Beacon Electric Asset Holdings, Inc.

Financial Statements
December 31, 2015 and 2014

and

Independent Auditors' Report

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

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, 2015 and 2014, 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.

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, 2015 and 2014, 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 17 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.

Julie Christine O. Mateo

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February 27, 2015, valid until February 26, 2018
PTR No. 5321675, January 4, 2016, Makati City

March 1, 2016

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

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 12 and 13)	**₱2,270.2**	₱3,576.7
Receivables (Notes 5, 12 and 13)	**2.6**	5.5
Due from related party (Notes 8, 9, 12 and 13)	**8,594.8**	7,187.9
Other current assets	**5.9**	4.2
Total Current Assets	**10,873.5**	10,774.3
Noncurrent Assets		
Available-for-sale financial assets (Notes 6, 12 and 13)	**125,586.7**	129,479.5
	₱136,460.2	₱140,253.8
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 7, 12 and 13)	**₱146.9**	₱279.3
Current portion of long-term debt (Notes 8, 12 and 13)	**1,084.0**	1,259.9
Dividends payable (Notes 9 and 10)	**–**	3,000.0
Total Current Liabilities	**1,230.9**	4,539.2
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 12 and 13)	**11,175.8**	33,934.7
Due to related parties (Note 9)	**972.6**	977.2
Derivative liability (Notes 8, 12 and 13)	**–**	91.9
Total Noncurrent Liabilities	**12,148.4**	35,003.8
Equity		
Capital stock (Note 10)	**4,583.0**	4,583.0
Additional paid-in capital	**70,200.5**	70,200.5
Other comprehensive income reserve (Notes 6 and 8)	**42,442.3**	22,462.0
Retained earnings	**5,855.1**	3,465.3
Total Equity	**123,080.9**	100,710.8
	₱136,460.2	₱140,253.8

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Millions)

	Years Ended December 31	
	2015	2014
REVENUE		
Dividend income (Note 6)	**₱6,966.3**	₱6,960.2
EXPENSES		
Professional and other service fees	**3.1**	3.6
Taxes and licenses and other expenses	**6.0**	–
	9.1	3.6
OTHER INCOME (EXPENSES)		
Gain on disposal of available-for-sale financial assets (Note 6)	**2,359.9**	1,045.3
Interest expense (Note 8)	**(1,723.1)**	(2,314.7)
Interest income from accretion (Note 9)	**363.5**	177.1
Penalty on prepayment of loan and termination of Interest Rate Swap (IRS) (Note 8)	**(289.0)**	–
Adjustment to amortized cost due to change in expected cash flow (Note 8)	**(236.9)**	–
Interest income, net of final tax (Note 4)	**91.3**	28.3
Amortization of debt issuance costs (Note 8)	**(45.8)**	(58.6)
	519.9	(1,122.6)
NET INCOME	**7,477.1**	5,834.0
OTHER COMPREHENSIVE INCOME (LOSS)		
Items to be reclassified to profit or loss in subsequent periods:		
Cash flow hedge reserve (Note 8):		
Reclassified to profit or loss	**73.5**	–
Fair value changes	**18.4**	269.3
Gain on available-for-sale financial assets (Note 6):		
Reclassified to profit or loss	**(5,985.5)**	(2,609.5)
Unrealized fair value gain	**25,873.9**	2,691.7
	19,980.3	351.5
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱27,457.4**	₱6,185.5

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts in Millions)

	Preferred Stock (Note 10)	Common Stock (Note 10)	Additional Paid-in Capital (Note 10)	Other Comprehensive Income Reserve: Fair Value Changes on AFS Financial Assets (Note 6)	Other Comprehensive Income Reserve: Cash Flow Hedge Reserve (Note 8)	Other Comprehensive Income Reserve: Total	Retained Earnings (Note 10)	Total
Balances as at January 1, 2015	**₱2,000.0**	**₱2,583.0**	**₱70,200.5**	**₱22,553.9**	**(₱91.9)**	**₱22,462.0**	**₱3,465.3**	**₱100,710.8**
Total comprehensive income:								
Net income	**–**	**–**	**–**	**–**	**–**	**–**	**7,477.1**	**7,477.1**
Other comprehensive income	**–**	**–**	**–**	**19,888.4**	**91.9**	**19,980.3**	**–**	**19,980.3**
Dividends declared (Note 10)	**–**	**–**	**–**	**–**	**–**	**–**	**(5,087.3)**	**(5,087.3)**
Balances as at December 31, 2015	**₱2,000.0**	**₱2,583.0**	**₱70,200.5**	**₱42,442.3**	**₱–**	**₱42,442.3**	**₱5,855.1**	**₱123,080.9**
Balances as at January 1, 2014	₱2,000.0	₱2,583.0	₱70,200.5	₱22,471.7	(₱361.2)	₱22,110.5	₱7,341.4	₱104,235.4
Total comprehensive income:								
Net income	–	–	–	–	–	–	5,834.0	5,834.0
Other comprehensive loss	–	–	–	82.2	269.3	351.5	–	351.5
Dividends declared (Note 10)	–	–	–	–	–	–	(9,710.1)	(9,710.1)
Balances as at December 31, 2014	₱2,000.0	₱2,583.0	₱70,200.5	₱22,553.9	(₱91.9)	₱22,462.0	₱3,465.3	₱100,710.8

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Years Ended December 31	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**₱7,477.1**	₱5,834.0
Adjustments for:		
Dividend income (Note 6)	**(6,966.3)**	(6,960.2)
Gain on disposal of AFS financial assets (Notes 6 and 15)	**(2,359.9)**	(1,045.3)
Interest expense (Note 8)	**1,723.1**	2,314.7
Interest income from accretion (Note 9)	**(363.5)**	(177.1)
Interest income, net of final tax (Note 4)	**(91.3)**	(28.3)
Penalty on prepayment of loan and termination of IRS (Note 8)	**289.0**	–
Adjustment to amortized cost due to change in expected cash flow (Note 8)	**236.9**	–
Amortization of debt issuance costs (Note 8)	**45.8**	58.6
Operating loss before working capital changes	**(9.1)**	(3.6)
Increase in other current assets	**(1.7)**	(1.1)
Decrease in due to related parties (Note 9)	**(4.6)**	–
Increase (decrease) in accounts payable and other current liabilities (Note 7)	**(89.2)**	14.2
Net cash from (used for) operations	**(104.6)**	9.5
Dividends received (Note 6)	**6,966.3**	6,960.2
Interest received, net of final tax	**94.1**	23.2
Net cash from operating activities	**6,955.8**	6,992.9
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of AFS financial asset (Notes 6 and 15)	**23,104.8**	1,550.0
Payment of transaction charges from disposal AFS financial asset (Note 6)	**(145.7)**	(75.0)
Net cash from investing activities	**22,959.1**	1,475.0
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for:		
Interest on loans	**(1,766.2)**	(2,319.4)
Dividends declared (Notes 10 and 15)	**(5,948.7)**	(2,260.1)
Long-term debt (Note 8)	**(23,217.5)**	(995.0)
Penalty on prepayment of loan and termination of IRS (Note 8)	**(289.0)**	–
Net cash used in financing activities	**(31,221.4)**	(5,574.5)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,306.5)**	2,893.4
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,576.7**	683.3
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱2,270.2**	₱3,576.7

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 52.1% and 55.8% owned by Metro Pacific Holdings, Inc. (MPHI) as at December 31, 2015 and 2014, respectively. 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 99.9% owned by Smart Communications, Inc. (Smart) as at December 31, 2015 and 2014. 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.

The registered office address of the Company is 9-2 9/F Net One Center, 26th cor. 3rd Avenue, Bonifacio Global City, Taguig City.

The accompanying financial statements as at and for the years ended December 31, 2015 and 2014 were approved and authorized for issuance by the BOD on March 1, 2016.

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.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (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, 2015. Except as otherwise indicated, adoption of the following standards are either not applicable to the Company or did not have any impact on the Company's financial statements:

- PAS 19, Employee Benefits – *Defined Benefit Plans: Employee Contributions (Amendments)* — PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service.

- *Annual Improvements to PFRSs (2010-2012 cycle).* The Annual Improvements to PFRSs (2010-2012 cycle) include:

  - PFRS 2, *Share-based Payment – Definition of Vesting Condition* — This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including: a performance condition must contain a service condition; a performance target must be met while the counterparty is rendering service; a performance target may relate to the operations or activities of an entity, or to those of another entity in the same group; a performance condition may be a market or non-market condition; if the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

  - PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination* — The amendment 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 the amendment for future business combinations.

  - PFRS 8*, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets* — The amendments are applied retrospectively and clarify that: an entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and the reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities. PFRS 8 is not applicable to the Company.

- PAS 16, *Property, Plant and Equipment* and PAS 38*, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation and Amortization* — The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset.

- PAS 24*, Related Party Disclosures – Key Management Personnel* — The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

- *Annual Improvements to PFRSs (2011-2013 cycle).* The Annual Improvements to PFRSs (2011-2013 cycle) include:

  - PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements* — The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3: joint arrangements, not just joint ventures, are outside the scope of PFRS 3; and this scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

  - PFRS 13, *Fair Value Measurement - Portfolio Exception* — The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, as applicable). The Company does not apply the portfolio exception in PFRS 13.

  - PAS 40, *Investment Property* — The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). In previous periods, the Company has relied on PFRS 3, not PAS 40 in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Company.

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

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, 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 AFS 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, receivables and due from related party 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 an average costing basis. Interest earned on holding AFS debt financial assets are reported as interest income using the EIR 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, 2015 and 2014, 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 EIR 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. The Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Company and all of the counterparties.

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 and 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 analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed according to 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.

<u>Foreign Currency Transactions</u>

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.

<u>Capital Stock and Additional Paid-in Capital</u>

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.

Other Income. Other income are recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and can be measured reliably.

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

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 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 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, *Consolidated Financial Statements*, the Company 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 Preferred Shares. An instrument is an equity instrument if and only if, the instrument includes no contractual obligation either to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer. Based on the Company's evaluation, the preferred shares it issued to its shareholders are equity instruments because the shares are redeemable only at the option of Beacon as the issuer and that dividends are at the discretion of the Company's BOD (see Note 10).

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, 2015 and 2014. The carrying value and fair value of the AFS financial assets amounted to ₱125,586.7 million and ₱129,479.5 million as at December 31, 2015 and 2014, respectively (see Notes 6 and 13).

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 ₱7,136.9 million and ₱7,951.8 million as at December 31, 2015 and 2014, respectively (see Note 11).

4. Cash and Cash Equivalents

As at December 31, 2015 and 2014, this account consists of:

	2015	2014
	(In Million Pesos)	
Cash in banks	**₱1.8**	₱2.4
Short-term deposits	**2,268.4**	3,574.3
	₱2,270.2	₱3,576.7

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, net of final tax, from cash in banks and short-term deposits amounted to ₱91.3 million and ₱28.3 million in 2015 and 2014, respectively.

5. Receivables

Receivables as at December 31, 2015 and 2014 pertain to accrual of interest earned from cash in banks and short-term deposits amounting to ₱2.6 million and ₱5.5 million, respectively.

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

6. Available-for-sale Financial Asset

The Company's investment in AFS financial assets is measured at fair value and comprises of investments in equity shares in Meralco. 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.

Movements in the AFS financial asset for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Equity interest	**34.96%**	44.96%
Equivalent number of shares	**394,059,235**	506,769,106
	(In Million Pesos)	
Acquisition costs:		
Balance at beginning of year	**₱106,925.6**	₱118,816.1
Disposals	**(23,781.2)**	(11,890.5)
Balance at end of year	**83,144.4**	106,925.6
Accumulated changes in fair value:		
Balance at beginning of year	**22,553.9**	22,471.7
Unrealized gain	**25,873.9**	2,691.7
Gain recycled to profit or loss	**(5,985.5)**	(2,609.5)
Balance at end of year	**42,442.3**	22,553.9
	₱125,586.7	₱129,479.5

Fair value as at December 31, 2015 and 2014 was based on share price of ₱318.7 and ₱255.5, respectively. The changes in fair value of the AFS financial assets are deferred in equity under Beacon's "Other comprehensive income reserve" and recycled to profit and loss upon disposal. A pledge on the Company's investments 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 ₱6,966.3 million and ₱6,960.2 million in 2015 and 2014, respectively.

Disposals

As at December 31, 2013, Beacon's interest in Meralco was at 49.96%. However, Beacon, with the conformity of PCEV, entered into the following transactions:

- Share Purchase Agreement (SPA) dated June 24, 2014 for the sale to MPIC of 56.35 million Meralco shares representing approximately 5% of Meralco's issued and outstanding common shares at a price of ₱235.0 per share for an aggregate consideration of ₱13,243.4 million. The transaction was completed through a block sale at the Philippine Stock Exchange (PSE) on June 26, 2014. This transaction resulted to a realized gain of ₱1,045.3 million recognized in profit and loss, net of transaction costs paid amounting to ₱75.0 million. The consideration payable by MPIC to Beacon was settled as to ₱3.0 billion immediately and the balance was fully settled in February 2015. MPIC received dividends from Beacon at the same time as it settled payments for this transaction (see Notes 9, 10 and 15).

- SPA dated April 14, 2015 for the sale to MPIC of 112.7 million Meralco shares representing approximately 10% of Meralco's issued and outstanding common shares at a price of ₱235.0 per share for an aggregate consideration of ₱26,486.8 million. The transaction was completed through a block sale at the PSE on April 17, 2015. This transaction resulted to a realized gain of ₱2,359.9 million recognized in profit and loss, inclusive of recoverable costs from the shareholders but net of transaction. The consideration payable by MPIC to Beacon is to settled as follows: (i) ₱1.0 billion immediately; (ii) ₱17.0 billion in June 2015, and (iii) the remaining balance on or before July 2016. MPIC expects to receive dividend of ₱4.24 billion from Beacon at the same time it settles the July 2016 payment such that MPIC's net cash investment is at ₱22.2 billion (see Notes 9, 10 and 15).

Supreme Court (SC) Temporary Restraining Order (TRO) on December 2013 Increase in Meralco Billing 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. The generation costs for the November 2013 supply month, increased significantly because of the aberrant spike in the WESM charges on account of the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field (Malampaya), shutdown from November 11, 2013 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives, filed a Petition against Meralco, ERC and the Department of Energy (DOE) before the Supreme Court of the Philippines (SC), questioning the ERC clearance granted to Meralco to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of Republic Act No. 9136, "The Electric Power Industry Reform Act of 2001", which essentially declared the generation and supply sectors as 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 (AGRA) 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 for a period of 60 days, which effectively enjoined the ERC and Meralco from implementing the 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 and February 11, 2014. After the conclusion of the Oral Arguments, the SC ordered all the Parties to the consolidated Petitions to file their respective Memoranda 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 on December 23, 2013. The TRO was also similarly applied to the generating companies, specifically Masinloc Power Partners Co. Ltd. (MPPCL), San Miguel Energy Corporation (SMEC), South Premier Power Corporation, First Gas Power Corporation, and the National Grid Corporation of the Philippines, and the 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.

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 during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9,274 million. Due to the pendency of the TRO, no adjustment was made to the WESM bill of Meralco for the November 2013 supply month. The timing of amounts to be credited to Meralco is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies, including MPPCL, SN Aboitiz Power Corporation, Team (Philippines) Energy Corporation, Panasia Energy Holdings, Inc., and SMEC, have filed motions for reconsideration questioning the Order dated March 3, 2014. Meralco has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the Court of Appeals where the petitions are pending and have been consolidated. Meralco has filed a Consolidated Motion for Leave to Intervene and to Admit Consolidated Comment in Intervention. In a Resolution dated October 9, 2015, the Court of Appeals required the generators to file their comments on Meralco's Consolidated Motion. Meralco is awaiting the resolution of the Consolidated Motion.

In view of the pendency of the various submissions before the ERC and mindful of the complexities in the implementation of ERC's Order dated March 3, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted WESM bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their WESM bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the ERC deemed it appropriate to hold in abeyance the settlement of PEMC's adjusted WESM bills by the market participants.

On April 22, 2014, the SC, extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies not to collect from Meralco. As at March 1, 2016, the SC has yet to resolve the various petitions filed against Meralco, ERC and DOE.

7. Accounts Payable and Other Current Liabilities

As at December 31, 2015 and 2014, this account consists of:

	2015	2014
	(In Million Pesos)	
Accounts payable [a]	**₱–**	₱0.1
Accrued expenses:		
Interest (see Note 8)	**83.5**	126.6
Withholding taxes[b]	**61.9**	151.0
Others [c]	**1.5**	1.6
	₱146.9	₱279.3

a) Accounts payable are noninterest-bearing financial liabilities that are generally settled within one year.

b) Withholding taxes largely include 20% withholding tax on interest payments on loans to be remitted to the Bureau of Internal Revenue within the next financial year.

c) Others include accruals for legal and professional fees that are due and demandable within the year.

8. Long-term Debt

As at December 31, 2015 and 2014, this account consists of:

Description	Interest Rate (per annum)	Terms	**2015**	2014
			(In Million Pesos)	
₱17,000.0 Million Corporate Notes:				
▪ ₱2,285.0 million (Tranche A)	6.00%	Availed of in 2013; payable in 10 years with semi-annual interest and principal repayments; final repayment in March 2023	**₱–**	₱2,233.6
▪ ₱14,715.0 million (Tranche B)	5.75% for the first five years; subject to repricing on the 5th year		**–**	14,383.9
₱11,000.0 Million Fixed Corporate Notes				
▪ ₱4,000.0 million (1st Tranche)	8.00%	Availed of beginning 2011; payable in 10 years with semi-annual interest and principal repayments; final repayment in May 2021	**3,480.0**	3,700.0
▪ ₱7,000.0 million (2nd Tranche)	7.09%		**6,090.0**	6,475.0
₱9,000.0 Million Corporate Notes:				
▪ ₱2,950.0 million (Tranche A)	6.00%	Availed of in 2013; payable in 10 years payable with semi-annual interest and principal repayments; final repayment in July 2023	**₱2,802.5**	₱2,883.6
▪ ₱6,050.0 million (Tranche B)	5.50% for the first five years; subject to repricing on the 5th year		**–**	5,913.9
Total			**12,372.5**	35,590.0
Less unamortized debt issue cost			**112.7**	395.4
			12,259.8	35,194.6
Less current portion (net of unamortized debt issue cost of ₱24.0 million in 2015 and ₱60.0 million in 2016)			**1,084.0**	1,259.9
Noncurrent portion			**₱11,175.8**	₱33,934.7

Future repayments of principal as of December 31, 2015 and 2014 are as follows:

	2015	2014
	(In Million Pesos)	
Within one year	**₱1,108.0**	₱1,320.0
After one year but not more than five years	**6,253.5**	11,310.0
After five years	**5,011.0**	22,960.0
	₱12,372.5	₱35,590.0

The movements in unamortized debt issuance costs for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
	(In Million Pesos)	
Balance at beginning of year	**₱395.4**	₱454.0
Derecognized	**(236.9)**	–
Amortization	**(45.8)**	(58.6)
Balance at end of year	**₱112.7**	₱395.4

On June 29, 2015 and December 1, 2015, Beacon prepaid *₱17,000.0 million Corporate Notes* and *₱6,050.0 million Corporate Notes (Tranche B of ₱9,000.0 Corporate Note)* with the proceeds from the sale of Meralco shares. A portion of the unamortized debt issue cost related to the prepaid loan amounting to ₱236.9 million was expensed as a result of change in timing of expected cash flow as "Adjustment to amortized cost due to change in expected cash flows". Beacon paid prepayment penalty amounting to ₱215.5 million presented as under "Penalty on prepayment of loan and termination of IRS".

Amortization of debt issuance costs on the Company's loan facilities amounted to ₱45.8 million and ₱58.6 million in 2015 and 2014, respectively. Interest incurred on the loan facilities amounted to ₱1,723.1 million and ₱2,314.7 million in 2015 and 2014, respectively.

Loan Security
The outstanding 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%, subject to call/top up (in case the Loan to Value Ratio of the Pledge Shares is in excess of 60%) or a withdrawal (in case the Loan to Value Ratio of the Pledge Shares is below 40%) (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, 2015 and 2014, Beacon is in compliance with all the requirements stipulated in the loan agreements.

Derivative Liability

On May 27, 2013, Beacon entered into Forward Starting Interest Rate Swap (IRS) that was intended to hedge the interest repricing risk on the outstanding balance of the Tranche B (₱14,715 million) of the *₱17,000.0 Million Corporate Notes Facility.* On June 30, 2015, Beacon terminated the IRS at an unwinding fee of ₱73.5 million, included under "Penalty on prepayment of loan and termination of IRS". As a result of the termination, the fair value changes deferred in equity amounting to ₱73.5 million were recycled to profit or loss.

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.

Outstanding balances of transactions with the Company's shareholders are as follows:

	Due from related party (see Note 6)		Dividends Payable (see Note 10)		Due to related parties	
	2015	2014	**2015**	2014	**2015**	2014
			(in Million Pesos)			
MPIC	**₱8,450.3**	₱10,187.9	**₱–**	₱3,000.0	**₱756.2**	₱760.8
PCEV	**144.5**	–	**–**	3,000.0	**216.4**	216.4
	8,594.8	10,187.9	**–**	6,000.0	**972.6**	977.2
Offsetting arrangement	**–**	(3,000.0)	**–**	(3,000.0)	**–**	–
	₱8,594.8	₱7,187.9	**₱–**	₱3,000.0	**₱972.6**	₱977.2

As at December 31, 2015, the "Due from MPIC" included ₱8,305.8 million, net of discount amounting to ₱181.0 million, which pertains to MPIC's payable to Beacon from the sale of Meralco shares. The amount included interest accretion of ₱308.0 million reported under "Interest income from accretion" of the Company's statement of comprehensive income (see Note 6). As at December 31, 2015, the "Due from PCEV" pertains to PCEV's share in the costs incurred by Beacon in accordance with the SPA (see Notes 6 and 8).

As at December 31, 2014, the "Due from MPIC" amounting to ₱10,187.9 million, net of discount amounting to ₱55.5 million, pertains to MPIC's payable to Beacon from the sale of Meralco shares. The amount included interest accretion of ₱177.1 million reported under "Interest income from accretion" of the Company's statement of comprehensive income. In 2015, additional interest accretion of ₱55.5 million was recorded in the "Due from MPIC" and reported under "Interest income from accretion". The amount was settled through offsetting of dividends declared by Beacon on November 17, 2014 and February 26, 2015 (see Note 10), with the remaining amount paid in cash.

The amount of Due to MPIC and PCEV as at December 31, 2015 and 2014, also included PSE crossing charges on the transferred shares in March 2010 and October 2011, 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. These are noninterest-bearing and unsecured liabilities. The Company is in the process of drawing up the repayment of these advances.

10. **Equity**

The details of the Company's capital stock as at December 31, 2015 and 2014 are as follow:

	Number of Shares	Amount
		(In Million Pesos)
Authorized common shares - ₱1 par value per share	3,000,000,000	₱3,000.0
Authorized preferred shares - ₱1 par value per share	2,000,000,000	2,000.0
	5,000,000,000	5,000.0
Issued - common shares	2,583,025,000	2,583.0
Issued - preferred shares	2,000,000,000	2,000.0
	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.

Dividends Declared
The Company declared cash dividends in favor of its common shareholders:

Declaration Date	Record Date	Payment Date	Amount
			(In Million Pesos)
February 26, 2015	February 26, 2015	February 27, 2015	₱4,277.2
November 17, 2014	October 31, 2014	February 27, 2015	₱6,000.0
June 24, 2014	May 31, 2014	June 27, 2014	₱2,900.0

As discussed in Note 9, MPIC's share of the dividends declared on February 26, 2015 and November 17, 2014 were offset against the amount receivable from MPIC for the sale of the Meralco shares (see Note 15).

The Company declared cash dividends at the rate of 7% of the issue value of each preferred share in favor of its preferred shareholder:

Declaration Date	Record Date	Payment Date	Amount
			(In Million Pesos)
March 30, 2015	March 31, 2015	April 24, 2015	₱810.1
March 31, 2014	June 30, 2013	May 15, 2014	₱810.1

As at December 31, 2015 and 2014, total cumulative dividends on preferred shares not yet declared by the Company amounted to ₱3,240.5 million and ₱2,430.4 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, 2015 and 2014 is as follows:

	2015	2014
	(In Million Pesos)	
Provision for income tax at statutory tax rate	**₱2,243.2**	₱1,750.2
Tax effects of:		
Nontaxable dividend income	**(2,089.9)**	(2,088.1)
Expired NOLCO	**809.2**	524.7
Income already subjected to stock transaction tax	**(621.3)**	(313.6)
Accretion of interest income on receivable	**(109.1)**	(53.0)
Movement in unrecognized deferred tax assets on NOLCO	**(216.9)**	184.8
Income already subjected to final tax	**(27.4)**	(8.5)
Nondeductible portion of interest expense	**11.4**	3.5
Nondeductible portion of interest expense	**0.6**	3.5
Others	**0.2**	–
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, 2015 and 2014 are as follows:

	2015	2014
	(In Million Pesos)	
NOLCO	**₱7,136.9**	₱7,859.9
Derivative liability	–	91.9
	₱7,136.9	₱7,951.8

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

Date Incurred	Expiry Date	Amount
		(In Million Pesos)
December 31, 2013	December 31, 2016	₱2,797.6
December 31, 2014	December 31, 2017	2,364.9
December 31, 2015	December 31, 2018	1,974.4
		₱7,136.9

The Company's NOLCO amounting to ₱2,697.4 million has expired in 2015.

For the years ended December 31, 2015 and 2014, the Company has no assessable profit subject to MCIT.

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 or entering into derivative transaction, particularly interest rate swaps.

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. The Company's interest on long-term debts are fixed until maturity as at December 31, 2015.

No sensitivity analyses were made for 2015 and 2014 as the interest rates of the Company's outstanding long-term debt as at December 31, 2015 and 2014 are substantially fixed.

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, 2015 and 2014, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱2,270.2 million and ₱3,576.7 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, 2015 and 2014 based on undiscounted contractual payments.

	2015						
	On Demand	**2016**	**2017**	**2018**	**2019**	**2020 and Beyond**	**Total**
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	**₱1.8**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1.8**
Short-term deposits	–	**2,268.4**	–	–	–	–	**2,268.4**
Receivables - Interest receivable	–	**2.6**	–	–	–	–	**2.6**
Due from related party	–	**8,775.8**	–	–	–	–	**8,775.8**
Available-for-sale financial assets	–	–	–	–	–	**125,586.7**	**125,586.7**
	1.8	**11,046.8**	–	–	–	**125,586.7**	**136,635.3**
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:							
Accounts payable	–	–	–	–	–	–	–
Accrued interest	–	**83.5**	–	–	–	–	**83.5**
Others	–	**1.4**	–	–	–	–	**1.4**
Long-term debt:							
Principal	–	**1,108.0**	**1,218.0**	**1,365.5**	**1,395.0**	**7,286.0**	**12,372.5**
Interest	–	**881.4**	**794.3**	**704.3**	**606.5**	**837.5**	**3,824.0**
	–	**2,074.3**	**2,012.3**	**2,069.8**	**2,001.5**	**8,123.5**	**16,281.4**
	₱1.8	**₱8,972.5**	**(₱2,012.3)**	**(₱2,069.8)**	**(₱2,001.5)**	**₱117,463.2**	**₱120,353.9**

* *Excluding statutory payables amounting to ₱61.9 million.*

	2014						
	On Demand	2015	2016	2017	2018	2019 and Beyond	Total
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	₱2.4	₱–	₱–	₱–	₱–	₱–	₱2.4
Short-term deposits	–	3,574.3	–	–	–	–	3,574.3
Receivables - Interest receivable	–	5.5	–	–	–	–	5.5
Due from related party	–	7,187.9	–	–	–	–	7,187.9
Available-for-sale financial assets	–	–	–	–	–	129,479.5	129,479.5
	2.4	10,767.7	–	–	–	129,479.5	140,249.6
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:							
Accounts payable	–	0.1	–	–	–	–	0.1
Accrued interest	–	126.6	–	–	–	–	126.6
Others	–	1.6	–	–	–	–	1.6
Long-term debt:							
Principal	–	1,320.0	2,030.0	2,140.0	3,440.0	26,660.0	35,590.0
Interest	–	2,228.2	2,130.1	1,987.1	1,824.7	4,755.6	12,925.7
Derivative designated as hedging instrument - Derivative liability	–	–	–	–	23.3	91.1	114.4
	–	3,676.5	4,160.1	4,127.1	5,288.0	31,506.7	48,758.4
	₱2.4	₱7,091.2	(₱4,160.1)	(₱4,127.1)	(₱5,288.0)	₱97,972.8	₱91,491.2

* *Excluding statutory payables amounting to ₱151 million.*

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, receivables and due from related parties amounting to ₱10,867.6 million and ₱10,770.1 million as at December 31, 2015 and 2014, 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, 2015 and 2014 is as follows:

	2015	2014
	(In Million Pesos, except for Ratio)	
Long-term debt (Note 8)	**₱12,259.8**	₱35,194.6
Equity	**123,080.9**	100,710.8
Debt-to-equity ratio	**1:10.0**	1:2.9

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, 2015 and 2014:

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Million Pesos)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**₱1.8**	**₱1.8**	₱2.4	₱2.4
Short-term deposits	**2,268.4**	**2,268.4**	3,574.3	3,574.3
Interest receivable	**2.6**	**2.6**	5.5	5.5
Due from related party	**8,594.8**	**8,594.8**	7,187.9	7,187.9
Available-for-sale financial assets	**125,586.7**	**125,586.7**	129,479.5	129,479.5
	₱136,454.3	**₱136,454.3**	₱140,249.6	₱140,249.6
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other current liabilities:				
Accounts payable	**₱–**	**₱–**	₱0.1	₱0.1
Accrued expenses:				
Interest	**83.5**	**83.5**	126.6	126.6
Others	**1.4**	**1.4**	1.6	1.6

(Forward)

	2015		2014	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Million Pesos)		
Long-term debt (current and noncurrent)	**₱12,259.8**	**₱13,193.9**	₱35,194.6	₱36,466.4
Derivative designated as hedging instrument -				
Derivative liability	**–**	**–**	91.9	91.9
	₱12,344.7	**₱13,278.8**	₱35,414.8	₱36,686.6

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, 2015 and 2014. During the year ended December 31, 2015 and 2014, 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.

	2015				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Millions)		
Assets measured at fair value					
AFS financial assets (see Note 6)	**₱125,586.7**	**₱125,586.7**	**₱–**	**₱–**	**₱125,586.7**
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (see Note 8)	**12,259.8**	–	**13,193.9**	–	**13,193.9**

	2014				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Millions)		
Assets measured at fair value					
AFS financial assets (see Note 6)	₱129,479.5	₱129,479.5	₱–	₱–	₱129,479.5
Liabilities measured at fair value					
Derivative liability (see Note 8)	91.9	–	91.9	–	91.9
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (see Note 8)	35,194.6	–	36,466.4	–	36,466.4

<u>AFS Financial Assets</u>
The fair value of the quoted equity shares is determined by reference to published price quotations in an active market (see Note 6).

<u>Derivative Liability</u>
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. In 2015, the hedging instrument was terminated following the prepayment of the Tranche B of the *₱17,000.0 million Corporate Notes* (see Note 8).

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 2.67% to 4.10% and 2.55% to 4.37% in 2015 and 2014, respectively.

14. **Events After the Reporting Date**

On February 26, 2016, the BOD of Meralco approved the declaration of cash dividends of ₱9.92 a share to all shareholders of record as at March 25, 2016, payable on April 15, 2016.

15. **Supplemental Cash Flow Information**

The Company had a non-cash investing activity which was not reflected in the statement of cash flows. As discussed in Note 6, the Company sold 56.35 million Meralco shares at an aggregate consideration of ₱13,243.4 million in 2014. Under the agreement, MPIC will receive dividends from Beacon at the same time as it settles payments for this transaction such that MPIC's net cash investment in the transaction will be ₱6,654.8 million. Of the amount settled in 2014, ₱1,550.0 million was settled in cash while ₱4,450.0 million was paid through offsetting with MPIC's share of dividends on common shares declared by Beacon on June 24, 2014 and November 17, 2014. For the February 2015 settlement, ₱5,104.8 million was paid in cash while ₱2,138.6 million was settled through offsetting with MPIC's share of dividends on common shares declared by Beacon on February 26, 2015 (see Notes 9 and 10).

16. **Future Changes in Accounting Policies**

The standards, interpretations amendments and improvements to the standards that are issued, but not yet effective as at December 31, 2015 are disclosed below. The Company intends to adopt these, if applicable, when they become effective. Unless otherwise specified, this will not have an impact on the Company's financial statements.

Effective January 1, 2016

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets* – Clarification of Acceptable Methods of Depreciation and Amortization — The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. These amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 41, *Agriculture* - Bearer Plants — The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under these amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). These amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- Amendments to PAS 27, *Separate Financial Statements* – Equity Method in Separate Financial Statements — The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures* – Investment Entities: Applying the Consolidation Exception — The amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The Company neither has an associate nor joint venture investee. However, the Company shall consider the amendments in the future.

- PFRS 11, *Joint Arrangements* – Accounting for Acquisitions of Interest in Joint Operations — The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The amendments will not have any impact on the Company's financial statements.

- PFRS 14, *Regulatory Deferral Accounts* — PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Company is an existing PFRS preparer, this standard would not apply.

- PAS 1, *Presentation of Financial Statements* – Disclosure Initiative (Amendments) — The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures of functions
  - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they represent the notes to financial statements
  - That the share of OCI of associate and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Annual Improvements to PFRSs (2012–2014 cycle). The Annual Improvements to PFRSs (2012–2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Company. They include:

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal.* The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts.* PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendment.

- PFRS 7 – *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements.* The amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- PAS 19, *Regional market issue regarding discount rate.* The amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'.* The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- PFRS 9, *Financial Instruments* (2014 or final version) — In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 is permitted if the date of initial application is before February 1, 2015.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting. The Company is currently assessing the impact of adopting this standard.

The following new standards issued by the International Accounting Standards Board (IASB) has not yet been adopted by the Financial Reporting Standards Council (FRSC)

- International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* — IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company shall consider the amendment for any future contracts with customers.

- IFRS 16*, Leases* — On January 13, 2016, the IASB issued its new standard, IFRS 16, Leases, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

  Under the new standards, lessees will no longer classify their leases as either operation or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in the financial statements, particularly on the risk exposure to residual value. The new standard is effective for annual period beginning on or after January 1, 2019.

Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, Revenue from Contracts with Customers. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

With Deferred Effective Date

- Philippine Interpretation International Financial Reporting Interpretations Committee (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.

17. 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.

<u>VAT</u>
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, 2015	₱4,071,426
Current year's domestic purchases/payments for:	
Domestic purchase of goods other than capital goods	–
Domestic purchase of services	1,705,745
	₱5,777,171
Claims for tax credit/refund and other adjustments	–
Balance at December 31, 2015	₱5,777,171

Withholding Taxes
During the year, the Company remitted ₱397,657,474 of expanded withholding taxes.

Taxes and Licenses
The Company's taxes and licenses for the year are as follows:

Business taxes	₱4,022,575
Others	12,500
	4,035,075
Nondeductible expense – deficiency on income tax payments on 2011 and 2012	1,913,692
Total	₱5,948,767

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, 2015.