrations. The ITH incentive availed was limited only to the sale of power generated from the power plants.

In 2013, SMCP and SCPC were granted incentives by the BOI on a pioneer status for 6 years subject to the representations and commitments set forth in the application for registration, the provisions of Omnibus Investments Code of 1987, the rules and regulations of the BOI and the terms and conditions prescribed. As of December 31, 2015, SMCP and SCPC have pending requests with the BOI to move the start of commercial operations. The ITH incentives shall be limited only to the revenues generated from the sale of the electricity from the power plants.

On September 3, 2013 and January 28, 2014, the BOI issued a Certificate of Authority to SMCP and SCPC, respectively, subject to provisions and implementing rules and regulations of Executive Order No. 70, entitled “Reducing the Rates of Duty on Capital Equipment, Spare Parts and Accessories imported by BOI Registered New and Expanding Enterprises”. Authority shall be valid for 1 year from the date of issuance. For the subsequent years, BOI issued new Certificates of Authority dated March 6 and September 4, 2014 and June 9 and August 26, 2015 to SMCP and February 6, 2015 and February 11, 2016 to SCPC, with a validity of 1 year from the date of issuance.

On March 4, 2014, the BOI approved the transfer of BOI Certificate of Registration Nos. 2013-047 and 2010-181 bearing pioneer status with non-pioneer incentives from Petron to SPI. Under the Certificates of Registration, SPI is entitled to certain incentives including ITH incentives, as applicable, for the revenue generated from the sale of electricity.

License Granted by the ERC

On August 22, 2011, SMELC was granted a Retail Electricity Supplier’s (RES) License by the ERC pursuant to Section 29 of the EPIRA which requires all suppliers of electricity to the contestable market to secure a license from the ERC. The term of the RES License is for a period of 5 years from the time it was granted and renewable thereafter.

25. Basic and Diluted Earnings Per Share

Basic and diluted EPS is computed as follows:

	2015	2014
Net income attributable to equity holders of the Parent Company	P1,828,918	P10,629,482
Distributions to USCS holders for the year	(1,918,382)	(962,786)
Net income attributable to common shareholders of the Parent Company (a)	(89,464)	9,666,696
Weighted average number of common shares outstanding (in thousands) (b)	1,250,004	1,250,004
Basic/diluted EPS (a/b)	(P0.07)	P7.73

As of December 31, 2015 and 2014, the Group has no dilutive debt or equity instruments.

26. Financial Risk and Capital Management Objectives and Policies

Objectives and Policies

The Group has significant exposure to the following financial risks primarily from its use of financial instruments:

- Interest Rate Risk
- Foreign Currency Risk
- Liquidity Risk
- Credit Risk

This note presents information about the exposure to each of the foregoing risks, the objectives, policies and processes for measuring and managing these risks, and for management of capital.

The principal non-trade related financial instruments of the Group include cash and cash equivalents, other receivables (current and noncurrent), restricted cash, non-trade payables, and long-term debt. These financial instruments are used mainly for working capital management and investment purposes. The trade-related financial assets and financial liabilities of the Group such as trade receivables, accounts payable and accrued expenses and finance lease liabilities arise directly from and are used to facilitate its daily operations.

The BOD has the overall responsibility for the establishment and oversight of the risk management framework of the Group. The BOD has established the Risk Management Committee, which is responsible for developing and monitoring the risk management policies. The committee reports regularly to the BOD on its activities.

The risk management policies of the Group are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The BOD oversees how management monitors compliance with SMC's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The BOD is assisted in its oversight role by SMC's Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the BOD.

Interest Rate Risk

Interest rate risk is the risk that future cash flows from a financial instrument (cash flow interest rate risk) or its fair value (fair value interest rate risk) will fluctuate because of changes in market interest rates. The Group's exposure to changes in interest rates relates primarily to the long-term borrowings. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. On the other hand, borrowings issued at variable rates expose the Group to cash flow interest rate risk.

Management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

On the other hand, the investment policy of the Group is to maintain an adequate yield to match or reduce the net interest cost from its borrowings pending the deployment of funds to their intended use in the operations and working capital management. However, the Group invests only in high-quality short-term investments while maintaining the necessary diversification to avoid concentration risk.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

The management of interest rate risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various standard and non-standard interest rate scenarios. Interest rate movements affect reported equity from increases or decreases in interest income or interest expense as well as fair value changes reported in profit or loss, if any.

The sensitivity to a reasonably possible 1% increase in the interest rates, with all other variables held constant, would have decreased the Group's profit before tax (through the impact on floating rate borrowings) by P2,092 and P6,388 in 2015 and 2014, respectively. A 1% decrease in the interest rate would have had the equal but opposite effect. These changes are considered to be reasonably possible given the observation of prevailing market conditions in those periods. There is no impact on the Group's equity.

Interest Rate Risk Table

The terms and maturity profile of the interest-bearing financial instruments, together with its gross amounts, are shown in the following tables:

December 31, 2015	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P3,892,950	P10,903,950
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	-
Philippine peso-denominated	171,000	171,000	171,000	171,000	171,000	474,750	1,329,750
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	-
Foreign currency-denominated (expressed in Philippine peso)	14,118,000	-	-	-	-	-	14,118,000
Interest rate	7%						
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	32,942,000	-	-	-	32,942,000
Interest rate			LIBOR + Margin				
	P15,691,200	P1,573,200	P34,515,200	P1,573,200	P1,573,200	P4,367,700	P59,293,700

December 31, 2014	<1 Year	1-2 Years	>2-3 Years	>3-4 Years	>4-5 Years	>5 Years	Total
Fixed Rate							
Philippine peso-denominated	P1,223,850	P1,402,200	P1,402,200	P1,402,200	P1,402,200	P5,295,150	P12,127,800
Step-down interest rate	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	6.0606%	-
Philippine peso-denominated	149,250	171,000	171,000	171,000	171,000	645,750	1,479,000
Step-down interest rate	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	6.2921%	-
Foreign currency-denominated (expressed in Philippine peso)	-	13,416,000	-	-	-	-	13,416,000
Interest rate		7%					
Floating Rate							
Foreign currency-denominated (expressed in Philippine peso)	-	-	-	22,360,000	-	-	22,360,000
Interest rate				LIBOR + Margin			
	P1,373,100	P14,989,200	P1,573,200	P23,933,200	P1,573,200	P5,940,900	P49,382,800

Foreign Currency Risk

The exposure to foreign currency risk results from significant movements in foreign exchange rates that adversely affect the foreign currency-denominated transactions of the Group. The risk management objective with respect to foreign currency risk is to reduce or eliminate earnings volatility and any adverse impact on equity.

Information on the Group's foreign currency-denominated monetary assets and monetary liabilities and their Philippine peso equivalents as of December 31 are as follows:

		2015		2014	
	<i>Note</i>	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Assets					
Cash and cash equivalents	8	US\$210,578	P9,909,822	US\$260,178	P11,635,160
Trade and other receivables	9	81,746	3,846,983	83,937	3,753,513
		292,324	13,756,805	344,115	15,388,673
Liabilities					
Accounts payable and accrued expenses	16	278,830	13,121,735	148,277	6,633,727
Finance lease liabilities	7	2,057,616	96,831,429	2,216,978	99,143,266
Long-term debt	7, 17	1,000,000	47,060,000	800,000	35,776,000
		3,336,446	157,013,164	3,165,255	141,552,993
Net foreign currency-denominated monetary liabilities					
		US\$3,044,122	P143,256,359	US\$2,821,140	P126,164,320

The Group reported net unrealized foreign exchange losses amounting to P7,505,369 and P1,584,500 in 2015 and 2014, respectively, with the translation of its foreign currency-denominated assets and liabilities. These mainly resulted from the movement of the Philippine peso against US dollar as shown in the following table:

	US Dollar to Philippine Peso
December 31, 2015	P47.06
December 31, 2014	44.72

The management of foreign currency risk is also supplemented by monitoring the sensitivity of the Group's financial instruments to various foreign currency exchange rate scenarios. Foreign exchange movements affect reported equity from increases or decreases in unrealized and realized foreign exchange gains or losses.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and monetary liabilities) for the years ended December 31:

	2015		2014	
	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate	P1 Decrease in the US Dollar Exchange Rate	P1 Increase in the US Dollar Exchange Rate
Cash and cash equivalents	(P210,578)	P210,578	(P260,178)	P260,178
Trade and other receivables	(81,746)	81,746	(83,937)	83,937
	(292,324)	292,324	(344,115)	344,115
Accounts payable and accrued expenses	278,830	(278,830)	148,277	(148,277)
Finance lease liabilities	2,057,616	(2,057,616)	2,216,978	(2,216,978)
Long-term debt	1,000,000	(1,000,000)	800,000	(800,000)
	3,336,446	(3,336,446)	3,165,255	(3,165,255)
	P3,044,122	(P3,044,122)	P2,821,140	(P2,821,140)

Exposures to foreign exchange rates vary during the year depending on the volume of foreign currency-denominated transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

Liquidity Risk

Liquidity risk pertains to the risk that the Group will encounter difficulty to meet payment obligations when they fall under normal and stress circumstances.

The Group's objectives to manage its liquidity risk are as follows: a) to ensure that adequate funding is available at all times; b) to meet commitments as they arise without incurring unnecessary costs; c) to be able to access funding when needed at the least possible cost; and d) to maintain an adequate time spread of refinancing maturities.

The Group constantly monitors and manages its liquidity position, liquidity gaps and surplus on a daily basis. A committed stand-by credit facility from several local banks is also available to ensure availability of funds when necessary.

The table below summarizes the maturity profile of the Group's financial assets and financial liabilities based on contractual undiscounted receipts and payments used for liquidity management as of December 31:

2015	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P22,241,361	P22,241,361	P22,241,361	P -	P -	P -
Trade and other receivables - net*	18,473,455	18,473,455	18,473,455	-	-	-
Restricted cash (included under "Other noncurrent assets" account - net)	1,311,740	1,311,740	1,311,740	-	-	-
Noncurrent receivable (included under "Other noncurrent assets - net" account)	253,812	253,812	-	26,418	87,735	139,659
Financial Liabilities						
Accounts payable and accrued expenses*	27,707,659	27,707,659	27,707,659	-	-	-
Finance lease liabilities (including current portion)	179,193,193	231,795,506	23,755,535	24,016,154	77,763,868	106,259,949
Long-term debt - net (including current maturities)	58,607,861	59,293,700	15,691,200	1,573,200	37,661,600	4,367,700

*Excluding statutory receivables and payables

2014	Carrying Amount	Contractual Cash Flow	1 Year or Less	>1 Year - 2 Years	>2 Years - 5 Years	Over 5 Years
Financial Assets						
Cash and cash equivalents	P38,304,294	P38,304,294	P38,304,294	P -	P -	P -
Trade and other receivables - net*	18,208,290	18,208,290	18,208,290	-	-	-
Restricted cash (included under "Other noncurrent assets - net" account)	1,054,801	1,054,801	1,054,801	-	-	-
Noncurrent receivable (included under "Other noncurrent assets - net" account)	179,129	179,129	-	179,129	-	-
Financial Liabilities						
Accounts payable and accrued expenses*	22,520,871	22,520,871	22,520,871	-	-	-
Finance lease liabilities (including current portion)	186,303,745	248,175,447	22,091,404	23,170,046	71,935,991	130,978,006
Long-term debt - net (including current maturities)	48,713,245	49,382,800	1,373,100	14,989,200	27,079,600	5,940,900

*Excluding statutory receivables and payables

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade and other receivables. The Group manages its credit risk mainly through the application of transaction limits and close risk monitoring. It is the Group's policy to enter into transactions with a wide diversity of creditworthy customer or counterparty to mitigate any significant concentration of credit risk.

The Group has regular internal control reviews to monitor the granting of credit and management of credit exposures. Where appropriate, the Group obtains collateral or arranges master netting agreements.

Trade and Other Receivables

The exposure to credit risk is influenced mainly by the individual characteristics of each customer or counterparty. However, management also considers the demographics of the Group's customer base, including the default risk of the industry in which customers or counterparties operate, as these factors may have an influence on the credit risk.

The Group has established a credit policy under which each new customer or counterparty is analyzed individually for creditworthiness before the standard payment terms and conditions are offered. The Group ensures that sales on account are made to customers with appropriate credit history. The Group has detailed credit criteria and several layers of credit approval requirements before engaging a particular customer or counterparty. The review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer and are reviewed on a regular basis. Customers that fail to meet the benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance include a specific loss component that relates to individually significant exposures, and, as applicable, a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Financial information on the Group's maximum exposure to credit risk as of December 31, without considering the effects of collaterals and other risk mitigation techniques, is presented below.

	2015	2014
Cash and cash equivalents		
(excluding cash on hand)	P22,240,755	P38,303,999
Trade and other receivables - net*	18,473,455	18,208,290
Restricted cash	1,311,740	1,054,801
Noncurrent receivable	253,812	179,129
	P42,279,762	P57,746,219

*Excluding statutory receivables

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable entities with high quality external credit ratings.

The Group has no significant concentration of credit risk since the Group deals with a large number of homogeneous trade customers. The Group does not execute any credit guarantee in favor of any counterparty.

Capital Management

The Group maintains a sound capital base to ensure its ability to continue as a going concern, thereby continue to provide returns to stockholders and benefits to other stockholders and to maintain an optimal capital structure to reduce cost of capital.

The Group manages its capital structure and makes adjustments in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, distribution payment, pay-off existing debts, return capital to shareholders or issue new shares, subject to compliance with certain covenants of its long-term debt and USCS (Notes 17 and 20).

The Group defines capital as capital stock, additional paid-in capital, USCS and retained earnings, both appropriated and unappropriated.

The BOD has overall responsibility for monitoring capital in proportion to risk. Profiles for capital ratios are set in the light of changes in the external environment and the risks underlying the Group's business, operation and industry.

The Group monitors capital on the basis of debt-to-equity ratio, which is calculated as total debt divided by total equity. Total debt is defined as total current liabilities and total noncurrent liabilities, while equity is total equity as shown in the consolidated statements of financial position.

27. Financial Assets and Financial Liabilities

The table below presents a comparison by category of the carrying amounts and fair values of the Group's financial instruments as of December 31:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	P22,241,361	P22,241,361	P38,304,294	P38,304,294
Trade and other receivables - net*	18,473,455	18,473,455	18,208,290	18,208,290
Restricted cash (included under "Other noncurrent assets - net" account)	1,311,740	1,311,740	1,054,801	1,054,801
Noncurrent receivable (included under "Other noncurrent assets - net" account)	253,812	253,812	179,129	179,129
	P42,280,368	P42,280,368	P57,746,514	P57,746,514
Financial Liabilities				
Accounts payable and accrued expenses*	P27,707,659	P27,707,659	P22,520,871	P22,520,871
Finance lease liabilities (including current portion)	179,193,193	179,193,193	186,303,745	186,303,745
Long-term debt - net (including current maturities)	58,607,861	59,760,982	48,713,245	51,311,719
	P265,508,713	P266,661,834	P257,537,861	P260,136,335

*Excluding statutory receivables and payables

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 (excluding statutory receivables), Restricted Cash, Noncurrent Receivable, Accounts Payable and Accrued Expenses (excluding statutory payables). The carrying amounts of these financial assets and financial liabilities approximate fair values primarily due to the relatively short-term nature/maturities of these financial instruments. The fair value of noncurrent receivable is based on the present value of expected future cash flows using the applicable discount rates based on current market rates of identical or similar quoted instruments.

Long-term Debt. The fair value of interest-bearing fixed-rate loans is based on the discounted value of expected future cash flows using the applicable market rates for similar types of instruments as of reporting date. The discount rates used for Philippine peso-denominated loans range from 2.39% to 4.57% and from 2.54% to 4.29% as of December 31, 2015 and 2014, respectively. The discount rates used for foreign currency-denominated loans is 0.43% and range from 0.17% to 0.63% as of December 31, 2015 and 2014, respectively. The carrying amounts of floating rate loans with quarterly interest rate repricing approximate their fair values.

The fair value of the long-term debt was categorized as Level 2 in the fair value hierarchy based on inputs other than quoted prices included within Level 1 that are observable at the reporting date. The Group has no financial instruments valued based on Level 1 and Level 3 as of December 31, 2015 and 2014. During the year, 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.

Finance Lease Liabilities. The fair value is based on the present value of expected cash flows using the applicable discount rates based on current market rates of similar instruments.

28. Other Matters

a. Contingencies

The Group is a party to certain cases or claims which are either pending decision by the court/regulators or are subject to settlement agreements. The outcome of these cases or claims cannot be presently determined (Note 4).

b. Generation Payments to PSALM

SPPC and PSALM are parties to the Ilijan IPPA Agreement covering the appointment of SPPC as the IPP Administrator of the Ilijan Power Plant.

SPPC and PSALM have an ongoing dispute arising from differing interpretations of certain provisions related to generation payments under the Ilijan IPPA Agreement. As a result of such dispute, the parties have arrived at different computations regarding the subject payments. In a letter dated August 6, 2015, PSALM has demanded payment of the difference between the generation payments calculated based on its interpretation and the amount which has already been paid by SPPC, plus interest, covering the period December 26, 2012 to April 25, 2015.

On August 12, 2015, SPPC initiated a dispute resolution process with PSALM as provided under the terms of the Ilijan IPPA Agreement, while continuing to maintain that it has fully paid all of its obligations to PSALM. Notwithstanding the bona fide dispute, PSALM issued a notice terminating the Ilijan IPPA Agreement on September 4, 2015. On the same day, PSALM also called on the Performance Bond posted by SPPC pursuant the Ilijan IPPA Agreement.

On September 8, 2015, SPPC filed a Complaint with the Regional Trial Court of Mandaluyong City. In its Complaint, SPPC requested the Court that its interpretation of the relevant provisions of the Ilijan IPPA Agreement be upheld. The Complaint also asked that a 72-hour Temporary Restraining Order (TRO) be issued against PSALM for illegally terminating the Ilijan IPPA Agreement and drawing on the Performance Bond. On even date, the Court issued a 72-hour TRO which prohibited PSALM from treating SPPC as being in Administrator Default and from performing other acts that would change the status quo ante between the parties before PSALM issued the termination notice and drew on the Performance Bond. The TRO was extended for until September 28, 2015.

On September 28, 2015, the Court issued an Order granting a Preliminary Injunction enjoining PSALM from proceeding with the termination of the Ilijan IPPA Agreement while the main case is pending.

On October 22, 2015, the Court also issued an Order granting the Motion for Intervention and Motion to Admit Complaint-in-intervention by Meralco. Currently pending for resolution of the Court are: 1) PSALM's Motion for Reconsideration of the Order granting the Preliminary Injunction; and 2) PSALM's Motion to Dismiss. The preliminary conference among the parties scheduled on February 18, 2016 was reset on April 14, 2016.

Meanwhile, there are no restrictions or limitations on the ability of SPPC to supply power from the Ilijan Power Plant to Meralco under its Power Supply Agreement with the latter.

By virtue of the Preliminary Injunction issued by the Court, SPPC continues to be the IPP Administrator for the Ilijan Power Plant.

c. Criminal Cases Filed by SPPC and SMEC

On September 29, 2015, SPPC filed a criminal complaint for estafa and for violation of Section 3(e) of RA No. 3019, otherwise known as the Anti-Graft and Corrupt Practices Act, before the Department of Justice (DOJ), against certain officers of PSALM, in connection with the termination of SPPC's IPPA Agreement, which was made by PSALM with manifest partiality and evident bad faith. Further, PSALM fraudulently misrepresented its entitlement to draw on the Performance Bond posted by SPPC, resulting in actual injury to SPPC in the amount of US\$60,000. The case is still pending with the DOJ as of December 31, 2015.

On October 21, 2015, SMEC filed a criminal complaint for Plunder and violation of Section 3(e) and 3(f) of RA 3019, before the DOJ against a certain officer of PSALM, and certain officers of TPEC and TSC, relating to the illegal grant of the so-called "excess capacity" of the Sual Power Plant in favor of TPEC which enabled it to receive a certain amount at the expense of the Government and SMEC. The case is still pending with the DOJ as of December 31, 2015.

d. Temporary Restraining Order Issued to Meralco

On December 23, 2013, the Supreme Court (SC) issued a TRO, effective immediately, preventing Meralco from collecting from its customers the power rate increase pertaining to November 2013 billing. As a result, Meralco was constrained to fix its generation rate to its October 2013 level of P5.67/kWh. Claiming that since the power supplied by generators, including SMEC and SPPC is billed to Meralco's customers on a pass-through basis, Meralco deferred a portion of its payment on the ground that it was not able to collect the full amount of its generation cost. Further, on December 27, 2013, the DOE, the ERC and PEMC, acting as a tripartite committee, issued a joint resolution setting a reduced price cap on the WESM of P32/kWh. The price will be effective for 90 days until a new cap is decided upon.

On January 16, 2014, the SC granted Meralco's plea to include other power supplier and generation companies, including SMEC and SPPC, as respondents to an inquiry. On February 18, 2014, the SC extended the period of the TRO until April 22, 2014 and enjoined the respondents (PEMC and the generators) from demanding and collecting the deferred amounts.

On March 3, 2014, the ERC issued an order declaring the November and December 2013 Luzon WESM prices void and imposed the application of regulated prices. Accordingly, SMEC, SPPC and SPDC recognized a reduction in the sale of power while SMELC recognized a reduction in its power purchases. Consequently, a payable and receivable were also recognized for the portion of over-collection or over-payment. The settlement of which shall be covered by a 24-month Special Payment Arrangement (SPA) agreed with PEMC which took effect in June 2014 up to May 2016. On June 26, 2014, SMEC, SPPC and SPDC filed with the Court of Appeals a Petition for Review of these orders. The case is still pending resolution with the Court as of December 31, 2015.

e. Commitments

The outstanding purchase commitments of the Group amounted to P2,577,051 and P4,581,000 as of December 31, 2015 and 2014, respectively.

Amount authorized but not yet disbursed for capital projects as of December 31, 2015 and 2014 is approximately P32,704,535 and P39,379,030, respectively.

f. Electric Power Industry Reform Act of 2001

The EPIRA sets forth the following: (a) Section 49 created PSALM to take ownership and manage the orderly sale, disposition and privatization of all existing NPC generation assets, liabilities, IPP contracts, real estate and all other disposable assets; (b) Section 31(c) requires the 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 as one of the conditions for retail competition and open access; and (c) Pursuant to Section 51(c), PSALM has the power to take title to and possession of the IPP contracts and to appoint, after a competitive, transparent and public bidding, qualified independent entities who shall act as the IPP Administrators in accordance with the EPIRA. In accordance with the bidding procedures and supplemented bid bulletins thereto to appoint an IPP Administrator relative to the capacity of the IPP contracts, PSALM has conducted a competitive, transparent and open public bidding process following which the Group was selected winning bidder of the IPPA Agreements discussed in Note 7.

The EPIRA requires generation and distribution utility (DU) companies to undergo public offering within 5 years from the effective date, and provides cross ownership restrictions between transmission and generation companies. If the holding company of generation and DU companies is already listed with the PSE, the generation company or the DU need not comply with the requirement since such listing of the holding company is deemed already as compliance with the EPIRA.

A DU is allowed to source from an associated company engaged in generation up to 50% of its demand except for contracts entered into prior to the effective date of the EPIRA. Generation companies are restricted from owning more than 30% of the installed generating capacity of a grid and/or 25% of the national installed generating capacity. The Group is in compliance with the restrictions as of December 31, 2015.

g. US\$400,000 Facility Agreement

On December 29, 2015, SCPC signed a US\$400,000, 7-year term loan with a syndicate of banks. Pursuant to the Facility Agreement, the amount of the loan will bear interest at the rate of the LIBOR plus a margin, payable in arrears on the last day of the agreed interest period. On March 8, 2016, an initial drawdown amount of US\$250,000 was made from the Facility Agreement. Repayment of the loan principal shall commence on October 31, 2017, and every three months thereafter.

The Facility Agreement imposes a number of covenants on the part of SCPC including, but not limited to, maintaining a leverage ratio throughout the duration of the term of the Facility Agreement. The terms and conditions of the Facility Agreement contains a negative pledge provision with certain limitations on the ability of SCPC to create or have outstanding any security interest upon or with respect to any of the assets or revenues of SCPC to secure any indebtedness, subject to certain exceptions.

h. Subsequent Events

On January 14, 2016, the Parent Company has entered into a US\$300,000, 6-month term loan with a local bank. The full amount of loan was drawn on January 25, 2016. Proceeds from loan were used to pay the US\$300,000, 7%, 5-year note on January 26, 2016.

29. Reclassification of Account

The Parent Company and SMEC reclassified the accrual for defined benefit obligation in the 2014 consolidated financial statements to conform to the 2015 presentation. The effect of the reclassification follows:

Account Description	As Previously Reported	Reclassification Add (Deduct)	As Restated
Consolidated Statement of Financial Position			
Current Liabilities			
Accounts payable and accrued expenses	P28,117,804	(P16,692)	P28,101,112
Noncurrent Liabilities			
Other noncurrent liabilities	670,486	16,692	687,178
Consolidated Statement of Cash Flows			
Cash Flows from Operating Activities			
Retirement benefit expense	-	8,978	8,978
Increase in accounts payable and accrued expenses	5,145,871	(8,978)	5,136,893