Beacon Electric Asset Holdings, Inc.

Financial Statements
December 31, 2013 and 2012

and

Independent Auditors' Report

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Beacon Electric Asset Holdings, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Beacon Electric Asset Holdings, Inc., which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Beacon Electric Asset Holdings, Inc. as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 16 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Beacon Electric Asset Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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PTR No. 4225185, January 2, 2014, Makati City

March 19, 2014

BEACON ELECTRIC ASSET HOLDINGS, INC.
STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions)

	December 31,		January 1,
		2012	2012
	2013	(As restated - Note 2)	
ASSETS			
Current Assets			
Cash and cash equivalents (Notes 4, 12 and 13)	**₱683.3**	₱2,146.1	₱1,472.3
Receivables (Notes 5, 12 and 13)	**0.4**	1.1	54.5
Other current assets	**3.1**	2.2	1.0
Total Current Assets	**686.8**	2,149.4	1,527.8
Noncurrent Assets			
Available-for-sale financial assets (Notes 6, 8, 12 and 13)	**141,287.8**	142,352.2	125,816.9
Other noncurrent assets	**–**	–	51.7
Total Noncurrent Assets	**141,287.8**	142,352.2	125,868.6
	₱141,974.6	₱144,501.6	₱127,396.4
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other current liabilities (Notes 7, 8, 12 and 13)	**₱269.8**	₱918.4	₱469.9
Current portion of long-term debt (Notes 8, 12 and 13)	**936.3**	374.2	506.5
Liability for contingent consideration (Note 6)	**–**	–	2,781.7
Deferred purchase liability (Notes 6)	**–**	–	7,313.0
Total Current Liabilities	**1,206.1**	1,292.6	11,071.1
Noncurrent Liabilities			
Long-term debt - net of current portion (Notes 8, 12 and 13)	**35,194.7**	32,895.7	21,225.2
Due to related parties (Note 9)	**977.2**	972.6	972.9
Derivative liability (Notes 8, 12 and 13)	**361.2**	–	–
Total Noncurrent Liabilities	**36,533.1**	33,868.3	22,198.1
Equity			
Capital stock (Note 10)	**4,583.0**	4,583.0	4,313.0
Additional paid-in capital (Note 10)	**70,200.5**	70,200.5	65,071.9
Other comprehensive income reserve (Notes 6 and 8)	**22,110.5**	29,471.1	22,970.8
Retained earnings (Note 10)	**7,341.4**	5,086.1	1,771.5
Total Equity	**104,235.4**	109,340.7	94,127.2
	₱141,974.6	₱144,501.6	₱127,396.4

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

	Years Ended December 31	
	2013	2012 (As restated - Note 2)
REVENUE		
Dividend income (Note 6)	**₱5,632.0**	₱7,552.2
EXPENSES		
Taxes and licenses	**17.1**	6.9
Professional and other service fees	**10.6**	10.8
	27.7	17.7
OTHER INCOME (EXPENSES)		
Interest expense (Notes 6 and 8)	**(2,369.2)**	(2,570.5)
Amortization of debt issuance costs (Note 8)	**(89.6)**	(43.3)
Interest income (Note 4)	**28.8**	94.4
Gain on disposal of available-for-sale financial assets (Note 6)	**–**	77.4
Miscellaneous (Notes 7 and 8)	**(108.9)**	(496.1)
	(2,538.9)	(2,938.1)
NET INCOME	**3,065.4**	4,596.4
OTHER COMPREHENSIVE INCOME (LOSS)		
Items to be reclassified to profit or loss in subsequent periods:		
Cash flow hedge reserve (Note 8)	**(361.2)**	–
Unrealized fair value gains (losses) on available-for-sale financial assets (Note 6)	**(6,999.4)**	6,500.3
	(7,360.6)	6,500.3
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱4,295.2)**	₱11,096.7

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

(Amounts in Millions)

				Other Comprehensive Income Reserve				
	Preferred Stock (Note 10)	Common Stock (Note 10)	Additional Paid-in Capital (Note 10)	Unrealized Fair Value Gains on Available-for-sale Financial Assets (Note 6)	Cash Flow Hedge Reserve (Note 8)	Share in Other Comprehensive Loss of Meralco (Note 2)	Retained Earnings (Note 10)	Total
Balances as at January 1, 2013, as previously reported	**₱2,000.0**	**₱2,583.0**	**₱70,200.5**	**₱–**	**₱–**	**(₱217.6)**	**₱6,362.6**	**₱80,928.5**
Effect of adoption of PFRS 10 (Note 2)	–	–	–	**29,471.1**		**217.6**	**(1,276.5)**	**28,412.2**
Balances as at January 1, 2013, as restated	**2,000.0**	**2,583.0**	**70,200.5**	**29,471.1**	–	–	**5,086.1**	**109,340.7**
Total comprehensive loss:								
Net income	–	–	–	–	–	–	**3,065.4**	**3,065.4**
Other comprehensive loss (Notes 6 and 8)	–	–	–	**(6,999.4)**	**(361.2)**	–	–	**(7,360.6)**
Dividends declared (Note 10)	–	–	–	–	–	–	**(810.1)**	**(810.1)**
Balances as at December 31, 2013	**₱2,000.0**	**₱2,583.0**	**₱70,200.5**	**₱22,471.7**	**(₱361.2)**	**₱–**	**₱7,341.4**	**₱104,235.4**
Balances as at January 1, 2012, as previously reported	₱2,000.0	₱2,313.0	₱65,071.9	₱–	₱–	(₱224.5)	₱3,241.8	₱72,402.2
Effect of adoption of PFRS 10 (Note 2)	–	–	–	22,970.8		224.5	(1,470.3)	21,725.0
Balances as at January 1, 2012, as restated	2,000.0	2,313.0	65,071.9	22,970.8	–	–	1,771.5	94,127.2
Shares issued (Note 10)	–	270.0	5,128.6	–			–	5,398.6
Total comprehensive income:								
Net income	–	–	–	–	–	–	4,596.4	4,596.4
Other comprehensive income (Note 6)	–	–	–	6,500.3	–	–	–	6,500.3
Dividends declared (Note 10)	–	–	–	–	–	–	(1,281.8)	(1,281.8)
Balances as at December 31, 2012	₱2,000.0	₱2,583.0	₱70,200.5	₱29,471.1	₱–	₱–	₱5,086.1	₱109,340.7

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.
STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years Ended December 31	
	2013	2012 (As restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**₱3,065.4**	₱4,596.4
Adjustments for:		
Dividend income (Note 6)	**(5,632.0)**	(7,552.2)
Interest expense (Notes 6 and 8)	**2,369.2**	2,570.5
Amortization of debt issuance costs (Note 8)	**89.6**	43.3
Gain on reversal of accrual (Note 7)	**(33.5)**	–
Interest income (Note 4)	**(28.8)**	(94.4)
Pretermination fees and transactions cost (Notes 7 and 8)	**–**	214.0
Write-down of capitalized debt issuance costs (Note 8)	**–**	158.5
Gain on disposal of available-for-sale financial assets (Note 6)	**–**	(77.4)
Operating loss before working capital changes	**(170.1)**	(141.3)
Increase in other current assets	**(0.9)**	(1.2)
Increase (decrease) in accounts payable and other current liabilities	**(171.3)**	84.1
Net cash used for operations	**(342.3)**	(58.4)
Dividends received (Note 15)	**5,632.0**	4,437.2
Interest received	**29.5**	94.7
Net cash provided by operating activities	**5,319.2**	4,473.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of investment in Meralco (Notes 6 and 15)	**(5,935.0)**	(17,344.3)
Proceeds from disposal of available-for-sale financial assets (Note 6)	**–**	282.9
Net cash used in investing activities	**(5,935.0)**	(17,061.4)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availments of long-term debt (Note 8)	**26,400.0**	12,000.0
Issuance of capital stock (Note 10)	**–**	5,400.0
Payments for:		
Interest on loans	**(2,813.0)**	(2,242.9)
Dividends declared (Note 10)	**(810.1)**	(1,281.8)
Long-term debt (Note 8)	**(23,275.0)**	(540.0)
Debt issuance costs (Note 8)	**(353.5)**	(71.9)
Stock issuance costs (Note 10)	**–**	(1.4)
Increase (decrease) in due to related parties	**4.6**	(0.3)
Net cash provided by (used in) financing activities	**(847.0)**	13,261.7
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,462.8)**	673.8
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,146.1**	1,472.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱683.3**	₱2,146.1

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Beacon Electric Asset Holdings, Inc. (the Company or Beacon) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 10, 2010 with the sole purpose of consolidating the respective ownership interests in Manila Electric Company (Meralco) of Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV). The Company is a joint venture between MPIC and PCEV, with equity interests in the form of shares and share entitlements in the Company divided equally between them.

MPIC is 59.0% owned by Metro Pacific Holdings, Inc. (MPHI). MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC Group of Companies in Hong Kong.

PCEV is 99.8% owned by Smart Communications, Inc. (Smart). Smart is wholly owned and controlled by Philippine Long Distance Telephone Company (PLDT), a company incorporated in the Philippines.

On March 1, 2010, Beacon, MPIC and PCEV entered into an Omnibus Agreement (OA) to set out their mutual agreement in respect of, among others, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

Beacon, PCEV and MPIC have also agreed on certain corporate governance matters, including Board of Directors (BOD) composition, election of officers, shareholders’ action, representation to the Meralco BOD, nomination of the Meralco BOD Committees and nomination of Meralco officers.

On January 9, 2014, the Company’s BOD approved the Amended Articles of Incorporation covering the change of the Company’s address from 10th Floor, MGO Building, Legaspi Village, Makati City to its present registered office address, 9-2 9/F Net One Center, 26th cor. 3rd Avenue, Bonifacio Global City, Taguig City. The SEC approved the Company’s change of registered office address on February 7, 2014.

The accompanying financial statements as at December 31, 2013 and 2012 were approved and authorized for issuance by the BOD on March 19, 2014.

2. **Summary of Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company’s functional and presentation currency and all values are rounded to the nearest million, except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in the financial statements. An additional statement of financial position as at January 1, 2012 is presented in these financial statements due to retrospective application of Philippine Financial Reporting Standards (PFRS) 10, *Consolidated Financial Statements* (see discussion below on Changes in Accounting Policies).

Statement of Compliance
The accompanying financial statements have been prepared in accordance with PFRS. PFRS includes statements named PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on equivalent interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretation effective January 1, 2013.

- PFRS 10, *Consolidated Financial Statements* — PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standards Interpretation Committee (SIC)-12, *Consolidation – Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent.

  In applying PFRS 10, the Company has made a judgment that its decision making power over the Meralco shares is effectively delegated to the shareholders, PCEV and MPIC, and that the Company does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote the Meralco shares strictly in accordance with the instructions of the two shareholders. As a consequence of the application of PFRS 10, the investment in Meralco shares are accounted for as AFS financial assets under PAS 39, *Financial Instruments – Recognition and Measurement*. The following is a summary of the effects of the adoption of PFRS 10 as at December 31, 2012 and January 1, 2012 and for the year ended December 31, 2012:

	December 31, 2012	January 1, 2012
	(In Millions)	
Statements of Financial Position		
Increase (decrease) in:		
Investment in Meralco under equity method	(₱113,940.0)	(₱104,091.9)
Available-for-sale financial assets	142,352.2	125,816.9
Equity:		
Retained earnings	(1,276.5)	(1,470.3)
Other comprehensive income reserve	29,688.7	23,195.3

	2012
	(In Millions)
Statement of Comprehensive Income	
Increase (decrease) in:	
Equity in net earnings of Meralco	(₱7,358.4)
Dividend income	7,552.2
Net income	193.8
Other comprehensive income	6,493.4

- PAS 1, *Presentation of Items of Other Comprehensive Income – Amendments to PAS 1* — The amendments to PAS 1 introduce a grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments affected presentation only and had no impact on the Company's financial position or performance.

- PAS 1, *Clarification of the requirement for comparative information (Amendment)* — The amendment to PAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendment clarifies that the opening statement of financial position (as at January 1, 2012 in the case of the Company), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendment affects presentation only and has no impact on the Company's financial position or performance.

- PAS 19, *Employee Benefits* (Revised) (PAS 19R) — PAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognized in OCI and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. As the Company does not have its own employees, this amendment has no impact on the Company's financial position or performance.

- PFRS 11, *Joint Arrangements* — PFRS 11 replaces PAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard has no impact on the Company's financial position or performance.

- PFRS 12, *Disclosure of Interest in Other Entities* — PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (e.g.,where a subsidiary is controlled with less than a majority of voting rights). The application of this new standard has no impact on the Company's financial position as the investment in Meralco is now accounted for as AFS financial assets.

- PFRS 13, *Fair Value Measurement* — PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. As a result of the guidance in PFRS 13, the Company reassessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. PFRS 13 also requires additional disclosures. Application of PFRS 13 has not materially impacted the fair value measurements of the Company. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 13.

The following standards were also adopted but did not have any impact on the Company's financial statements

- PAS 12, *Income Taxes* – Deferred Tax: Recovery of Underlying Assets (Amendments) — This clarifies the determination of deferred tax on investment property measured at fair value. The amendments introduce a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendments introduce the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset.

- PAS 27, *Separate Financial Statements* — As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.

- PAS 28, *Investments in Associates and Joint Ventures* — As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interest in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards* - Government Loans Amendments to PFRS 1

- Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

- Improvements to PFRSs 2009-2011 Cycle:
    - Repeat application of PFRS 1
    - PFRS 1 – *Borrowing Costs*
    - PAS 16 – *Classification of servicing equipment*
    - PAS 32 – *Tax effects of distributions to holders of equity instruments*
    - PAS 34 – *Interim financial reporting and segment information for total assets and liabilities*

- PFRS 7, *Financial Instruments: Disclosures* – Transfers of Financial Assets (Amendments) — The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets.

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments) — These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or "similar agreement", irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, certain minimum quantitative information.

Future Changes in Accounting Standards
The Company has not applied the following PFRS, Philippine Interpretations and amendments to existing standards which are not yet effective as at December 31, 2013. Except for additional disclosure requirements, adoption of the following standards is expected not to have any material impact on the Company's financial position or performance:

Effective in 2014

- PAS 32, *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)* — The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company's financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The amendments have no impact on the Company's financial position or performance.

- PAS 36, *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets" (Amendments)* — These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only.

- PAS 39, *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)* — These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- *Amendments to PFRS 10, PFRS 12 and PAS 27 - Investment Entities* — These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is expected that these amendments would not be relevant to the Company.

- Philippine Interpretation IFRIC 21, *Levies (IFRIC 21)* — IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The interpretation has no significant impact on the Company's financial position and performance.

- PAS 19, *Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)* — The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014. It is expected that these amendments would not be relevant to the Company.

Deferred Effectivity

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate* — This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The adoption of the interpretation when it becomes effective will not have any impact on the Company's financial statements.

No Mandatory Effective Date

- PFRS 9, *Financial Instruments* — PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

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

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

The Company has not early adopted any standard, interpretation and amendment that has been issued but is not yet effective.

Improvements to PFRS
Annual Improvements to PFRSs (2010-2012 cycle). The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment – Definition of Vesting Condition* — The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. It is expected that this amendment would not be relevant to the Company.

- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination* — The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39. The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

- PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* — The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. These amendments have no impact as the Company is not required to disclose segment reporting.

- PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables* — The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment has no impact on the Company's financial position and performance.

- PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation* — The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

  The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. It is expected that this amendment would not be relevant to the Company.

- PAS 24, *Related Party Disclosures – Key Management Personnel* — The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only.

- PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization* — The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

  a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

  b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

  The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

  The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position and performance.

Annual Improvements to PFRSs (2011-2013 cycle). The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards – Meaning of Effective PFRSs* — The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements* — The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no impact on the Company's financial position and performance.

- PFRS 13, *Fair Value Measurement – Portfolio Exception* — The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position and performance.

- PAS 40, *Investment Property* — The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no impact on the Company's financial position or performance.

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

Financial Instruments
Date of Recognition. The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the 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 financial instruments at fair value through profit or loss (FVPL), includes transaction costs.

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

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Company determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such classification at each financial year-end.

Financial instruments are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, financial liabilities at FVPL, other financial liabilities and derivatives designated as hedging instruments in an effective hedge, as appropriate.

Classification of Financial Instruments Between Debt and Equity
A financial instrument is classified as debt if it provides for a contractual obligation to:

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

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

The Company's preferred stock is classified as equity instruments.

Financial Assets
The Company's financial assets consist of loans and receivables and available-for-sale financial assets.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income. Loans and receivables are included in current assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

The Company's cash and cash equivalents and receivables are classified as loans and receivables (see Note 13).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are designated as such or not classified in any of the other categories. AFS financial assets include equity and debt securities. They are purchased and held indefinitely and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized and included in the "Other comprehensive income" until the investment is derecognized or determined to be impaired, at which time the cumulative gains or losses are reclassified to the statement of comprehensive income as part of profit or loss. When the Company holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. Interest earned on holding AFS debt financial assets are reported as interest income using the effective interest rate method. Dividends earned on holding AFS equity financial assets are recognized in profit or loss when the right of payment has been established. AFS equity financial assets that are unquoted and for which fair values cannot be reliably determined are carried at cost less any impairment in value.

As at December 31, 2013 and 2012, this category includes investments in quoted Meralco common shares (see Note 13).

Financial Liabilities
The Company's financial liabilities consist of other financial liabilities.

Other Financial Liabilities. Financial liabilities are classified in this category if they are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities which include loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains or losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

The Company's accounts payable and other current liabilities and long-term debt are classified as other financial liabilities (see Note 13).

Derivatives and Hedge Accounting
Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. The Company uses derivative financial instruments, specifically interest rate swaps, to hedge its interest rate risks. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of derivatives not designated as effective accounting hedges are recognized immediately in profit or loss.

For the purpose of hedge accounting, hedges are classified primarily as: (a) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment except for foreign currency risk (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to a recognized asset or liability or a highly probable forecasted transaction or foreign currency risk in an unrecognized firm commitment (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company has designated certain derivatives as cash flow hedges of its interest risk from its long-term debt (see Note 8). The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identifying the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in equity, net of related deferred tax, and presented as "Cash flow hedge reserve" under "Other comprehensive income reserve" account in the statement of financial position. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to net income in the same period during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that had been recognized in other comprehensive income reserve is retained as such until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in other comprehensive income reserve is credited or charged immediately to profit or loss.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value are recognized directly in profit or loss.

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

- The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- The hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or liabilities at FVPL. Changes in fair values are recognized in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Current versus Noncurrent Classification of Derivatives
Derivative instruments that are not designated and considered as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- If the Company holds a derivative for trading purposes, irrespective of the timing of future cash flows, it is classified as current.
- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are considered effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and noncurrent portion only if a reliable allocation can be made.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. The Company first assesses whether objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. The assets, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If a write-off is later recovered, the amount recovered is recognized in the statement of comprehensive income.

If, in a subsequent year, the amount of the impairment loss decreases because of 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 statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

AFS Financial Assets. For AFS financial assets, the Company assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of Financial Assets and Financial Liabilities

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

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its right 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; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, 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 and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable 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 at gross amounts in the statement of financial position.

Fair Value Measurement
The Company measures AFS financial assets and derivatives at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 13.

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
- In the absence of a principal market, in the most advantageous market for the asset or liability
- The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available an supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as derivatives, and non-recurring measurement, such as impairment tests. At each reporting date, the Company analyses the movements in the values of assets and liabilities which are required to be re-measured or reassessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts, counterparty assessment and other relevant documents.

The Company also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the Company presents the valuation results to its independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Foreign Currency Transactions
Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period. All differences are taken to the statement of comprehensive income. For income tax purposes, exchange gains or losses are treated as taxable income or deductible expenses in the period such are realized.

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

Cost of registering and issuing securities is recognized as a reduction from the proceeds of the securities issued, thus, recognized as reduction from additional paid-in capital.

Retained Earnings
Retained earnings include profit attributable to the Company's equity holders. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. Retained earnings represent the Company's accumulated earnings, net of dividends declared.

Other Comprehensive Income Reserve
Other comprehensive income reserve comprises items of income and expense that is not recognized in profit or loss as required or permitted by other PFRS.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured.

Dividend Income. Dividends on AFS financial assets are recognized in profit or loss when the Company's right to receive dividends is established.

Interest Income. Interest income is recognized as it accrues using the EIR method.

Income Tax

Current Tax. Current tax assets and liabilities for the current and prior period are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of reporting period.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward benefits of unused tax credits from MCIT and NOLCO can be utilized. Deferred tax, however, is not recognized when it 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.

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

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

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

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

Contingencies

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

Events After the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the end of reporting period (adjusting events), if any, are reflected in the Company's financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgment, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best estimates and assumptions of certain amounts, giving due consideration to materiality. The judgment, estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

Judgment, estimates and assumptions include expectations of future events that are believed to be reasonable under the circumstances.

The Company believes that the following represent a summary of the significant judgment, estimates and assumptions, related impact and associated risks in the financial statements.

Judgment

Accounting for Investment in Meralco Common Shares. In applying PFRS 10, the Company has made a judgment that the decision making power of the Company over the Meralco shares is effectively delegated to the shareholders, PCEV and MPIC, and that the Company does not exercise any discretion over the vote to be taken in respect of the Meralco shares but is obligated to vote the Meralco shares strictly in accordance with the instructions of the two shareholders. As a consequence of the application of PFRS 10, the investment in Meralco shares are accounted for as AFS financial assets under PAS 39, *Financial Instruments – Recognition and Measurement*.

Classification of Financial Instruments. The Company exercises judgments in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the statement of financial position.

In addition, the Company classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market.

Based on the Company's evaluation, the Company classified its preferred shares as equity instruments.

Estimates and Assumptions

Determination of Fair Value of Financial Instruments. Entities are required to disclose for each class of financial assets and liabilities the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the Company's statement of financial position, which requires the use of accounting judgment and estimates. Significant components of fair value measurement are determined using verifiable objective evidence (i.e., interest rates, volatility rates), and timing and amount of changes in fair value would differ with the valuation methodology used. Any changes in fair value of these financial assets and liabilities would affect the disclosures made by management.

The fair value of the Company's financial assets and liabilities are disclosed in Note 13.

Impairment of AFS Financial Assets. The Company treats an AFS equity financial asset as impaired when there had been a significant or prolonged decline in the fair value below its acquisition cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20.0% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized for AFS financial assets for the years ended December 31, 2013 and 2012. The carrying value of AFS financial assets amounted to ₱141,287.8 million and ₱142,352.2 million as at December 31, 2013 and 2012, respectively (see Note 6).

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each reporting date and reduces their carrying amounts 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 Company's assessment of the recognition of deferred tax assets is based on the projected taxable income in the following years. 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 assets to be recovered.

The Company's deductible temporary difference and NOLCO for which no deferred tax assets have been recognized amounted to ₱7,605.2 million and ₱5,924.1 million as at December 31, 2013 and 2012, respectively (see Note 11).

4. Cash and Cash Equivalents

As at December 31, 2013 and 2012, this account consists of:

	2013	2012
	(In Million Pesos)	
Cash in banks	**₱3.0**	₱2.7
Short-term deposits	**680.3**	2,143.4
	₱683.3	₱2,146.1

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

Interest earned from cash in banks and short-term deposits amounted to ₱28.8 million and ₱94.4 million in 2013 and 2012, respectively.

5. Receivables

Receivables as at December 31, 2013 and 2012 pertain to accrual of interest earned from cash in banks and short-term deposits amounting to ₱0.4 million and ₱1.1 million, respectively.

The Company's receivables are noninterest-bearing and are normally collected within one year.

6. **Available-for-sale financial asset**

The movements in the carrying value of investment in Meralco for the years ended December 31 2013 and 2012 are as follows:

	2013	2012 (As restated - see Note 2)
	(In Million Pesos)	
Balance at beginning of year	**₱142,352.2**	₱125,816.9
Additions	**5,935.0**	10,035.0
Unrealized fair value gains (losses)	**(6,999.4)**	6,500.3
	₱141,287.8	₱142,352.2

The Company had a 49.96%, 48.33% and 45.30% interest in Meralco as at December 31, 2013 and 2012, and January 1, 2012, respectively. Meralco is the largest electric power distribution company and the largest private sector utility in the Philippines. It is incorporated in the Philippines and is subject to the rate-making regulations and regulatory policies of the Philippine Energy Regulatory Commission (ERC). Its subsidiaries are mainly engaged in engineering, construction and consulting services, information systems and technology, real estate, insurance and other electricity-related services.

A pledge on the Company's investment in Meralco shares secures the Company's loan facilities with a syndicate of various financial institutions (see Note 8).

Dividend income from Meralco amounted to ₱5,632.0 million and ₱7,552.2 million (including property dividends of ₱3,168.1 million) in 2013 and 2012, respectively. In 2012, the Company sold its investment in 140.7 million Rockwell Land Corporation (Rockwell) common shares, which was received as property dividends from Meralco, to First Philippine Holdings Corporation (FPHC) and FPHC Pension Fund for a cash consideration of ₱2.01 per share or an aggregate of ₱282.9 million, recognizing a gain on disposal of AFS financial assets amounting to ₱77.4 million for the difference between the consideration and the value of the property dividend.

<u>Additions</u>
On January 31, 2012, Beacon acquired 30.0 million Meralco shares from First Philippine Utilities Corporation at an aggregate cost of ₱9,103.8 million (including recognized contingent consideration amounting to ₱180.9 million). The acquisition was funded through an equity infusion with an aggregate amount of ₱5,400.0 million from MPIC and PCEV equally, and a ₱5,000.0 million corporate notes facility arranged by First Metro Investment Corporation (FMIC) and PNB Capital and Investment Corporation (PNB Capital) (see Notes 8 and 10).

On November 29, 2012, Beacon acquired additional 3.2 million Meralco shares from the market at an aggregate cost of ₱841.7 million.

On December 21, 2012, Beacon acquired additional 0.3 million Meralco shares from the market at an aggregate cost of ₱89.5 million.

On July 19, 2013, Beacon acquired 10 million Meralco shares for ₱2,727.9 million. On July 30, 2013, Beacon purchased an additional 8.3 million Meralco shares for ₱3,207.1 million.

As at December 31, 2013 and 2012, Beacon owns 563.1 million Meralco shares with fair market value at ₱250.9 per share and 544.8 million Meralco shares with fair market value of ₱261.3 per share, respectively.

Deferred Purchase
In July 2012, the Company has fully paid the outstanding balance of its deferred purchase liability amounting to ₱7,490.2 million arising from the acquisition made in 2011. Related interest expense, resulting from the amortization at EIR of the liability, amounted to ₱177.2 million in 2012.

Supreme Court Temporary Restraining Order on December 2013 Increase in Meralco Rate
On December 9, 2013, the ERC gave clearance to the request of Meralco to implement a staggered collection over three months covering the December billing month for the increase in generation charge and other bill components such as value-added tax, local franchise tax, transmission charge, and system loss charge, which reflected a total increase of ₱4.15/kWh for a 200-kWh residential consumer. The generation costs for the November 2013 supply month, increased significantly because of the use of the more expensive liquid fuel by the natural gas-fired power plants that were affected by the Malampaya Gas Field (Malampaya), shutdown from November 11 to December 10, 2013. This was compounded by the aberrant spike in the Wholesale Electricity Spot Market (WESM), charges on account of the scheduled and extended shutdown, and the forced outages of several base load power plants, as well as the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched.

The Department of Justice commenced an investigation while the House of Representatives and Senate conducted separate hearings to determine the underlying reasons for the price increase, including any possible collusion among the power firms. In the meantime, Meralco proceeded with billing its captive customers with the ERC approval.

On December 19, 2013, several party-list representatives in the House of Representatives, filed a Petition against Meralco, ERC and the Department of Energy (DOE) before the Supreme Court (SC), questioning the ERC clearance granted to Meralco to charge the ₱4.15/kWh price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of Sections 6 and 29 of Republic Act No. 9136, "The Electric Power Industry Reform Act of 2001", which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment that the ERC had promulgated. Both petitions prayed for the issuance of a Temporary Restraining Order (TRO), and Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two Petitions and granted the application for TRO effective immediately and for a period of 60 days, which effectively enjoined the ERC and Meralco from implementing the ₱4.15/kWh price increase. The SC also ordered Meralco, ERC and DOE to file their respective comments to the Petitions and set the hearing for Oral Arguments on January 21, 2014. The SC further set two more Oral Arguments on February 4, 2014 and February 11, 2014. After the conclusion of the Oral Arguments, the SC gave all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014, after which the Petitions will be deemed submitted for resolution of the SC. Meralco complied with the SC directive and had filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another period of 60 days or until April 22, 2014 the TRO that it originally issued against Meralco and ERC last December 23, 2013. The TRO was also similarly applied to the generating companies, specifically Masinloc Power Partners Co. Ltd., San Miguel Energy Corporation, South Premier Power Corporation, First Gas Power Corporation, National Grid Corporation of the Philippines, and Philippine Electricity Market Corporation (PEMC), the administrator of WESM and market operator, who were all enjoined from collecting from Meralco the deferred amounts representing the ₱4.15/kWh price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, Meralco filed an Omnibus Motion with Manifestation with the ERC for the latter to direct PEMC to conduct a re-run or re-calculation of the WESM prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, Meralco filed with the ERC an application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six-month period.

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices given that the prices in WESM during the November and December 2013 supply months could not qualify as reasonable, rational and competitive. PEMC was given seven days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned.

As at March 19, 2014, Meralco is still awaiting decisions of the SC and ERC.

7. Accounts Payable and Other Current Liabilities

As at December 31, 2013 and 2012, this account consists of:

	2013	2012
	(In Million Pesos)	
Accounts payable	**₱–**	₱0.1
Accrued expenses:		
Withholding taxes	**135.9**	123.5
Interest	**131.3**	575.1
Pretermination fees and transaction cost (see Note 8)	–	214.0
Others	**2.6**	5.7
	₱269.8	₱918.4

Accounts payable and accrued expenses are noninterest-bearing financial liabilities that are generally settled within one year.

As at December 31, 2012, accrual for pretermination fees and transaction cost pertains to the Company's estimated retroactive gross receipt tax adjustment on cumulative interests paid on the loans and fixed upfront fee on refinancing involving the early redemption of its long-term debt (see Note 8). Actual payment made in 2013 amounted to ₱180.5 million and as such, approximately ₱33.5 million of accrued expenses was recognized under the "Miscellaneous" account in the 2013 statement of comprehensive income.

Accrual for withholding taxes pertains to taxes imposed to the Company's creditors which were shouldered by the Company. This is presented as part of "Miscellaneous" account in the statement of comprehensive income.

Others include accruals for legal and professional fees.

8. Long-term Debt

As at December 31, 2013 and 2012, this account consists of:

Description	Interest Rate (per annum)	Terms	**2013**	2012
			(In Millions)	
₱17,000.0 Million Corporate Notes:				
• ₱2,285.0 million (Tranche A)	10-yr PDST-F + 2% or floor	Availed of in 2013; 10 years with semi-annual interest and principal repayments with final repayment in March 2023	**₱2,267.9**	₱–
• ₱14,715.0 million (Tranche B)	5-yr PDST-F + 2% or floor; subject to repricing on the 5th year		**14,604.6**	–
₱11,000.0 Million Fixed Corporate Notes	10-year PDST-F rate + 1.5%	Availed of in 2012 and 2011; 10 years payable in semi-annual interest and principal repayments and with final repayment in May 2021	**10,780.0**	11,000.0
₱9,000.0 Million Corporate Notes:				
• ₱2,950.0 million (Tranche A)	10-yr PDST-F + 1.5% or floor	Availed of in 2013; 10 years payable with semi-annual interest and principal repayments with final repayment in July 2023	**2,927.9**	–
• ₱6,050.0 million (Tranche B)	5-yr PDST-F + 1.25% or floor; subject to repricing on the 5th year		**6,004.6**	–
₱18,000.0 Million Corporate Notes:				
• ₱11,800.0 million Fixed Rate Tranche	10-year PDST-F rate + 2.5%	Availed of in 2011 and 2010; 10 years payable with semi-annual interest payments and principal repayments with final repayment in March 2020	–	11,446.0
• ₱6,200.0 million Floating Rate Tranche	6-month PDST-F rate + 2.75%		–	6,014.0
₱5,000.0 Million Corporate Notes				
• ₱550 million Fixed Rate (Tranche A)	10-year PDST-F rate + 1.5%	Availed of in 2012; 10 years payable in semi-annual fixed interest payments and principal repayments with final repayment in February 2022	–	550.0
• ₱3,450.0 million Fixed Rate (Tranche B)	5-year PDST-F rate + 1.5%		–	3,450.0
• ₱1,000.0 million Floating Rate	6-month PDST-F rate + 2.25%		–	1,000.0
Total			**36,585.0**	33,460.0
Less unamortized debt issuance costs			**454.0**	190.1
			36,131.0	33,269.9
Less current portion (net of unamortized debt issuance costs of ₱58.7 million in 2013 and ₱65.8 million in 2012)			**936.3**	374.2
Noncurrent portion			**₱35,194.7**	₱32,895.7

The movements in unamortized debt issuance costs for the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Million Pesos)	
Balance at beginning of year	**₱190.1**	₱268.3
Capitalized debt issuance costs	**353.5**	123.6
Amortization (including write-down in 2012 amounting to ₱158.5 million charged to miscellaneous expenses)	**(89.6)**	(201.8)
Balance at end of year	**₱454.0**	₱190.1

Future repayments of principal as of December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Million Pesos)	
Within one year	**₱995.0**	₱22,680.0*
After one year but not more than five years	**8,930.0**	3,300.0
After five years	**26,660.0**	7,480.0
	₱36,585.0	₱33,460.0

**Includes principal on loan facilities refinanced in 2013.*

The proceeds of the *₱9,000.0 million Corporate Notes Facility* were used to prepay the *₱5,000.0 million Corporate Notes Facility* and partially finance the acquisition of additional Meralco shares purchased in July 2013.

The proceeds of the *₱17,000.0 million Corporate Notes Facility* were used to partially finance the prepayment of the outstanding balance amounting to ₱17,640.0 million of the *₱18,000.0 million ten-year Corporate Notes Facility* in March 2013. As at December 31, 2012, estimated retroactive gross receipts tax adjustment on cumulative interests paid on the *₱18,000.0 million ten-year Corporate Notes Facility* and refinancing costs, amounting to ₱214.0 million, were charged to "Miscellaneous" account in the 2012 statement of comprehensive income with a corresponding liability recognized as "Pretermination fees and transaction cost" under "Accounts payable and other current liabilities" account in the 2012 statement of financial position (see Note 7).

In August 2013, Beacon availed two short-term notes from local banks, each with a principal sum of ₱200.0 million. Both notes bear interest at a fixed rate equivalent to the higher of 4.5% per annum and the Bangko Sentral ng Pilipinas Overnight Reverse Repurchase Agreement Rate prevailing on the interest setting date plus 1%. Both notes were paid in full in November 2013.

Amortization of debt issuance costs on the Company's loan facilities amounted to ₱89.6 million and ₱43.3 million in 2013 and 2012, respectively. Interest incurred on the loan facilities amounted to ₱2,369.2 million and ₱2,393.3 million in 2013 and 2012, respectively.

Loan Security

The loans are secured by a pledge on Meralco shares owned by the Company and shall, from the date of the pledge over the Meralco shares, maintain the loan to value ratio at 50% (see Note 6). The loan agreements also contain provisions for the maintenance of a Debt Service Account to be used by the Company to service interest payments and principal repayments, maintenance of debt to equity ratio, debt service coverage ratio and loan to value ratio, continuity of or change in business, distribution of quarterly unaudited and annual audited financial statements to noteholders, payment of indebtedness as they fall due, sale of assets, maintenance of ownership in Meralco, issuance of preferred shares, declaration and payment of dividends, additional indebtedness and guarantees, negative pledge, prepayments, additional investments, arm's length transactions, change in ownership, redemption of preferred shares, and loans or advances to directors, officers and stockholders.

As at December 31, 2013 and 2012, Beacon is in compliance with all the requirements stipulated in the loan agreements.

Derivative Liability
On May 27, 2013, Beacon Electric entered into a Forward Starting Interest Rate Swap (Forward Starting IRS) to hedge the interest repricing risk on the outstanding balance of the Tranche B (₱14,715.0 million) of the *₱17,000.0 million Corporate Notes Facility* by the end of the fifth year. The Forward Starting IRS will have a receive leg based on a rate which will be determined on March 26, 2018 and pay leg of 6.98% fixed rate that virtually matches the debt's critical terms (i.e, benchmark rate and fixing date). The hedge is expected to be highly effective and as such, Beacon designates the Forward Starting IRS as a cash flow hedge. The changes in fair value of the Forward Starting IRS will be deferred in equity under Beacon's other comprehensive income reserve account as "Cash flow hedge reserve". As at December 31, 2013, the Company's other comprehensive loss from the Forward Starting IRS is at ₱361.2 million recognized as "Cash flow hedge reserve" in the Company's statement of comprehensive income.

9. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Details of due to related parties are as follows:

Related Party	Relationship	Year	Amount of transaction	Due to Related Parties	Terms	Conditions
			(In Million Pesos)			
MPIC	Venturer	**2013**	**₱ 4.6**	**₱760.8**	Noninterest-bearing	Unsecured
		2012	(0.3)	756.2	Noninterest-bearing	Unsecured
PCEV	Venturer	**2013**	–	**₱216.4**	Noninterest-bearing	Unsecured
		2012	–	216.4	Noninterest-bearing	Unsecured
		2013		**₱977.2**		
		2012		972.6		

As at December 31, 2013 and 2012, the Company's outstanding liability to MPIC primarily comprises PSE crossing charges on the transferred shares in March 2010, expenses relating to the Option Shares, professional and legal fees paid on behalf of the Company involving the Company's acquisition of Meralco shares from the market.

As at December 31, 2013 and 2012, the Company's outstanding liability to PCEV primarily comprises PSE crossing charges on the transferred shares in March 2010 and October 2011.

The Company is in the process of drawing up the repayment terms of these advances.

10. Equity

The details of the Company's capital stock as at December 31, 2013 and 2012 are as follow:

	2013		2012	
	Number of Shares	**Amount**	Number of Shares	Amount
		(In Million Pesos)		*(In Million Pesos)*
Authorized common shares - ₱1 par value per share	**3,000,000,000**	**₱3,000.0**	3,000,000,000	₱3,000.0
Authorized preferred shares - ₱1 par value per share	**2,000,000,000**	**2,000.0**	2,000,000,000	2,000.0
	5,000,000,000	**5,000.0**	5,000,000,000	5,000.0
Issued - common shares:				
Balance at beginning of year	**2,583,025,000**	**2,583.0**	2,313,025,000	2,313.0
Issuances	**–**	**–**	270,000,000	270.0
Balance at end of year	**2,583,025,000**	**2,583.0**	2,583,025,000	2,583.0
Issued - preferred shares:				
Balance at beginning of year	**2,000,000,000**	**2,000.0**	2,000,000,000	2,000.0
Issuances	**–**	**–**	–	–
Balance at end of year	**2,000,000,000**	**2,000.0**	2,000,000,000	2,000.0
	4,583,025,000	**₱4,583.0**	4,583,025,000	₱4,583.0

Authorized Capital Stock
Beacon was incorporated with original authorized capital stock of 100,000 common shares having par value of ₱1 per share. On March 1, 2010, Beacon's BOD approved a resolution to increase its authorized capital stock to ₱5,000.0 million consisting of 3,000.0 million common shares with par value of ₱1 per share and 2,000.0 million preferred shares with par value of ₱1 per share which was subsequently approved by SEC on April 29, 2010.

The preferred shares of Beacon are non-voting, non-convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

Issued Shares
Under the OA entered into in March 2010, each of MPIC and PCEV agreed to subscribe to 1,156.5 million common shares of Beacon, for a subscription price of ₱20 per share or a total of ₱23,130.0 million. MPIC and PCEV also agreed that their resulting equity after such subscriptions and PCEV's purchase from MPIC of 12,500 Beacon common shares will be 50% each of the outstanding common shares of Beacon.

MPIC additionally agreed to subscribe to 801.0 million shares of Beacon's preferred stock for a subscription price of ₱10 per share or a total of ₱8,010.4 million.

The completion of the subscription of MPIC and PCEV to 1,156.5 million common shares each and subscription of MPIC to 801.0 million preferred shares of Beacon were subject to the same conditions.

The subscription price of MPIC's and PCEV's subscription to Beacon shares was offset in part (in the case of MPIC) and in full (in the case of PCEV) against the consideration for the transfer of Meralco shares held by MPIC and PCEV.

In addition, MPIC settled its remaining balance of ₱6,600.0 million in cash. On May 12, 2010, PCEV also completed the purchase from MPIC of 12,500 shares or 50 percent of the 25,000 Beacon common shares originally owned by MPIC.

On October 20, 2011, PCEV agreed to subscribe to 1,199.0 million preferred shares of Beacon, for a subscription price of approximately ₱12.62 per share or a total of ₱15,136.0 million as approved by MPIC BOD on October 19, 2011. As a result of the transaction, the Company incurred ₱6.0 million stock issuance costs.

On January 20, 2012, MPIC and PCEV subscribed to an additional 135.0 million common shares each at the price of ₱20 per common share, or aggregate subscription price of ₱5,400.0 million. Stock issuance costs relative to the transaction amounted to ₱1.4 million.

<u>Dividends Declared</u>
The Company declared cash dividends at the rate of 7% of the issue value of each preferred share in favor of its preferred shareholder amounting to:

(i) ₱471.7 million on March 21, 2012 in favor of holders of record as at December 31, 2011 which was paid on March 30, 2012.

(ii) ₱810.1 million on August 9, 2012 in favor of holders of record as at June 30, 2012 which was paid on August 31, 2012.

(iii) ₱810.1 million on March 22, 2013 in favor of holders of record as at December 31, 2012 which was paid on April 30, 2013.

As at December 31, 2013 and 2012, total cumulative dividends on preferred shares not yet declared by the Company amounted to ₱1,620.3 million and ₱810.1 million, respectively.

11. Income Taxes

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for income tax for the year ended December 31, 2013 and 2012 is as follows:

	2013	2012 (As restated - see Note 2)
	(In Million Pesos)	
Provision for income tax at statutory tax rate	**₱919.6**	₱1,378.9
Tax effects of:		
Nontaxable dividend income	**(1,689.6)**	(2,265.7)
Expired NOLCO	**379.1**	–
Income already subjected to final tax	**(8.6)**	(28.3)
Nondeductible portion of interest expense	**3.6**	64.9

(Forward)

	2013	2012 (As restated - see Note 2)
	(In Million Pesos)	
Income already subjected to stock transaction tax	**₱–**	(₱23.2)
Movement in unrecognized deferred tax assets:		
NOLCO	**460.1**	809.2
Pretermination fees and transaction cost	**(64.2)**	64.2
Actual provision for income tax	**₱–**	₱–

The Company's deferred income tax assets have not been recognized in the statements of financial position as it is not probable that future taxable income will be sufficient against which these can be utilized. The deductible temporary differences and NOLCO for which no deferred tax assets have been recognized as at December 31, 2013 and 2012 are as follows:

	2013	2012
	(In Million Pesos)	
NOLCO	**₱7,244.0**	₱5,710.1
Derivative liability	**361.2**	–
Accrual for pretermination fees and transaction cost	**–**	214.0
	₱7,605.2	₱5,924.1

Unutilized NOLCO which can be deducted against future taxable income is as follows:

Date Incurred	Expiry Date	Amount
		(In Million Pesos)
December 31, 2011	December 31, 2014	₱1,749.0
December 31, 2012	December 31, 2015	2,697.4
December 31, 2013	December 31, 2016	2,797.6
		₱7,244.0

The Company's NOLCO amounting to ₱1,263.7 expired as at December 31, 2013.

12. Financial Risk Management Objectives and Policies

The Company's principal financial instruments consist mainly of borrowings from local financial institutions and short-term deposits, proceeds of which were used for the acquisition of investments and for financing operations. The Company has other financial assets and liabilities such as cash in banks, receivables and accounts payable and other current liabilities which arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk from its use of financial instruments. The BOD reviews and approves policies of managing each of the risks as summarized below.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relate primarily to its long-term debt. The Company manages interest rate exposure by using a mix of fixed rate and variable rate debts.

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. Repricing of variable rate debt is done on intervals of six months. Interest on fixed rate debt is fixed until maturity.

No sensitivity analysis was made for 2013 as the interest rate of the Company's outstanding long-term debt as at December 31, 2013 is fixed. The impact of a reasonably possible change in interest rates on the Company's income before income tax in 2012, with all other variables held constant, amounted to ₱523.8 million increase with 100 bps decrease in interest rates and ₱523.8 million decrease with 100 bps increase in interest rates. There is no impact on equity other than those already affecting income before income tax.

Liquidity Risk

Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain funding. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

As part of the liquidity strategy, the Company sets aside cash to ensure that financial obligations will be met as they fall due. As at December 31, 2013 and 2012, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱683.3 million and ₱2,146.1 million, respectively. These are allocated to meet the Company's short-term liquidity needs.

The Company's liquidity and funding management process include the following:

- Managing the concentration and profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements.

The table below summarizes the maturity profile of the Company's financial assets and liabilities as at December 31, 2013 and 2012 based on undiscounted contractual payments.

	2013						
	On Demand	**2014**	**2015**	**2016**	**2017**	**2018 and Beyond**	**Total**
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	**₱3.0**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱3.0**
Short-term deposits	–	**680.3**	–	–	–	–	**680.3**
Receivables - Interest receivable	–	**0.4**	–	–	–	–	**0.4**
Available-for-sale financial assets	–	–	–	–	–	**141,287.8**	**141,287.8**
	3.0	**680.7**	–	–	–	**141,287.8**	**141,971.5**
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities:							
Accrued interest	–	**131.3**	–	–	–	–	**131.3**
Others	–	**2.6**	–	–	–	–	**2.6**
Long-term debt:							
Principal	–	**995.0**	**1,320.0**	**2,030.0**	**2,140.0**	**30,100.0**	**36,585.0**
Interest	–	**2,296.4**	**2,228.2**	**2,130.1**	**1,987.1**	**6,580.3**	**15,222.1**
Derivative designated as hedging instrument - Derivative liability	–	–	–	–	–	**461.8**	**461.8**
	–	**3,425.3**	**3,548.2**	**4,160.1**	**4,127.1**	**37,142.1**	**52,402.8**
	₱3.0	**(₱2,744.6)**	**(₱3,548.2)**	**(₱4,160.1)**	**(₱4,127.1)**	**₱104,145.7**	**₱89,568.7**

	2012						
	On Demand	2013	2014	2015	2016	2017 and Beyond	Total
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	₱2.7	₱–	₱–	₱–	₱–	₱–	₱2.7
Short-term deposits	–	2,143.4	–	–	–	–	2,143.4
Receivables - Interest receivable	–	1.1	–	–	–	–	1.1
Available-for-sale financial assets	–	–	–	–	–	142,352.2	142,352.2
	2.7	2,144.5	–	–	–	142,352.2	144,499.4
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities:							
Accounts payable	–	0.1	–	–	–	–	0.1
Accrued interest	–	575.1	–	–	–	–	575.1
Accrued pretermination fees and transaction cost	–	214.0	–	–	–	–	214.0
Others	–	5.7	–	–	–	–	5.7
Long-term debt:							
Principal	–	22,680.0	605.0	605.0	990.0	8,580.0	33,460.0
Interest	–	1,947.7	807.8	761.9	710.5	2,131.5	6,359.4
	–	25,422.6	1,412.8	1,366.9	1,700.5	10,711.5	40,614.3
	₱2.7	(₱23,278.1)	(₱1,412.8)	(₱1,366.9)	(₱1,700.5)	₱131,640.7	₱103,885.1

Credit Risk

Credit risk is the risk that the Company will incur a loss arising from counterparties that fail to discharge their contracted obligations. The Company manages and controls credit risk by setting limits on the amount of risk that the Company is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments. The Company has no concentration of credit risk.

The aggregate cash and cash equivalents and receivables amounting to ₱683.7 million and ₱2,147.2 million as at December 31, 2013 and 2012, respectively, are all neither past due nor impaired. The Company classified the credit quality of its cash and cash equivalents and receivables as high grade since they are collectible on their due dates.

Capital Management

The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain additional advances from stockholders, return capital to shareholders or issue new shares.

The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over equity.

The Company's strategy is to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio as at December 31, 2013 and 2012 is as follows:

	2013	2012
	(In Million Pesos, except for Ratio)	
Long-term debt (Note 8)	**₱36,131.0**	₱33,269.9
Equity	**104,235.4**	109,340.7
Debt-to-equity ratio	**1:2.9**	1:3.3

13. Financial Assets and Financial Liabilities

The following tables set forth the Company's financial assets and liabilities and their corresponding carrying values and estimated fair values as at December 31, 2013 and 2012:

	2013		2012	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Million Pesos)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**₱3.0**	**₱3.0**	₱2.7	₱2.7
Short-term deposits	**680.3**	**680.3**	2,143.4	2,143.4
Receivables -				
Interest receivable	**0.4**	**0.4**	1.1	1.1
Available-for-sale financial assets	**141,287.8**	**141,287.8**	142,352.2	142,352.2
	₱141,971.5	**₱141,971.5**	₱144,499.4	₱144,499.4
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other current liabilities:				
Accounts payable	**₱–**	**₱–**	₱0.1	₱0.1
Accrued expenses:				
Interest	**131.3**	**131.3**	575.1	575.1
Pretermination fees and transaction cost	**–**	**–**	214.0	214.0
Others	**2.6**	**2.6**	5.7	5.7
Long-term debt (current and noncurrent)	**36,131.0**	**38,245.7**	33,269.9	35,465.2
Derivative designated as hedging instrument -				
Derivative liability	**361.2**	**361.2**	–	–
	₱36,626.1	**₱38,740.8**	₱34,064.8	₱36,260.1

The carrying values of cash and cash equivalents, receivables and accounts payable and other current liabilities approximate their fair values at the end of the reporting period due to the relatively short-term nature of the transactions.

The following tables set forth the fair value hierarchy classification of the Company's financial assets and liabilities for which fair values have been determined for measurement and/or disclosure as at December 31, 2013 and 2012. During the year ended December 31, 2013 and 2012, 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.

			2013		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
				(In Millions)	
Assets measured at fair value					
AFS financial assets (see Note 6)	**₱141,287.8**	**₱141,287.8**	**₱–**	**₱–**	**₱141,287.8**
Liabilities measured at fair value					
Derivative liability (see Note 8)	**361.2**	**–**	**361.2**	**–**	**361.2**
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (see Note 8)	**36,131.0**	**–**	**38,245.7**	**–**	**38,245.7**

	2012				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
				(In Millions)	
Assets measured at fair value					
AFS financial assets (see Note 6)	₱142,352.2	₱142,352.2	₱–	₱–	₱142,352.2
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (see Note 8)	33,269.9	–	35,465.2	–	35,465.2

Available-for-sale financial assets
The fair value of the quoted equity shares is determined by reference to published price quotations in an active market (see Note 6).

Derivative Liability
The fair value of the hedged item and the hedging instrument are computed using the discounted cash flows method. The valuation entails projection of the applicable 5-Year PDST-F forward rate on the year of the repricing of the loan (see Note 8) using PDST-F spot rates as of valuation date. The computed 5-Year PDST-F forward rate plus 2% p.a. spread is used to compute for the receive leg of the hedging instrument. Net cash flows shall be discounted using the interpolated PDST-F spot rates as of valuation date plus 2% p.a. spread.

Long-term Debt
For both fixed rate and floating rate, estimated fair value is based on the discounted value of future cash flows using the prevailing credit rates ranging from 2.17% to 5.77% and 3.12% to 7.84% in 2013 and 2012, respectively.

14. Event After the Reporting Date

On March 17, 2014, Meralco declared cash dividends equivalent to ₱6.45 per share to all common stockholders of record as at April 15, 2014 payable on May 8, 2014.

15. Supplemental Cash Flow Information

The Company has no material noncash investing and financing activities in 2013 and 2012 except for the property dividends received from Meralco in 2012 amounting to ₱3,168.1 million and contingent consideration recognized as part of investment in Meralco in 2012 amounting to ₱180.9 million (see Note 6).

16. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On December 28, 2010, RR No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

The Company reported and/or paid the following types of taxes for the year:

All values presented below are rounded to the nearest peso.

VAT

The Company has no transactions subject to output VAT during the year.

Input VAT arising from domestic purchases of goods and services for the year is detailed as follows:

Balance at January 1, 2013	₱2,155,944
Current year's domestic purchases/payments for:	
Domestic purchase of goods other than capital goods	–
Domestic purchase of services	825,727
Claims for tax credit/refund and other adjustments	–
Balance at December 31, 2013	₱2,981,671

Withholding Taxes

During the year, the Company remitted the following withholding taxes:

Creditable withholding taxes	₱359,548,232
Final withholding taxes	139,948,724

Taxes and Licenses

This includes all other taxes, local and national, including documentary stamp tax and licenses and permit fees lodged under the "Taxes and licenses" account under the "Expenses" section in the Company's statement of comprehensive income. Details of taxes and licenses recognized for the year are provided in Note 16.

Documentary Stamp Taxes (DST)

During the taxable year, the Company has the following DST payments:

	Amount	DST Payment
Loans and advances	₱2,486,167,845	₱2,251,760
Pledge instruments	400,000,000	800,020
Total	₱2,886,167,845	₱3,051,780

Tax Assessments and Cases

The Company has no outstanding final tax assessments with the BIR and tax cases in any other courts or bodies outside of the BIR as at December 31, 2013.