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## SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines  
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### Company Information

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Industry Classification :  
Company Type : Stock Corporation

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**SECURITIES AND EXCHANGE COMMISSION**

SEC Building, EDSA Greenhills,  
Mandaluyong City, Metro Manila

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

**PHILIPPINE STOCK EXCHANGE, INC.**

3<sup>rd</sup> Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

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

**PHILIPPINE DEALING & EXCHANGE CORP.**

Market Regulatory Services Group  
37/F, Tower 1, The Enterprise Center  
6766 Ayala Avenue corner Paseo de Roxas  
Makati City

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

RE : **SEC Form 17-Q (Quarterly Report)**

Gentlemen:

Please see enclosed the SEC Form 17-Q (3<sup>rd</sup> Quarterly Report 2014) of Aboitiz Equity Ventures, Inc.

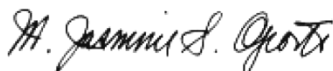
Kindly acknowledge receipt hereof.

Thank you.

Very truly yours,

**ABOITIZ EQUITY VENTURES, INC.**

By



**M. JASMINE S. OPORTO**  
Corporate Secretary

**COVER SHEET**

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S.E.C. Registration Number

A	B	O	I	T	I	Z	E	Q	U	I	T	Y	V	E	N	T	U	R	E	S	,	I	N	C	.		

( Company's Full Name )

3	2	N	D	S	T	R	E	E	T	,	B	O	N	I	F	A	C	I	O	G	L	O	B	A	L			
C	I	T	Y	,	T	A	G	U	I	G	C	I	T	Y	,	M	E	T	R	O	M	A	N	I	L	A	,	
P	H	I	L	I	P	P	I	N	E	S																		

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

M. JASMINE S. OPORTO
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Contact Person

(02) 793-2729
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Company Telephone Number

**3rd Quarterly Report**

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Month Day

Fiscal Year

1	7	-	Q
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FORM TYPE

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Month Day

Annual Meeting

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Secondary License Type, if Applicable

S	E	C
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Dept. Requiring this Doc

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Amended Articles Number/Section

9,506
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Total No. of Stockholders

X
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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended September 30, 2014
2. Commission identification number CE02536 3. BIR Tax Identification No. 003-828-269-V
4. Exact name of issuer as specified in its charter ABOITIZ EQUITY VENTURES, INC.
5. Province, country or other jurisdiction of incorporation or organization Philippines
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
32<sup>nd</sup> Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines 1634
8. Issuer's telephone number, including area code  
(02) 886-2800
9. Former name, former address and former fiscal year, if changed since last report  
N.A.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA
- | Title of each Class                  | Number of shares of common stock outstanding and amount of debt outstanding (as of September 30, 2014) |
|--------------------------------------|--|
| <u>Common stock, P1.00 par value</u> | <u>5,538,581,307</u>   |
| <u>Total debt</u>                    | <u>P112,701,955,000</u>  |
11. Are any or all of the securities listed on a Stock Exchange?  
Yes [  ] No [  ]  
If yes, state the name of such Stock Exchange and the class/es of securities listed therein:  
Philippine Stock Exchange Common
12. Indicate by check mark whether the registrant:

- (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [  ] No [  ]

- (b) has been subject to such filing requirements for the past ninety (90) days.

Yes [  ] No [  ]

## **PART I--FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

Please refer to the financial statements and schedules attached herewith.

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of the financial condition and results of operations of Aboitiz Equity Ventures, Inc. (AEV or the "Company" or the "Parent Company") and its subsidiaries should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying disclosures set forth elsewhere in this report.*

#### **TOP FIVE KEY PERFORMANCE INDICATORS**

Management uses the following indicators to evaluate the performance of the registrant and its subsidiaries:

##### **1. EQUITY IN NET EARNINGS OF INVESTEEES**

Equity in net earnings (losses) of investees represents the group's share in the undistributed earnings or losses of its associates for each reporting period subsequent to acquisition of said investment, net of goodwill impairment cost, if any. Goodwill is the difference between the purchase price of an investment and the investor's share in the value of the net identifiable assets of investee at the date of acquisition. Equity in net earnings (losses) of investees indicates profitability of the investments and investees' contribution to the group's consolidated net income.

Manner of Computation: Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost

##### **2. EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION & AMORTIZATION (EBITDA)**

The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax provision, depreciation and amortization. It provides management and investors with a tool for determining the ability of the group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the group's ability to service its debts and to finance its capital expenditure and working capital requirements.

### 3. CASH FLOW GENERATED

Using the Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.

### 4. CURRENT RATIO

Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the group's short-term debt paying ability. The higher the ratio, the more liquid the group.

### 5. DEBT-TO-EQUITY RATIO

Debt-to-Equity ratio gives an indication of how leveraged the group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

#### **KEY PERFORMANCE INDICATORS (KPI)**

**(Amounts in thousands except financial ratio data)**

	<b>JAN-SEPT 2014</b>	<b>JAN-SEPT 2013</b>
EQUITY IN NET EARNINGS OF INVESTEEES	<b>5,115,175</b>	7,450,339
EBITDA	<b>29,439,333</b>	28,535,486
CASH FLOW GENERATED:		
Net cash flows from operating activities	<b>21,299,395</b>	22,239,246
Net cash flows used in investing activities	<b>(13,354,688)</b>	(5,041,534)
Net cash flows used in financing activities	<b>(897,515)</b>	(32,279,451)
Net Increase (Decrease) in Cash & Cash Equivalents	<b>7,047,192</b>	(15,081,738)
Cash & Cash Equivalents, Beginning	<b>36,118,190</b>	33,730,531
Cash & Cash Equivalents, End	<b>43,196,326</b>	18,103,339
	<b>SEPT 30, 2014</b>	<b>DEC. 31, 2013</b>
CURRENT RATIO	<b>2.82</b>	2.64
DEBT-TO-EQUITY RATIO	<b>1.11</b>	1.02

All the KPI values were within management's expectation during the period in review.

Management teams of the different businesses continued to effectively handle their respective operations and financial requirements. As a result, profitability had been sustained and financial position remained strong and liquid.

Associates continued to generate substantial earnings and enhance the consolidated bottom line, despite the 31% decline in their income contribution to the Group. Consolidated EBITDA, which increased by 3%, translated into additional cash inflows coming from subsidiaries' operations and from dividend payments of associates. The internally-generated funds were then used to finance capital expenditures, settle maturing financial obligations and pay cash dividends.

With higher borrowings at the end of September 2014, debt-to-equity ratio edged up to 1.11x (versus end-2013's 1.02x). Meanwhile, current ratio improved to 2.82x (versus end-2013's 2.64x) as increase in current assets outpaced the increase in current liabilities.

## **REVIEW OF JAN-SEPT 2014 OPERATIONS VERSUS JAN-SEPT 2013**

### **RESULTS OF OPERATIONS**

For the three quarters ended September 2014, AEV and its subsidiaries posted a consolidated net income of ₱14.26 billion (bn), a 14% year-on-year (YoY) decrease. This translates to an earnings per share of ₱2.58 for the period in review. In terms of income contribution, power group still accounted for the bulk at 72%, followed by the banking, food and real estate groups at 17%, 7% and 4%, respectively.

The Group generated a non-recurring net gain of ₱380 million (mn) (versus ₱128 mn in 9M2014) mainly from the ₱634 mn gain generated from the sale of AEV's investments in Abojeb Group and in Cebu International Container Terminal, Inc. (CICTI), a non-operating associate. This was partly offset by ₱164 mn foreign exchange loss on the revaluation of dollar-denominated loans and placements, and ₱89 mn transaction costs on sale of Lima Enerzone Corporation (formerly: Lima Utilities Corporation) (LEZ) to Aboitiz Power Corporation (AP or AboitizPower). Stripping out these one-off items, the Group's core net income for the current period amounted to ₱13.88 bn, down 16% YoY.

### **BUSINESS SEGMENTS**

The individual performance of the major business segments is discussed as follows:

#### **Power**

AP ended the period with an income contribution of ₱10.06 bn, an 8% decrease from last year's ₱10.97 bn.

AP's generation group reported an 11% YoY drop in earnings contribution to AEV, from ₱9.30 bn to ₱8.28 bn, substantially attributed to the full year-to-date negative impact on gross margins of the implementation of the Geothermal Resource Supply Contract (GRSC) for the Tiwi-MakBan plants, lower equity earnings from SN Aboitiz Power-Magat, Inc. (SNAP – Magat) owing to the limited operations of its hydro plant due to low water levels, and higher income tax provisions resulting from the expiry of Pagbilao plant's income tax holiday (ITH) in December 2013.

Generation group's attributable net generation for the period in review grew by 2% YoY, from 8,245 gigawatthours (GWh) to 8,395 GWh, due to the 5% YoY growth in power sales through bilateral contracts. Attributable sales on a capacity basis increased by 13% YoY to 1,782 MW as a result of higher ancillary volumes and increased bilateral energy sales. On the other hand, spot market sales decreased by 15% from 1,484 GWh to 1,266 GWh as low water levels constrained the operations of Magat, Ambuklao and Binga plants.

Meanwhile, AP's distribution group registered a 2% YoY growth in earnings contribution to AEV, from ₱1.87 bn to ₱1.91 bn. Driven by the growth in industrial sales and the incremental increase

contributed by the newly-acquired LEZ, attributable electricity sales rose by 9% to 3,299 GWh from 3,024 GWh a year ago. This improvement though was tempered by higher costs registered by Visayan Electric Company, Inc. (VECO) resulting from the lag in the recovery of its cost of purchased power, and the additional costs incurred by Davao Light and Power Company, Inc. (Davao Light) and Cotabato Light and Power Company (Cotabato Light) due to the running of their embedded plants to cover for the shortfall in the Mindanao grid during the first half of the year.

## **Banking**

Income contribution from this industry group fell 28%, from P3.31 bn to P2.37 bn, for the period in review.

Union Bank of the Philippines' (UBP or UnionBank) nine-month net income for 2014 was lower at P5.00 bn (vs P7.34 bn in 9M2013) mainly due to the 44% drop in total other income to P5.9 bn because of the exceptionally hefty trading gains posted during the same period in 2013. This decline was partially countered by the 25% growth to P8.0 bn in net interest income, anchored on the robust expansion in earning assets coupled with the continuous reduction in average costs of interest-bearing liabilities.

## **Food**

Income contribution from Pilmico Foods Corporation (PFC or Pilmico) and its subsidiaries amounted to P942 mn, up 1% YoY, mainly attributed to increase in sales volume and average selling price of the Farms division, and the operating efficiency of the Flour division and higher income contribution from its by-products. On the other hand, the Feeds division posted weak performance due to a decline in margins and increase in income tax expense resulting from the expiration of the ITH of the Iligan Feedmill.

## **Real Estate**

Nine-month income contribution of Aboitiz Land, Inc. (AboitizLand) amounted to P565 mn, 247% higher than last year's P163 mn. Revenues almost tripled from the same period last year to breach the P2.0 bn mark. Industrial revenues were up by 473% YoY mainly due to the fresh revenue contribution of Lima Land, Inc. (Lima Land), which was fully acquired in February 2014. Residential segment revenues likewise grew by 57% as construction of its projects were now in full swing. Commercial revenues had also grown, with higher occupancy levels and the addition of The Outlets in Mactan, Cebu.

## **MATERIAL CHANGES IN LINE ITEMS OF REGISTRANT'S STATEMENTS OF INCOME AND OF COMPREHENSIVE INCOME**

For the period ended September 30, 2014, consolidated net income allocable to the equity holders of AEV registered a 14% decline, reaching P14.26 bn from P16.56 bn posted in the same period last year.

Operating profit for the current period amounted to P19.36 bn, an 11% increase YoY, as the P23.44 bn increase in revenues surpassed the P21.47 bn rise in costs and expenses. This increase was mainly attributed to the performance of power and real estate groups and the full contribution of VECO which was consolidated towards the end of the second quarter of 2013.

Power subsidiaries reported an 11% YoY increase in operating profit from P15.99 bn to P17.76 bn mainly due to the following: a.) full consolidation of VECO's positive margins amounting to P1.68 bn; b.) P963 mn profit growth of Therma Power, Inc.'s subsidiaries attributable to the full effect of ancillary contracts of Therma Luzon, Inc. (TLI), better selling prices of Therma Marine, Inc., and the



fresh contribution from the rehabilitated barges of Therma Mobile, Inc.; c.) P135 mn fresh contribution of profits from Retail Energy Supply group and LEZ. Said increase was offset by the P1.07 bn plunge in margins of the renewable power group mainly attributed to AP Renewables, Inc.'s higher fuel cost resulting from the full effect of the implementation of the GRSC for its Tiwi-MakBan plants. Real estate group also reported an increase in operating income by 195% (P645 mn vs P219 mn) largely from the fresh gross profit contribution of its newly-acquired subsidiary, Lima Land. Food group however, showed a 15% decline in operating profit (P1.23 bn vs P1.45 bn) resulting from weaker Feeds margins despite the increase in average selling prices and volume sales of its Farms business and better operating efficiency and higher income from by-products of its Flour business.

Share in net earnings of associates dropped by 31% YoY (P5.12 bn vs P7.45 bn in 9M2014) due to the decline in income contributions of UBP and power associates, and the consolidation of VECO whose income contribution was reported as equity earnings for the most part of 9M2013. The decrease in UBP's earnings was attributed to lower trading gains. For the power associates, the dip in net income resulted from the decrease in ancillary service revenue of SNAP-Magat at the back of low water levels, and STEAG State Power Inc.'s unscheduled plant shutdown starting end of February until May 2014.

The drop in equity earnings, coupled with the increase in income tax provision more than offset the increase in operating profit and other income, and as a result, pulled down the Group's overall profitability. Net interest expense increased by 1% to P4.39 bn due to slightly higher average net debt level during the period in review.

Other income rose by 277% YoY (P1.43 bn vs P379 mn in 9M2013) mainly due to lower foreign exchange (FX) loss (P277 mn vs P1.50 bn in 9M2013), resulting from the restatement of the dollar-denominated debt and placements of the power group, and higher non-utility operating income of the distribution utilities. On the other hand, gains generated from the sale of Abojeb and CICTI were lower at P634 mn versus P1.3 bn gain reported in the same period last year from the sale of City Savings Bank, Inc. (CitySavings) shares. AP also incurred a transaction cost of P89 mn for the acquisition of LEZ during the current period.

The 400% increase in provision for income tax (P3.22 bn vs P644 mn in 9M2013) was mainly due to the expiry of TLI's ITH at the end of 2013.

The 10% YoY increase in net income attributable to non-controlling interests was largely due to the full year-to-date effect of VECO consolidation.

AEV's consolidated comprehensive income attributable to equity holders increased by 16%, from P13.04 bn in 9M2013 to P15.17 bn in 9M2014. This was mainly due to the recognition of P825 mn AEV's share of the unrealized fair valuation gains on the AFS investments of its banking associate, versus the P3.66 bn loss recorded in 9M2013.

## **CHANGES IN REGISTRANT'S RESOURCES, LIABILITIES AND SHAREHOLDERS' EQUITY**

### **Assets**

Compared to year-end 2013 level, consolidated assets increased 9% to P270 bn as of September 30, 2014, due to the following:

- a. Cash & Cash Equivalents increased by 20% (P43.20 bn vs P36.12 bn as of December 31, 2013) mainly due to the P3 bn excess cash by AP parent from the proceeds its retail bond issuance in September 2014, and P4 bn increase in cash by AEV parent, Food, AboitizLand and Aseagas Corporation (Aseagas). The increase was due to unused proceeds from the disposal of a portion of AEV's treasury shares and from availment of loans.

- b. Other Current Assets increased by 14% (P4.44 bn vs P3.90 bn as of December 31, 2013) mainly due to the build-up of input VAT by the power group arising from fuel purchases.
- c. Investments in and Advances to Associates increased by P4.47 bn (P52.38 bn vs P47.91 bn as of December 31, 2013) mainly due to the following: 1.) P2.5 bn capital infusion in Cebu Property Development Enterprise, Inc. and Pagbilao Energy Corporation; b.) recording of the P5.12 bn share in earnings of associates; and c.) recognition of P825 mn share of a banking associate's fair valuation gains on its AFS investments. This increase was partially reduced by the P3.65 bn cash dividends received from associates and P249 mn sale of CICTI and Abojeb during the current period.
- d. Gross of depreciation expense, the resulting P12.18 bn combined growth in Property Plant and Equipment (PPE), Investment Properties (IP), and Land and Improvements (LI) was mainly due to the following: 1.) P8.97 bn on-going construction of Davao and Cebu coal plants, and Tudaya and Sabangan hydro power plants; 2.) P577 mn on-going construction of Aseagas biomass plant; 3.) P338 mn ongoing construction of new swine farms and other food group capital expenditures; 4.) P174 mn PPE of Vinh Hoan 1 Feed JSC (Vin Hoan), a newly acquired subsidiary; 5.) P342 mn purchase of additional land for future development by the real estate group; and 6.) P1.7 bn various capex of the power group.
- e. Goodwill increased by 33% (P1.77 bn vs P1.33 bn as of December 31, 2013) due to the positive goodwill generated on the acquisition of Vinh Hoan shares.
- f. Other Noncurrent Assets (ONCA) increased by 30% (P10.86 bn vs P8.37 bn as of December 31, 2013) primarily due to the build-up of deferred input VAT by the power group arising from the ongoing construction of its coal power plant.

The above increases were tempered by the following decreases:

- a. Inventories decreased by 9% (P8.01 bn vs P8.76 bn as of December 31, 2013) mainly due to lower inventory levels of power, food and real estate groups.
- b. Derivative assets decreased by 49% (P16 mn vs P31 mn as of December 31, 2013) mainly due to unrealized mark-to-market losses recognized on outstanding hedging instruments during the current period.
- c. Intangible Asset–Service Concession Rights decreased by 5% (P3.46 bn vs P3.66 bn in December 2013) due to amortization of the intangible asset.
- d. Pension Asset decreased by 24% (P76 mn vs P100 mn in December 2013) due to accrual of defined benefit expense during the current period.
- e. Deferred Income Tax Assets (DTA) decreased by 38% (P380 mn vs P610 mn in December 2013) mainly due to P577 mn reversal of deferred tax benefit on NOLCO set up by power group in December 2013, resulting from the application of this NOLCO against the generated taxable income during the current period. This was partly offset by the P397 mn reclassification of deferred tax liability on accumulated FX gain from DTA to Deferred Income Tax Liability. Said reclassification was done to reflect the shift of the concerned group's position from net DTA in December 2013 to net DTL in September 2014.

## Liabilities

Consolidated short-term bank loans increased by 52% (P6.00 bn vs P3.96 bn in December 2013) while long-term liabilities increased by 17% (P107.01 bn vs P91.67 bn as of December 31, 2013).

The increase in short-term loans was mainly due to availment by the Food and Real Estate Groups for working capital requirements. The P15.32 bn rise in long-term debt was substantially due to the P10 bn retail bond issuance by AP, P5.2 bn additional loan availment by Therma South, Inc. (TSI) to finance ongoing coal plant construction, and accreted interest on Obligations on Power Distribution System.

Trade and other payables, inclusive of noncurrent portion, were lower by 8%, from P18.96 bn to P17.48 bn, mainly due to the P960 mn net settlement by power subsidiaries of their trade payables and the deconsolidation of Abojob's P250 mn payable accounts.

Income tax payable increased by 131%, from P444 mn to P1.03 bn, due to recording of additional income tax liability for the current period as a result of the expiry of TLI's ITH in December 2013.

Derivative liabilities decreased by 100% from P23 thousand to nil due to the mark-to-market gains recognized by a power subsidiary on its interest rate swap contract.

Customers' deposits increased by 10%, from P5.42 bn to P5.94 bn mainly due to the growth in the customer base of power distribution subsidiaries.

Pension liability decreased by 12%, from P705 mn to P619 mn mainly due to the deconsolidation of Abojob's P70 mn account.

Deferred income tax liabilities (DTL) rose by 18%, from P1.37 bn to P1.62 bn. This was mainly due to the following: a.) reclassification of P397 mn DTL on accumulated FX gain from DTA to DTL; and b.) recording of additional P139 mn deferred tax provision on the FX gain generated during the current period.

## **Equity**

Equity attributable to equity holders of the parent increased by 6% from year-end 2013 level of P96.93 bn to P102.91 bn, mainly due to the following: a.) P4.32 bn increase in Retained Earnings resulting from the P14.26 bn net income recorded during the current period, reduced by the P9.94 bn cash dividends paid; b.) P917 mn sale of treasury shares; c.) P824 mn share in a banking associate's unrealized mark-to-market gains on its Available For Sale investments; and d.) P103 mn increase in current translation adjustments recorded by investees with functional currency other than the Philippine peso. This was partially countered by the P162 mn acquisition of non-controlling interest generated from the purchase of the remaining 40% share in Lima Land and the acquisition of LEZ by AP.

## **MATERIAL CHANGES IN LIQUIDITY AND CASH RESERVES OF REGISTRANT**

For the period ended September 2014, the Group continued to support its liquidity mainly from cash generated from operations, additional loans availed and dividends received from associates.

Compared to the cash inflow in 9M2013, consolidated cash generated from operating activities in 9M2014 decreased by P940 mn to P21.30 bn, mainly due to higher income taxes paid and settlement of trade payables despite growth in earnings before interest, depreciation and amortization (EBIDA) recorded by subsidiaries during the current period.

The current period ended up with P13.35 bn net cash used in investing activities versus P5.04 bn last year. This was mainly due to higher funds spent on the ongoing plant constructions and acquisition of associates and a subsidiary. On disposal of investments, cash generated from the

sale of CitySavings last year was more, vis-a-vis the sale of CICTI and Abojeb during the period in review.

Net cash used in financing activities was at P898 mn, versus P32.28 bn used in 9M2013. This was attributed to the net debt avilment during the current period, in contrast with the net debt payment in 2013, and lower cash dividends paid by the registrant in 2014.

For the period in review, net cash inflows surpassed cash outflows, resulting in a 20% increase in cash and cash equivalents, from P36.12 bn as of year-end 2013 to P43.20 bn as of September 30, 2014.

## **FINANCIAL RATIOS**

Backed by strong operating cash inflows, liquidity was adequately preserved. Current ratio stood at 2.82x, from 2.64x at the start of the year, since current assets grew stronger than current liabilities. Both debt-to-equity and net debt-to-equity ratios climbed slightly to 1.11:1 (versus year-end 2013's 1.02:1) and 0.54x (versus year-end 2013's 0.48x), respectively. This was mainly due to the growth in total liabilities outpacing the increase in equity.

## **OUTLOOK FOR THE UPCOMING YEAR/KNOWN TRENDS, EVENTS, UNCERTAINTIES WHICH MAY HAVE MATERIAL IMPACT ON REGISTRANT**

The Philippines' strong GDP growth, the roll-out of the government's Public-Private Partnership Program, as well as the robustness and liquidity of the country's financial system, provides AEV and its business units opportunities to sustain growth over the long-term. To complement the business units' various initiatives, AEV also formed the AEV Business Development Team in 2011, whose key objectives are to scan the market for opportunities, and if deemed acceptable from both a risk and return basis, develop and execute the project.

Nevertheless, some challenges facing its subsidiary AboitizPower will impact on the holding company's financial performance in 2014.

### **New Business Development**

AEV seeks to capture opportunities in sectors in which it believes it could further leverage on its core competencies, are scalable, and with strong recurring profits and cash flow. To this end, AEV's Business Development Team evaluates new business opportunities that don't fall squarely into the Company's traditional core business areas of power, banking, and food. Earlier, AEV disclosed a couple of initiatives which it hopes will serve as new avenues of growth in the years to come.

#### **1. Production of Liquid Biomethane**

In June 2012, AEV partnered with British company GazAsia Ltd. to build a plant that produces liquid bio-methane fuel from organic waste.

Aseagas, the company that will undertake this project, will employ existing and proven technology to produce bio-methane gas and liquefy it for transportation purposes. Aseagas is already registered with the Department of Energy (DOE) and Board of Investments (BOI), and can now fully avail of the incentives under the Renewable Energy (RE) Law. The company's income will largely be derived from the sale of bio-methane fuel for vehicles. Other income sources are from sale of Carbon Dioxide and Fertilizer.

AEV's wholly-owned subsidiary Aseagas will invest \$50 mn for an initial plant with capacity of around 9,000 metric tons of bio-methane per year. A notes facility of P2 bn has already been closed to fund the project. The company began the site-leveling last March 18 and recently finished the bidding of civil works. The target commencement of construction work is around November and is expected to be completed in two years. Should the pilot project be successful, then operations could be easily scaled up.

## **2. Davao Bulk Water Supply Project**

AEV has agreed to enter into a joint venture with J.V. Angeles Construction Corp. (JVACC) to jointly construct both a raw water treatment facility with RE component and conveyance system which will deliver 300 MLD of treated bulk water to Davao City, the third largest city in the Philippines.

Hedcor, Inc., an affiliate of AEV specializing in the design, construction and operations of mini-hydropower plants, will provide the technical and operational expertise for the hydro-electric component of the project. On the other hand, JVACC will bring to the partnership its 48 years of experience in construction and development of water-related infrastructure.

JVACC submitted an unsolicited proposal to the local water agency in early 2013. On June 20, 2014, JVACC informed AEV that it received, on behalf of the Jose V. Angeles Construction Consortium, the Notice of Award (NoA) from the Davao City Water District (DCWD) for the financing, design, construction and operations of the Tamugan Surface Water Developments Project. DCWD has acknowledged receipt of the documents submitted by the consortium (AEV-JVACC) in relation to the NoA requirements, following which the relevant contractual documents will be executed.

## **Power (Generation Business)**

### **1. Ancillary Services**

The SN Aboitiz Power group (SNAP), a partnership between the Aboitiz group and Statkraft and Norfund group (SN Power), is currently providing ancillary services to the National Grid Corporation of the Philippines (NGCP) under an Ancillary Services Procurement Agreement (ASPA). The ASPA for Magat expired last November 5, 2012, while Binga's ASPA expired on June 25, 2013.

The Company earlier disclosed that its affiliates, SNAP-Magat and SN Aboitiz Power-Benguet, Inc. (SNAP-Benguet), have respectively signed ASPAs with NGCP for the provision of regulating, contingency, and dispatchable reserves from the Magat and Ambuklao Hydroelectric Power Plants. Another affiliate, TLI, which runs the Pagbilao Coal Plant, also signed an ASPA with the NGCP covering both firm and non-firm capacities for contingency reserve. The ASPAs of Magat and Ambuklao shall be valid for three years once the approval of the Energy Regulatory Commission (ERC) for the contract has been secured. On the other hand, TLI's ASPA is valid for a period of five years from the date of approval by the ERC. The issuance of a provisional authority (PA) from the ERC paved the way for the implementation of the new ASPAs for the Magat, Ambuklao and Pagbilao plants starting July 26, 2013.

For Magat, ERC provisionally approved the ASPA rates with some revisions. SNAP filed a Motion for Reconsideration (MR) for the Magat ASPA, which remains unresolved while the final approval is still pending.

The ERC also issued a PA on the Ambuklao ASPA signed by SNAP and NGCP. SNAP filed an MR with the ERC on the PA. Both the MR and the Final Approval of the Ambuklao ASPA are still pending with the ERC. In the meantime, both parties have yet to implement the Ambuklao ASPA due to ongoing discussions on the technical parameters of the service to be rendered.

SNAP-Benguet also signed an ASPA for the provision of non-firm capacities for regulating reserve, contingency reserve, dispatchable reserve and blackstart capability from the Binga hydroelectric power plant. As of February 2014, SNAP-Benguet received the order from the ERC provisionally approving the ASPA between the company and NGCP for Binga. SNAP-Benguet filed an MR on the methodology of payment.

AboitizPower believes that the implementation of the new ASPAs will result in a significant reduction in the Company's ancillary revenues due to the restructuring of the pricing mechanism for ancillary services, which is currently linked to spot market rates. On the other hand, the addition of the Ambuklao and Pagbilao plants as licensed ancillary service providers will help offset the expected decline in ancillary revenue.

## **2. Conversion of AP Renewables, Inc.'s (APRI) existing steam contract to a Geothermal Resource Sales Contract**

On May 26, 2013, APRI's current steam supply contract with the Philippine Geothermal Production Corporation (PGPC, formerly known as Chevron) shifted to a Geothermal Resource Sales Contract (GRSC). The change is due to an existing provision under the government's existing contract with Chevron when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be at a premium to coal. Because of this, APRI's contracts have mimicked those of coal plants.

To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013. This has resulted in a lower fuel cost during off-peak hours, thus allowing AboitizPower to maximize sales even during this period. The agreement is currently being extended every two months. Ultimately, the Company aims to close a permanent agreement with the steam supplier that will also enable the full development of the existing steam field and maximize utilization of the Tiwi-Makban plants. The first full-year impact of the shift to GRSC will be felt in 2014.

## **3. Expiration of Income Tax Holiday**

Several of the AboitizPower's plants were eligible for an ITH upon their acquisition by the Company. Upon the expiration of the ITH, the respective plants will now be assessed a corporate income tax in accordance with the relevant laws. The ITH of TLI, Therma Marine, and SNAP-Magat expired in January, May, and July of 2014, respectively.

### *SN Aboitiz Power-Magat, Inc.*

The BOI approved SNAP-Magat's application to avail of the one-year bonus ITH under Executive Order No. 226 (Omnibus Investments Code of 1987) which pushed the original expiration from July 11, 2013 to July 11, 2014. After the lapse of SNAP Magat's ITH this year, it is now liable to pay income tax, which would be whatever is higher between 30% regular corporate income tax based on net income or 2% minimum corporate income tax based on gross income.

### *Therma Luzon, Inc.*

On February 26, 2010, the BOI approved the Company's application as a New Independent Power Producer Administrator of the 700 MW Pagbilao Coal Fired Thermal Power Plant Project under Energy with Non-Pioneer Status under the Omnibus Investments Code of 1987. On April 21, 2010, the BOI granted the company's request for the adjustment of the commencement of its ITH availment period from February 26, 2010 to January 1, 2010.

Among other incentives, the BOI granted the company an ITH for a period of four years without extension from January 1, 2010 or actual start of operation, whichever is earlier but in no case

earlier than the date of registration. The ITH incentives shall be limited only to the sales/revenue generated from the sale of electricity of the power plant. Based on this schedule, TLI will now be subject to a 30% corporate income tax beginning January 2014.

#### **4. Magat, Binga and Ambuklao Reservoir Elevations**

Water elevation of Magat reservoir at the start of 2014 was high, but water inflow in the first half was lower than the historical average. This was a contributing factor to this year's substantial reduction in spot energy generation.

On the other hand, water inflow to the Ambuklao reservoir in the first half of 2014 was slightly above the historical average inflow, however, this was not enough to offset the lower starting elevation this year compared from last year. Thus, spot generation of SNAP-Benguet in the first half of 2014 decreased.

Reservoirs of Magat, Binga and Ambuklao Plants managed to achieve full capacity in September 2014 due to the onset of the rainy season. This improvement in the water levels will support higher spot energy generation and provision of ancillary services in the second half as compared to the first half of 2014.

#### **5. Increase in Attributable Generating Capacity**

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

- Greenfield and Brownfield developments

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

Hyundai has not been notified to proceed with the works, however, because of the filing with the Supreme Court of a petition for a Writ of Kalikasan and environmental protection order by an ad hoc group of individuals and organizations. The petition was remanded to the Court of Appeals for a hearing. The Court of Appeals denied the issuance of Writ of Kalikasan for lack of merit, but nonetheless, nullified RP Energy's Environmental Compliance Certificate and land lease with SBMA on grounds of DENR's non-compliance with procedural requirements and SBMA's failure to secure LGU approvals/endorsements, respectively. This decision is the subject of three Petitions for Review on Certiorari with the Supreme Court filed by RP Energy, DENR and SBMA, the resolution of which may reach into 2015. In view of the legal dispute, the commercial operation of the power plant is now estimated to begin in mid to late 2018.

300 MW CFB Coal-Fired Power Plant in Davao. AboitizPower, through 100%-owned subsidiary TSI, is putting up a 2 x 150 MW CFB coal-fired power plant in Davao, which is the

biggest load center in the island of Mindanao. The project broke ground in May 2012. The EPC contract for the power block was awarded to Formosa Heavy Industries (FHI) with FHI supplying the CFB boilers and Fuji as major subcontractor/supplier of the turbine-generators. The EPC contract for the balance of plant equipment and their integration with the power block was awarded to a consortium of Black & Veatch Corporation and Leighton Contractors (Philippines), Inc. Commissioning and testing of the first unit will begin during the fourth quarter of 2014. The facility is expected to become fully operational within the first half of 2015, thereby providing Mindanao with much-needed reliable and competitively-priced base-load power.

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

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

On April 25, 2014, PEC entered into a contract with a contractor consortium comprised of Mitsubishi Hitachi Power Systems Ltd, Daelim Industrial Co, Ltd, DESCO, Inc. and Daelim Philippines, Inc. to provide the engineering, procurement and construction (EPC) services required for the project. Notice to Proceed with the works was issued to the consortium on April 30, 2014. The debt financing for the project closed on May 30, 2014. Commercial operations of Unit 3 are targeted prior to year-end 2017.

300-MW (net) CFB Coal-Fired Project in Toledo City, Cebu. AboitizPower, through 100%-owned subsidiary, Therma Visayas, Inc. (TVI), is developing a 2 x 150-MW (net) coal-fired power project in Toledo City. The project site was acquired in December 2011. The Environmental Compliance Certificate for the project was issued in May 2013.

Technical specifications, contract drawings, contract conditions, and requests for EPC proposals were issued on July 15, 2013, with a submittal deadline of November 15, 2013, thereafter extended to November 29, 2013. The EPC contract was awarded to Hyundai Engineering Co. Ltd. (HEC) and limited notice to proceed (LNTP) with engineering design and detailed subsurface investigations of the site issued on May 30, 2014, with NTP with all EPC activities to follow by December 2014. Turnover of the first unit is targeted for year-end 2017, with the second following three months thereafter.

14 MW Sabangan Hydro Power Plant Project. This involves the construction and operation of a hydropower plant facility in Mt. Province, in Northern Luzon by first half 2015. This project will be undertaken by a wholly owned subsidiary of AboitizPower, Hedcor Sabangan, Inc. The project, which is the first to be constructed in Mt. Province, will take approximately 24 months to construct and commenced construction in May 2013.



68 MW Manolo Fortich Hydropower Plant Project. Hedcor Bukidnon, Inc (Hedcor Bukidnon) plans to start construction of the Manolo Fortich project within the second half of 2014. It is composed of the 43 MW Manolo Fortich 1 and 25 MW Manolo Fortich 2. Hedcor Bukidnon has completed the Memorandum of Agreement with the local government units. It is currently completing the permits and licenses after which a 24-month construction period will follow.

Other Greenfield and Brownfield developments. AboitizPower, together with its subsidiaries and associate company, is conducting feasibility studies for potential Greenfield and Brownfield projects.

- AboitizPower is actively exploring the viability of developing wind power projects and photovoltaic solar projects consistent with the Company's focus on environmental sustainability and diversified power generation technologies, among others.
- SNAP's Greenfield Development Program aims to grow its renewable portfolio by looking at potential small and large hydro projects in the Philippines, primarily within its current host communities in northern Luzon.

SNAP has secured renewable energy service contracts (RESCs) from the DOE on December 2, 2013 for its proposed 6-MW Maris South Canal and 1.75-MW Maris North Canal mini-hydropower projects located downstream of the National Irrigation Administration (NIA) owned and operated Maris dam and reservoir. The Maris dam and reservoir, which form the tailwater of SNAP-owned Magat hydroelectric power plant, is situated at the boundary of Alfonso Lista, Ifugao and Ramon, Isabela. NIA and SNAP have signed on August 7, 2014 a Memorandum of Understanding for SNAP to develop both projects.

SNAP has also secured on July 24, 2014 RESCs for its proposed 350-MW hydropower complex project in Ifugao, which is composed of three facilities: the 100-MW Alimit hydropower plant, the 240-MW Alimit pumped storage facility, and the 10-MW Olilicon hydropower plant.

Both Maris and Alimit projects are currently in feasibility study stage.

SNAP-Magat and the NIA held the ground-breaking ceremony for the optimization of the Maris Reservoir on November 4, 2014.

Maris Optimization is a project of NIA with SNAP-Magat as its project partner. It aims to raise the Maris Reservoir by adding a set of stoplogs about three meters high.

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

- Hedcor is conducting feasibility studies for potential hydropower projects located in Luzon and Mindanao. Based on current findings, Hedcor sees the potential of building plants with capacities ranging from 20 MW to 60 MW. When the projects pass the evaluation stage and once permits are secured, the two-year construction period for the hydropower plant facilities will commence.

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

## **6. Participation in the Government's Privatization Program for its Power Assets**

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

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

In November 2013, Aboitiz Energy Solutions, Inc. (AESI) participated in the bidding for the IPPA of the strips of the Unified Leyte Geothermal Power Plant (ULGPP). AESI won 40 strips of energy corresponding to 40 MW capacity of ULGPP. The NoA was issued to AESI on January 29, 2014. This IPPA contract will allow AESI to sell 40 MW of geothermal power from ULGPP, beginning January 1, 2015.

### **Power (Distribution Business)**

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

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

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

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

WACC, among others. ERC has yet to release a final position paper on what would be its future actions on the implementation of PBR.

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

For Subic Enerzone Corporation's (SEZ) and San Fernando Electric Light and Power Company's (SFELAPCO) third regulatory year covering October 1, 2013 to September 30, 2014, SEZ was able to implement the new rate schedule in May 2014 while SFELAPCO's implementation was on September 2014. Consequently, resulting under-recoveries have been included by SFELAPCO and SEZ in its rate filings for the fourth regulatory year covering October 1, 2014 to September 30, 2015.

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

## **Market and Industry Developments**

### **1. Open Access and Retail Competition**

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

- (a) Establishment of the WESM;
- (b) Approval of unbundled transmission and distribution wheeling charges;
- (c) Initial implementation of the cross subsidy removal scheme;
- (d) Privatization of at least 70% of the total capacity of generating assets of NPC within the respective grids; and
- (e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

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

#### *Commencement of Open Access*

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

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

contract with other RES companies. Currently, AboitizPower has signed contracts equivalent to approximately 300 MW through its RES companies.

### *The ERC issued Resolution 22 Series of 2013*

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

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

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, the Retail Electricity Suppliers Association (RESA) challenged its legality at the Pasig RTC. Trial is currently on-going to clarify legality of such issuance.

## **2. Interim Mindanao Electricity Market (IMEM)**

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

The IMEM has the following features:

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

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

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

Due to the maintenance shutdown of Malampaya Natural Gas Field, the dispatch of Natural Gas-fired power plants were affected which caused the increase in the WESM prices in November and December 2013 Billing Months. The Supreme Court issued a Temporary Restraining Order (TRO) in GR Nos. 210245 and 201255, pegging the generation charge of Meralco to PhP5.6673/kWh. The TRO should have ended last February 2014, but this has been extended indefinitely through a notice provided by the Supreme Court last April 22, 2014. The extended TRO also includes the generators non-collection of the increase in generation charge.

### *Issuance of ERC Case No. 2014-021MC*

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

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

#### **4. Reserve Market**

The DOE issued Department Circular No. DC2013-12-0027, “Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market” dated December 2, 2013. The said Department Circular sets the responsibility of the Philippine Electricity Market Corporation (PEMC), NGCP, NEA and all WESM Members with regard to the operation of the Reserve Market.

The trial operations started on February 26, 2014, and PEMC is still reviewing its results before certifying for market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review by the ERC under ERC Case # 2007-004RC. The last hearing was on March 13, 2014.

The Reserve Market will cover three reserve categories, namely: Frequency Regulation, Contingency Reserve and Dispatchable Reserve. The Reserve Market will also include the scheduling of the ancillary services under ASPA with NGCP. No date has been set for the launch of the Reserve Market.

#### **Financial Services**

UnionBank’s initiatives on strengthening its customer franchise will continue to be at the forefront as it prioritizes customer satisfaction through enhanced retail focus, superior innovation and product customization, and stronger sales management approach. UnionBank will continue to invest in technology, cultivate partnerships and rationalize branch network expansion in strategic areas to maximize growth channels with respect to both deposits and loan accounts.

UnionBank will continue to focus on improving the performance of its earning assets portfolio, with loan asset acquisition in the retail, middle-market and corporate sectors. The bank will implement a disciplined asset allocation built on good governance and effective risk management to ensure momentum of recurring income stream. At the same time, UnionBank is focusing on improving its deposit liabilities mix by targeting low-cost funds (i.e. CASA).

Likewise, UnionBank will continue to enhance operating efficiencies through cost containment efforts and improvements in its business processes and systems to align with international standards and best practices, and increase in manpower productivity with the help of functional and developmental trainings as well as appropriate matching of job, skills and capabilities.

UnionBank will also promote customer advocacy by cultivating employee engagement throughout the organization. The Bank believes that by doing this, UnionBank can optimize employee behavior to drive long-term financial and operational performance and growth. In line with this, the Bank initiated “middle-out” strategic programs, which strive to propel UnionBankers to higher levels of engagement, particularly through the conduct of culture conversations, fostering REaCh Programs and celebrating DNA Stories.

CitySavings, the subsidiary thrift bank of UnionBank, will continue with its unique focus as the preferred Teachers’ Bank in the Philippines, particularly expanding its customer franchise in areas outside of its present coverage. It will continuously enhance its products and services to strengthen its market position in its present niche and tap other civil servant market segments.

The combined unique strengths of UnionBank and CitySavings’ management team as well as its attained technological and financial capabilities will catapult both to greater heights towards elevating the lives of its stakeholders and the communities it serves.

### **Food Manufacturing**

For the Farm’s business, Pilmico’s goal is to increase its sow capacity by 30% in 2014, with 70% of the finishing farms owned and operated by the company. A new nursery farm was completed in support of this initiative. Additionally, it will continue to expand the existing breeder farm and increase the capacity of the growing-finishing farms. For Feeds, the second Iligan Feedmill Plant is planned for completion on January 2015. This will double Iligan Feedmill’s capacity and will allow Pilmico to absorb growth targets in the next 10 years.

Aside from the expansion and improvement of the company’s facilities in Iligan and Tarlac, projects to ensure sustainability and reduce the company’s carbon footprint are also being eyed. A biogas project for two farms is projected to produce 300,000 kWh annually and save on power cost while being environmentally friendly. While construction of biomass boilers will reduce fuel cost in steam production.

Pilmico also established its first Southeast Asia representative office in Jakarta Selatan, Indonesia. This will allow Pilmico to capitalize on the business opportunities presented by the ASEAN Economic Integration. This move will open doors for potential cross-border partnerships and will allow Pilmico to simultaneously learn more about the ASEAN markets and strengthen its competencies in the Food Manufacturing industry.

Pilmico also acquired 70% of Vin Hoan, the fourth largest pangasius aqua feeds producer in Vietnam. Currently, Vin Hoan has a feed mill capacity of 130,000 MT. It is expected that Vin Hoan’s capacity will grow to 270,000 MT by 2016.

### **Property**

After 20 years of nurturing communities for Cebuanos, AboitizLand’s primary thrust for 2014 is to grow the business on a national scale while intensifying its market position in Cebu. In support of this challenge, AboitizLand will build the team which will focus on growing the business at the national level. The company will also continue to strengthen its organization in Cebu by attracting the best talents and applying the latest technology available.

The residential and industrial business units are seen to have a balanced contribution to revenues by year end. Residential sales and revenue for 2014 will exceed the record it set in 2013 as the company looks toward launching new projects in both Cebu and Luzon. The expansion of the Industrial business unit of AboitizLand started in 2013 when it acquired 60% ownership of Lima Land the developer of Lima Technology Center (Lima) industrial park in Malvar, Batangas. The remaining 40% was acquired by the company in February 2014. This acquisition gave AboitizLand

a firm foothold in the Luzon industrial real estate market. Lima's 150-hectare expansion is now underway and this will augment the company's revenue and profit levels for 2014 onwards. AboitizLand now owns and operates three industrial zones including Mactan Economic Zone II and West Cebu Industrial Park.

On the commercial side, the momentum generated from the success of The Outlets at Pueblo Verde will continue with an expansion of this commercial development. AboitizLand continuously explores new real estate businesses to complement its existing residential, commercial and industrial projects. The 50-50 JV with Ayala Land, Inc. took into effect in February 2014 with the signing of the agreement and incorporation of the JV company, Cebu District Property Enterprise, Inc. (CDPEI). In 2015, CDPEI will start to develop the 15-hectare Mandaue Cebu property into a city center with residential, commercial, retail and office components.

## **PART II--OTHER INFORMATION**

There are no significant information on the company which requires disclosure herein and/or were not included in SEC Form 17-C.





**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands)

	September 30, 2014 Unaudited	December 31, 2013 Audited
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	43,196,325	36,118,190
Trade and other receivables - net	17,418,631	17,122,945
Inventories - net	8,012,866	8,759,165
Derivative asset	15,891	30,900
Other current assets	4,446,193	3,900,052
<b>Total Current Assets</b>	<b>73,089,906</b>	<b>65,931,252</b>
<b>Noncurrent Assets</b>		
Investments in and advances to associates	52,378,680	47,906,352
Property, plant, and equipment - net	121,036,329	112,721,907
Intangible asset - service concession right	3,464,070	3,663,275
Land and improvements	2,319,311	2,041,356
Investment properties - net	3,995,578	3,940,854
Trade receivables - net of current portion	321,040	405,544
Available-for-sale (AFS) investments	67,979	64,980
Net pension asset	75,876	99,996
Deferred income tax assets	379,540	610,314
Goodwill	1,770,102	1,334,878
Other noncurrent assets - net	10,857,538	8,367,366
<b>Total Noncurrent Assets</b>	<b>196,666,043</b>	<b>181,156,823</b>
<b>TOTAL ASSETS</b>	<b>269,755,949</b>	<b>247,088,075</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Bank loans	6,002,278	3,959,509
Trade and other payables	17,121,468	18,499,480
Income tax payable	1,026,005	444,290
Current portion of long-term debt	935,406	1,216,469
Current portion of obligations on Power Distribution System	40,000	40,000
Current portion of obligations under finance lease	780,905	780,905
Derivative liabilities	-	23
<b>Total Current Liabilities</b>	<b>25,906,062</b>	<b>24,940,676</b>
<b>Noncurrent Liabilities</b>		
Obligations under finance lease - net of current portion	54,091,314	54,421,858
Long-term debt - net of current portion	50,892,052	34,984,519
Obligations on Power Distribution System - net of current portion	247,978	223,865
Customers' deposits	5,936,290	5,418,458
Trade payables - net of current	375,535	465,104
Asset retirement obligation - net of current portion	2,100,888	2,008,669
Net pension liability	618,830	704,640
Deferred income tax liability	1,618,239	1,370,814
<b>Total Noncurrent Liabilities</b>	<b>115,881,126</b>	<b>99,597,927</b>
<b>Total Liabilities</b>	<b>141,787,188</b>	<b>124,538,603</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock	5,694,600	5,694,600
Additional paid-in capital	6,902,518	6,110,957
Net unrealized mark-to-market gains on AFS investments	16,221	7,880
Actuarial losses on retirement benefit obligation	(815,352)	(857,602)
Cumulative translation adjustments	(14,534)	(14,534)
Share in cumulative translation adjustments of associates	(192,841)	(295,546)
Share in actuarial losses on retirement benefit obligation of associates	(222,284)	(156,925)
Share in net unrealized mark-to-market losses on AFS investments and underwriting accounts of an associate	(2,579,019)	(3,403,534)
Gain on dilution	5,376,176	5,376,176
Acquisition of non-controlling interest	(1,424,807)	(1,262,862)
Excess of book value over acquisition cost of an acquired subsidiary	469,540	469,540
Retained earnings	90,870,785	86,554,345
Treasury stock at cost	(1,169,871)	(1,295,163)
	<b>102,911,132</b>	<b>96,927,333</b>
<b>Non-controlling Interests</b>	<b>25,057,629</b>	<b>25,622,139</b>
<b>Total Equity</b>	<b>127,968,761</b>	<b>122,549,471</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>269,755,949</b>	<b>247,088,075</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

For the nine months ended September 30, 2014 and September 30, 2013

(Amounts in thousands, except earnings per share amounts)

	Jan-Sept 2014 Unaudited	Jan-Sept 2013 Unaudited	Jul-Sept 2014 Unaudited	Jul-Sept 2013 Unaudited
<b>REVENUES</b>	<b>82,412,242</b>	58,976,892	<b>28,081,679</b>	20,161,879
<b>COSTS AND EXPENSES</b>	<b>63,052,875</b>	41,582,682	<b>21,571,418</b>	14,892,293
<b>OPERATING PROFIT</b>	<b>19,359,367</b>	17,394,210	<b>6,510,262</b>	5,269,586
<b>OTHER INCOME (CHARGES)</b>				
Share in net earnings of associates	<b>5,115,175</b>	7,450,339	<b>2,210,878</b>	2,127,445
Interest income	<b>343,268</b>	351,405	<b>119,043</b>	63,075
Interest expense	<b>(4,736,841)</b>	(4,699,208)	<b>(1,354,723)</b>	(1,362,450)
Other income (charges) - net	<b>1,429,632</b>	379,021	<b>(416,009)</b>	114,453
	<b>2,151,235</b>	3,481,557	<b>559,189</b>	942,523
<b>INCOME BEFORE INCOME TAX</b>	<b>21,510,602</b>	20,875,768	<b>7,069,450</b>	6,212,109
<b>PROVISION FOR INCOME TAX</b>	<b>3,215,477</b>	643,635	<b>936,847</b>	352,729
<b>NET INCOME</b>	<b>18,295,124</b>	20,232,132	<b>6,132,604</b>	5,859,380
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent	<b>14,255,808</b>	16,558,399	<b>4,770,676</b>	4,643,223
Non-controlling interests	<b>4,039,316</b>	3,673,733	<b>1,361,928</b>	1,216,157
	<b>18,295,124</b>	20,232,132	<b>6,132,604</b>	5,859,380
<b>Earnings Per Common Share</b>				
Basic and diluted, for net income for the period attributable to ordinary holders of the parent	<b>2.578</b>	2.999	<b>0.860</b>	0.841

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the nine months ended September 30, 2014 and September 30, 2013  
(Amounts in thousands)

	Jan-Sept 2014 Unaudited	Jan-Sept 2013 Unaudited	Jul-Sept 2014 Unaudited	Jul-Sept 2013 Unaudited
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the parent	14,255,808	16,558,399	4,770,676	4,643,223
Non-controlling interests	4,039,316	3,673,733	1,361,928	1,216,157
	<b>18,295,124</b>	<b>20,232,132</b>	<b>6,132,604</b>	<b>5,859,380</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Items that may be reclassified to consolidated statements of income:</i>				
Share in movement in net unrealized mark-to-market losses on AFS investments of an associate	824,516	(3,656,454)	(219,784)	(877,993)
Share in movement in cumulative translation adjustments of associates	119,897	78,168	136,472	(1,439)
Movement in cumulative translation adjustments	11,903	108,974	55,674	(240,098)
Movement in net unrealized mark-to-market gains on AFS investments	3,000	(8,690)	706	(1,523)
	<b>959,316</b>	<b>(3,478,002)</b>	<b>(26,931)</b>	<b>(1,121,053)</b>
<i>Items that will not be reclassified to consolidated statements of income:</i>				
Movement in actuarial losses on defined benefit plans	42,250	-	(44)	-
Share in movement in actuarial losses on defined benefit plans of associates	(69,786)	-	-	-
	<b>(27,536)</b>	<b>-</b>	<b>(44)</b>	<b>-</b>
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>931,780</b>	<b>(3,478,002)</b>	<b>(26,975)</b>	<b>(1,121,053)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>19,226,904</b>	<b>16,754,130</b>	<b>6,105,629</b>	<b>4,738,327</b>
<b>ATTRIBUTABLE TO:</b>				
Equity holders of the parent	15,168,261	13,040,853	4,701,255	3,523,010
Non-controlling interests	4,058,644	3,713,277	1,404,374	1,215,317
	<b>19,226,904</b>	<b>16,754,130</b>	<b>6,105,629</b>	<b>4,738,327</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the nine months ended September 30, 2014 and September 30, 2013  
(Amounts in thousands)

	Jan-Sept 2014	Jan-Sept 2013	Jul-Sept 2014	Jul-Sept 2013
	Unaudited	Unaudited	Unaudited	Unaudited
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Income before income tax	21,510,602	20,875,768	7,069,450	6,212,109
Adjustments for:				
Interest expense	4,736,841	4,699,208	1,354,723	1,362,450
Depreciation and amortization	3,772,142	3,169,636	1,340,167	1,203,172
Unrealized foreign exchange loss	265,155	1,558,182	703,613	211,964
Provision for impairment loss on receivables	18,092	13,546	9,633	6,916
Amortization of computer softwares and other intangibles	12,344	-	2,400	(10,730)
Unrealized fair valuation losses (gains) on derivatives	257	(4,519)	-	(4,204)
Reversal of provision for losses on investments & advances	-	(26,225)	-	(26,225)
Dividend income	(89)	(324)	(24)	(9)
Gain on sale of property, plant & equipment	(8,431)	(45,025)	(1,304)	(10,499)
Interest income	(343,268)	(351,405)	(119,043)	(63,075)
Gain on sale of investments in shares of stock	(523,181)	(1,298,760)	(4,904)	(26,617)
Share in net earnings of associates	(5,115,175)	(7,450,339)	(2,210,878)	(2,127,445)
Operating income before working capital changes	24,325,289	21,139,744	8,143,833	6,727,807
Changes in:				
Decrease (increase) in operating current assets	(51,194)	(329,397)	86,445	1,094,569
Increase (decrease) in operating current liabilities	(865,444)	2,269,684	(825,061)	1,829,627
Net cash generated from operations	23,408,651	23,080,031	7,405,217	9,652,003
Income and final taxes paid	(2,109,255)	(840,785)	(634,022)	(326,122)
Net cash flows from operating activities	21,299,395	22,239,246	6,771,195	9,325,881
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Dividends received	3,651,813	3,292,897	1,158,448	477,507
Proceeds from sale of investments in shares of stock	637,732	9,851	31,599	9,851
Interest received	335,056	415,277	92,162	57,811
Collection of (payments for) advances to associates	88,000	25,200	(0)	(349,691)
Disposals (acquisitions) of available for sale investments	5,342	(24,538)	1	(39,374)
Decrease (increase) in intangible assets	(25,124)	203,005	(8,555)	148,160
Disposal (acquisition) of land and improvements	(277,955)	239,637	(1,789)	(568)
Disposal (acquisition) of subsidiaries, inclusive (exclusive) of cash of acquired (deconsolidated) subsidiaries	(597,506)	3,418,631	(851,850)	-
Decrease in acquisition of minority interest	(1,010,697)	(12,913)	-	(12,913)
Increase in other assets	(1,852,318)	(1,296,127)	(775,096)	(730,432)
Additions to investments in associates	(2,497,857)	(1,823,518)	(19)	(1,394,652)
Acquisitions of property, plant and equipment - net	(11,811,173)	(9,488,937)	(2,776,293)	(4,358,903)
Net cash flows used in investing activities	(13,354,688)	(5,041,534)	(3,131,392)	(6,193,204)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Proceeds from (payments of) bank loans	2,324,678	(82,884)	(787,122)	1,398,111
Proceeds from (payments of) long-term debt	15,696,382	(12,247,430)	10,916,370	132,965
Payments of finance lease obligation	(5,150,340)	(5,020,977)	(1,710,735)	(1,706,395)
Payments of payable to preferred shareholders of a subsidiary	-	(31,070)	-	-
Cash dividends paid to equity holders of the parent	(9,939,369)	(11,043,744)	-	-
Cash dividends and other accounts paid to non-controlling interest	(3,905,253)	(3,390,713)	(433,855)	(185,912)
Interest paid	(840,466)	(422,047)	(396,636)	211,309
Increase (decrease) in derivative liabilities	916,853	(40,587)	-	7,762
Re-issuance of treasury shares	-	-	916,853	-
Net cash flows from (used in) financing activities	(897,515)	(32,279,451)	8,504,875	(142,160)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,047,192</b>	<b>(15,081,738)</b>	<b>12,144,677</b>	<b>2,990,517</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH &amp; CASH EQUIVALENTS</b>	<b>30,943</b>	<b>(545,455)</b>	<b>55,431</b>	<b>(563,258)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>36,118,190</b>	<b>33,730,531</b>	<b>30,996,217</b>	<b>15,676,079</b>
<b>CASH AND SHORT-TERM INVESTMENTS AT END OF PERIOD</b>	<b>43,196,325</b>	<b>18,103,338</b>	<b>43,196,325</b>	<b>18,103,338</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
For the nine months ended September 30, 2014 and year ended December 31, 2013

	Attributable to owners of the parent																
	Share Capital		Additional Paid-in Capital	Net Unrealized Mark-to-market Gains (Losses) on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Mark-to-market Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Actuarial Losses on Defined Benefit Plans	Share in Actuarial Losses on Defined Benefit Plans of Associates	Excess of Book Value over Acquisition Cost of an Acquired Subsidiary	Gain on Dilution	Acquisition of Non-controlling Interests	Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total
	Common	Preferred															
<b>Balances at December 31, 2013</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>7,880</b>	<b>(14,534)</b>	<b>(295,546)</b>	<b>(3,403,534)</b>	<b>(857,602)</b>	<b>(156,925)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,262,862)</b>	<b>86,554,345</b>	<b>(1,295,163)</b>	<b>96,927,333</b>	<b>25,622,139</b>	<b>122,549,471</b>
Net income for the period				8,341	0	102,705	824,516	42,250	(65,359)				14,255,808		14,255,808	4,039,316	18,295,124
Other comprehensive income				8,341	0	102,705	824,516	42,250	(65,359)				912,452		912,452	19,328	931,780
Total comprehensive income for the period	-	-	-	8,341	0	102,705	824,516	42,250	(65,359)	-	-	-	14,255,808	-	15,168,261	4,058,644	19,226,904
Excess of acquisition cost over carrying value of non-controlling interests												(161,945)			(161,945)		(161,945)
Changes in non-controlling interests															-	(717,900)	(717,900)
Sale of treasury shares			791,561											125,293	916,853		916,853
Cash dividends - P1.80 per share													(9,939,369)		(9,939,369)		(9,939,369)
Cash dividends paid to non-controlling interests															-	(3,905,253)	(3,905,253)
<b>Balances at September 30, 2014</b>	<b>5,694,600</b>	<b>-</b>	<b>6,902,518</b>	<b>16,221</b>	<b>(14,534)</b>	<b>(192,841)</b>	<b>(2,579,019)</b>	<b>(815,352)</b>	<b>(222,284)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,424,807)</b>	<b>90,870,784</b>	<b>(1,169,871)</b>	<b>102,911,133</b>	<b>25,057,629</b>	<b>127,968,761</b>

	Attributable to owners of the parent																
	Share Capital		Additional Paid-in Capital	Net Unrealized Mark-to-market Gains (Losses) on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Mark-to-market Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Actuarial Losses on Defined Benefit Plans	Share in Actuarial Losses on Defined Benefit Plans of Associates	Excess of Book Value over Acquisition Cost of an Acquired Subsidiary	Gain on Dilution	Acquisition of Non-controlling Interests	Retained Earnings	Treasury Stock	Total	Non-controlling Interests	Total
	Common	Preferred															
<b>Balances at January 1, 2013, as previously reported</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>4,851</b>	<b>(132,763)</b>	<b>(648,552)</b>	<b>850,631</b>			<b>469,540</b>	<b>5,376,176</b>	<b>(1,165,931)</b>	<b>76,257,409</b>	<b>(1,295,163)</b>	<b>91,521,755</b>	<b>21,981,510</b>	<b>113,503,265</b>
Effect of changes in accounting for employee benefits								(421,990)	(322,531)				313,210		(431,311)	(73,665)	(504,976)
<b>Balances at January 1, 2013, as restated</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>4,851</b>	<b>(132,763)</b>	<b>(648,552)</b>	<b>850,631</b>	<b>(421,990)</b>	<b>(322,531)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,165,931)</b>	<b>76,570,619</b>	<b>(1,295,163)</b>	<b>91,090,444</b>	<b>21,907,845</b>	<b>112,998,289</b>
Net income for the year													21,027,470		21,027,470	5,180,767	26,208,237
Other comprehensive income				3,030	118,229	353,006	(4,254,165)	(435,612)	165,606				(4,049,906)		(4,049,906)	107,761	(3,942,145)
Total comprehensive income for the year	-	-	-	3,030	118,229	353,006	(4,254,165)	(435,612)	165,606	-	-	-	21,027,470	-	16,977,564	5,288,528	22,266,092
Excess of acquisition cost over carrying value of non-controlling interests												(96,931)			(96,931)	13,045	(83,886)
Changes in non-controlling interests															-	2,343,075	2,343,075
Cash dividends - P2 per share													(11,043,744)		(11,043,744)		(11,043,744)
Cash dividends paid to non-controlling interests															-	(3,930,354)	(3,930,354)
<b>Balances at December 31, 2013</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>7,881</b>	<b>(14,534)</b>	<b>(295,546)</b>	<b>(3,403,534)</b>	<b>(857,602)</b>	<b>(156,925)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,262,862)</b>	<b>86,554,345</b>	<b>(1,295,163)</b>	<b>96,927,333</b>	<b>25,622,139</b>	<b>122,549,472</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
For the nine months ended September 30, 2013

	Attributable to owners of the parent																
	Share Common	Capital Preferred	Additional Paid-in Capital	Net Unrealized Mark-to- market Gains (Losses) on AFS Investments	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates	Share in Net Unrealized Mark-to- market Gains (Losses) on AFS Investments & Underwriting Accounts of an Associate	Actuarial Losses on Defined Benefit Plans	Share in Actuarial Losses on Defined Benefit Plans of Associates	Excess of Book Value over Acquisition Cost of an Acquired Subsidiary	Gain on Dilution	Acquisition of Non- controlling Interests	Retained Earnings	Treasury Stock	Total	Non- controlling Interests	Total
<b>Balances at January 1, 2012, as previously reported</b>	5,694,600	-	6,110,957	4,852	(132,763)	(648,552)	850,631	-	-	469,540	5,376,176	(1,165,931)	76,257,409	(1,295,163)	91,521,756	21,981,510	113,503,266
Effect of changes in accounting for employee benefits								(421,990)	(322,531)				313,210		(431,312)	(73,665)	(504,977)
<b>Balances at January 1, 2012, as restated</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>4,852</b>	<b>(132,763)</b>	<b>(648,552)</b>	<b>850,631</b>	<b>(421,990)</b>	<b>(322,531)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,165,931)</b>	<b>76,570,619</b>	<b>(1,295,163)</b>	<b>91,090,444</b>	<b>21,907,845</b>	<b>112,998,289</b>
<b>Changes in equity for Jan-Sept 2013:</b>																	
Net income for the year													16,558,399		16,558,399	3,673,733	20,232,132
Other comprehensive income				1,045	84,676	60,058	(3,663,326)								(3,517,547)	39,544	(3,478,002)
Total comprehensive income for the year				1,045	84,676	60,058	(3,663,326)						16,558,399		13,040,853	3,713,277	16,754,130
Excess of acquisition cost over carrying value of non-controlling interests														(12,913)	(12,913)		(12,913)
Changes in non-controlling interests																(57,757)	(57,757)
Cash dividends - P2 per share													(11,043,744)		(11,043,744)		(11,043,744)
Cash dividends paid to non-controlling interests																(3,390,115)	(3,390,115)
<b>Balances at September 30, 2013</b>	<b>5,694,600</b>	<b>-</b>	<b>6,110,957</b>	<b>5,897</b>	<b>(48,088)</b>	<b>(588,494)</b>	<b>(2,812,695)</b>	<b>(421,990)</b>	<b>(322,531)</b>	<b>469,540</b>	<b>5,376,176</b>	<b>(1,178,844)</b>	<b>82,085,275</b>	<b>(1,295,163)</b>	<b>93,074,640</b>	<b>22,173,251</b>	<b>115,247,891</b>

**ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES**  
**FINANCIAL STATEMENT SCHEDULES AND DISCLOSURES**  
(peso amounts in thousands)

**A. COMPONENTS OF OTHER COMPREHENSIVE INCOME**

	<b>Jan-Sept 2014</b>		<b>Jan-Sept 2013</b>	
Available-for-sale financial assets:				
Net unrealized valuation gains (losses) arising during the period	<b>3,000</b>		(8,690)	
Less: Reclassification adjustments for losses included in profit or loss	<u>-</u>	<b>3,000</b>	<u>-</u>	(8,690)
Exchange differences in translating foreign-denominated transactions		<b>131,800</b>		187,142
Share in movement in net unrealized mark-to-market losses on AFS investments of an associate		<b>824,516</b>		(3,656,454)
Movement in actuarial losses on defined benefit plans		<b>60,357</b>		-
Share in movement in actuarial losses on defined benefit plans of associates		<b>(99,695)</b>		-
Other comprehensive income (loss)		<b>919,978</b>		(3,478,002)
Income tax relating to components of other comprehensive income		<b>11,801</b>		-
<b>Other comprehensive income (loss) for the period</b>		<b>931,780</b>		<b>(3,478,002)</b>

**B. TAX EFFECTS RELATING TO EACH COMPONENT OF OTHER COMPREHENSIVE INCOME**

	<b>Jan-Sept 2014</b>			<b>Jan-Sept 2013</b>		
	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Available-for-sale financial assets	<b>3,000</b>	-	<b>3,000</b>	(8,690)	-	(8,690)
Exchange differences in translating foreign-denominated transactions	<b>131,800</b>	-	<b>131,800</b>	187,142	-	187,142
Share in movement in net unrealized mark-to-market losses on AFS investments of an associate	<b>824,516</b>	-	<b>824,516</b>	(3,656,454)	-	(3,656,454)
Movement in actuarial losses on defined benefit plans	<b>60,357</b>	<b>(18,107)</b>	<b>42,250</b>	-	-	-
Share in movement in actuarial losses on defined benefit plans of associates	<b>(99,695)</b>	<b>29,908</b>	<b>(69,786)</b>	-	-	-
<b>Other comprehensive income (loss) for the period</b>	<b>919,978</b>	<b>11,801</b>	<b>931,780</b>	(3,478,002)	-	(3,478,002)

**C. INVESTMENTS AND ADVANCES**

	% OWNERSHIP		December 31, 2013
	September 30, 2014	September 30, 2014	
Investments in shares of stock			
At equity			
Acquisition cost:			
Union Bank of the Philippines	47.43%	9,142,451	9,142,451
Manila Oslo Renewable Enterprise, Inc. (MORE)	83.33%	9,000,183	9,000,183
STEAG State Power Inc.	34.00%	4,400,611	4,400,611
Cebu Energy Development Corp.	26.40%	2,438,621	2,438,621
Cebu District Property Enterprise, Inc. *	50.00%	1,500,000	-
Pagbilao Energy Corp.	50.00%	997,838	-
Hijos de Escaño, Inc.	46.73%	858,070	858,070
Accuria, Inc. *	49.54%	719,739	719,739
Redondo Peninsula Energy Corporation *	25.00%	431,149	431,149
Pampanga Energy Ventures, Inc.	42.84%	209,465	209,465
San Fernando Electric Light & Power Co., Inc.	43.78%	180,864	180,864
East Asia Utilities Corporation	50.00%	180,616	180,616
Western Mindanao Power Corporation	20.00%	79,099	79,099
Southern Philippines Power Corporation	20.00%	45,776	72,471
JAIB, Inc. *	49.00%	1,884	1,884
A2 Airport *	50.00%	20	-
Cebu International Container Terminal, Inc. *	0.00%		246,654
Jebsens People Solutions AS	0.00%		3,600
Norsephil Marine			2,750
Balance at end of period		30,186,386	27,968,228
Accumulated share in net earnings:			
Balance, beginning of year, as previously reported		23,143,839	20,483,092
Effect of changes in accounting for employee benefits		-	52,918
Balances at end of year, as restated		23,143,839	20,536,010
Share in net earnings for the period		5,115,175	10,596,577
Disposals during the period		4,081	(4,971)
Step-acquisition to subsidiary		-	(740,350)
Eliminated gain on sale of a subsidiary		10	(1,033,295)
Cash dividends received and receivable		(3,651,724)	(6,210,132)
Balance, end of period		24,611,381	23,143,839
Gain on dilution		1,014,136	1,014,136
Share in net unrealized mark-to-market losses on available-for-sale investments of an associate		(2,558,589)	(3,383,105)
Share in actuarial losses on retirement benefit obligation of associates		(256,657)	(186,871)
Share in cumulative translation adjustments of associates		(268,660)	(388,557)
		52,727,998	48,167,670
Allowance for impairment losses		(680,731)	(680,731)
<b>Investments, at equity</b>		<b>52,047,267</b>	<b>47,486,939</b>
<b>Advances to investees</b>		<b>331,413</b>	<b>419,413</b>
		<b>52,378,680</b>	<b>47,906,352</b>

\* No commercial operations.

The Group does not consolidate MORE because of absence of control resulting from the shareholders' agreement which, among others, stipulate the management and operation of MORE. The management of MORE is vested in its BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include significant financial and operating undertakings.

**D. ACCOUNTS PAYABLE & ACCRUED EXPENSES - CURRENT**

	September 30, 2014	December 31, 2013
Trade	8,065,895	8,052,295
Others	9,055,573	10,447,185
<b>TOTAL</b>	<b>17,121,468</b>	<b>18,499,480</b>



**E. SHORT-TERM LOANS**

	Interest Rate	September 30, 2014	Interest Rate	December 31, 2013
Financial institutions - unsecured:				
Peso loans	1.9% - 3.5%	5,921,400	1.75% - 4.25%	3,677,601
US dollar loans	4.80%	80,878	4.00% - 4.13%	281,908
		<b>6,002,278</b>		<b>3,959,509</b>

**F. LONG-TERM LOANS**

	Effective Interest Rate	September 30, 2014	Effective Interest Rate	December 31, 2013
<b>Company:</b>				
Financial institutions - unsecured Peso denominated loans	4.41% - 5.23%	9,191,000	4.41% - 5.23%	9,191,000
<b>Subsidiaries:</b>				
<b>AP and subsidiaries:</b>				
AP Parent				
Financial and non-institutions - unsecured CPPC	5.21% - 6.10%	10,000,000		0
Financial institutions - unsecured HEDCOR, INC.				
Financial institution - secured DLPC	5.25%	810,000	5.25%	900,000
Financial institution - unsecured SEZC	3.50% to 4.81%	1,500,000	3.50% to 4.81%	1,500,000
Financial institution - unsecured LHC	5.61% - 6.06%	395,500	5.61% - 6.06%	452,000
Financial institution - secured TSI	2% to 2.75%	1,882,506	2% to 2.75%	1,978,240
Financial institution - secured VECO	4.50% to 5.14%	21,631,006	4.50% to 5.00%	16,437,658
Financial institution - unsecured Non-financial institution - secured CLPC	3.50% - 4.81%	2,000,000	3.50% - 4.81% 6.20%	2,000,000 48,010
Financial institution - unsecured	3.50% to 4.81%	300,000	3.50% to 4.81%	300,000
		<b>38,519,012</b>		<b>23,615,908</b>
Less deferred financing costs		<b>418,328</b>		<b>327,969</b>
		<b>38,100,684</b>		<b>23,287,939</b>
<b>PILMICO and subsidiary:</b>				
PILMICO				
Financial institutions - secured PANC	5.35% - 5.65%	1,736,000	5.65%	1,386,000
Financial institution - secured	6.47%	600,000	6.47%	600,000
		<b>2,336,000</b>		<b>1,986,000</b>
Less deferred financing costs		<b>6,780</b>		<b>8,111</b>
		<b>2,329,220</b>		<b>1,977,889</b>
<b>Aboitizland and subsidiaries:</b>				
Financial institutions:				
Peso loans - secured	4.67% - 6.89%	187,500	4.67% - 6.89%	210,000
Peso loan - unsecured	7.56% - 7.68%	585,405	7.56% - 7.68%	788,000
Dollar loan - secured	1.31% - 1.59%	137,149	1.31% - 1.59%	151,963
		<b>910,054</b>		<b>1,149,963</b>
Less deferred financing costs				<b>5,803</b>
		<b>910,054</b>		<b>1,144,160</b>
<b>Aseagas</b>				
Financial institutions	4.93% - 5.06%	696,500		0
		<b>696,500</b>		<b>0</b>
<b>Cebu Praedia Development Corp.</b>				
Financial institutions	3.68% - 5.11%	600,000	3.68% - 5.11%	600,000
		<b>600,000</b>		<b>600,000</b>
Total		<b>51,827,458</b>		<b>36,200,988</b>
Less: Current portion		<b>935,406</b>		<b>1,216,469</b>
		<b>50,892,052</b>		<b>34,984,519</b>

**G. DEBT SECURITIES**

As of September 30, 2014, AEV and AP parent companies registered and issued peso-denominated fixed-rate retail bonds totalling P18 billion under the following terms:

MATURITY	ISSUER	INTEREST RATE	AMOUNT
7-year bonds to mature on November 21, 2020	AEV Parent	4.4125% p.a.	6,200,000
10-year bonds to mature on November 21, 2023	AEV Parent	4.6188% p.a.	1,800,000
10-year bonds to mature on September 10, 2021	AP Parent	5.21%/p.a.	6,634,370
12-year bonds to mature on September 10, 2026	AP Parent	6.10%/p.a.	3,365,630

**H. EARNINGS PER SHARE**

Earnings per common share amounts were computed as follows:

	SEPT 2014	SEPT 2013
a. Net income attributable to equity holders of the parent	14,255,808	16,558,399
b. Average number of outstanding shares	5,530,226,564	5,521,871,821
c. Earnings per share (a/b)	2.578	2.999

## I. BUSINESS SEGMENT INFORMATION

Financial information on the operations of the business segment is summarized as follows:

	Power		Financial Services		Food Manufacturing		Real Estate		Parent Company and Others		Eliminations		Consolidated	
	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013
<b>REVENUES</b>	<b>66,161,083</b>	45,057,932	-	-	<b>13,215,270</b>	12,295,630	<b>2,585,032</b>	936,179	<b>699,460</b>	875,530	<b>(248,603)</b>	(188,379)	<b>82,412,242</b>	58,976,892
<b>RESULT</b>														
Segment results	17,762,749	15,991,804	-	-	986,160	1,264,170	645,366	218,706	(34,908)	(80,470)	-	-	19,359,367	17,394,210
Unallocated corporate income	430,435	(1,060,157)	-	-	428,315	835,364	(115,747)	3,146	686,629	600,669	-	-	1,429,632	379,021
<b>INCOME FROM OPERATIONS</b>													<b>20,788,999</b>	17,773,232
Interest Expense	(4,201,122)	(4,377,470)	-	-	(119,436)	(133,137)	(39,129)	(27,904)	(377,154)	(160,697)	-	-	(4,736,841)	(4,699,208)
Interest Income	268,144	308,778	-	-	11,414	6,686	15,127	10,661	48,583	25,280	-	-	343,268	351,405
Share in net earnings of associates	2,743,851	4,117,896	2,371,494	3,313,710	-	-	-	-	11,631,171	12,926,478	(11,631,341)	(12,907,746)	5,115,175	7,450,339
Provision for Income tax	(2,807,330)	(385,757)	-	-	(364,277)	(225,511)	(36,050)	(10,484)	(7,820)	(21,883)	-	-	(3,215,477)	(643,635)
<b>NET INCOME</b>													<b>18,295,124</b>	20,232,132
<b>OTHER INFORMATION</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>	<b>Sept 2014</b>	<b>Dec 2013</b>
Segment assets	52,561,386	49,030,751	-	-	6,746,083	5,836,979	6,069,908	4,862,378	7,712,529	6,421,203	-	(220,060)	73,089,906	65,931,252
Investments and advances	26,759,573	25,330,356	24,466,334	22,674,150	-	-	1,500,020	-	80,679,178	79,098,268	(81,026,425)	(79,196,422)	52,378,681	47,906,352
Unallocated corporate assets	129,306,165	119,587,709	-	-	3,410,273	3,311,668	6,521,361	7,643,936	5,049,650	2,707,159	(88)	-	144,287,362	133,250,471
<b>Consolidated total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>269,755,949</b>	247,088,075
Segment liabilities	115,001,383	100,976,998	-	-	6,935,425	4,426,573	4,761,787	4,751,414	11,800,010	12,058,318	25,509	(194,444)	138,524,114	122,018,859
Unallocated corporate liabilities	2,593,611	1,711,062	-	-	185,006	178,325	475,276	533,845	9,180	96,512	-	-	3,263,074	2,519,744
<b>Consolidated total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>141,787,188</b>	124,538,603
	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013	Jan-Sept 2014	Jan-Sept 2013
<b>Depreciation and amortization</b>	<b>3,427,640</b>	2,837,182	-	-	<b>252,541</b>	219,507	<b>8,635</b>	4,897	<b>95,670</b>	108,050	<b>3,784,486</b>	3,169,636	<b>3,784,486</b>	3,169,636

## J. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, AFS investments, bank loans, long-term debt, obligations under finance lease and non-convertible, cumulative, redeemable preferred shares. The main purpose of these financial instruments is to raise finances for the Group's operations and its investments in existing subsidiaries and associates and in new projects. The Group has other financial assets and liabilities such as trade and other receivables, trade and other payables and customer deposits which arise directly from operations.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings. The Board of Directors reviews and agrees policies for managing each of these risks and they are summarized below.

**Interest rate risk.** The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of September 30, 2014, 3.86% of the Group's long-term debt had floating interest rates ranging from 1.31% to 2.75%, and 96.14% are with fixed rates ranging from 3.50% to 7.68%. As of December 31, 2013, 5.84% of the Group's long-term debt had floating interest rates ranging from 1.31% to 2.75%, and 94.16% are with fixed rates ranging from 3.50% to 7.68%.

The following table set out the carrying amount, by maturity, of the Group's financial instruments that are exposed to interest rate risk:

### As of September 30, 2014

	< 1 year	1 - 5 years	> 5 years	Total
Floating rate - long-term debt	246,168	1,353,026	400,822	2,000,016
Fixed rate - long-term debt	689,238	10,595,371	38,542,833	49,827,442
	<b>935,406</b>	<b>11,948,397</b>	<b>38,943,655</b>	<b>51,827,458</b>

### As of December 31, 2013

	< 1 year	1 - 5 years	> 5 years	Total
Floating rate - long-term debt	281,211	1,336,500	495,004	2,112,715
Fixed rate - long-term debt	935,258	8,169,731	24,983,284	34,088,273
	1,216,469	9,506,231	25,478,288	36,200,988

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Interest expenses recognized during the comparative periods are as follows:

	JAN-SEPT 2014	JAN-SEPT 2013
Long term debt	737,291	545,565
Bank loans	95,930	114,547
Customers' deposits	2,294	20,328
Obligations under finance lease	3,784,994	3,977,929
Long-term obligation on PDS and others	116,332	24,767
Payable to preferred shareholder of a subsidiary		16,072
	<b>4,736,841</b>	<b>4,699,208</b>

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) as of September 30, 2014 and 2013:

	Increase/decrease in basis points	Effect on income before tax
<b>SEPT 30, 2014</b>	<b>200</b>	<b>(29,918)</b>
	<b>(100)</b>	<b>14,959</b>
SEPT 30, 2013	200	(16,726)
	(100)	8,363

**Foreign exchange risk.** The foreign exchange risk of the Group pertains significantly to its foreign currency denominated borrowings, including obligations under finance lease. To mitigate the risk of incurring foreign exchange losses, foreign currency holdings are matched against the potential need for foreign currency in financing equity investments and new projects. As of September 30, 2014 and December 31, 2013, foreign currency denominated borrowings account for 26.49% and 31.79%, respectively, of total consolidated borrowings.

	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
	US Dollar	Peso Equivalent <sup>1</sup>	US Dollar	Peso Equivalent <sup>2</sup>
<b>Current Financial Assets</b>				
Cash and cash equivalents	83,186	3,732,994	61,080	2,711,647
Trade and other receivables	9,696	435,111	17,430	773,793
<b>Total Financial Assets</b>	<b>92,882</b>	<b>4,168,105</b>	<b>78,510</b>	<b>3,485,439</b>
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
<b>Current Financial Liabilities</b>				
Bank loans	1,802	80,878	6,350	281,908
Trade and other payables	46,302	2,077,812	9,363	415,677
Long-term debt	44,569	2,000,015	48,801	2,166,528
Obligations under finance lease	618,801	27,768,695	627,812	27,871,714
<b>Total Financial Liabilities</b>	<b>711,474</b>	<b>31,927,400</b>	<b>692,326</b>	<b>30,735,828</b>
<b>Net foreign currency denominated assets (liabilities)</b>	<b>(618,592)</b>	<b>(27,759,295)</b>	<b>(613,817)</b>	<b>(27,250,388)</b>
	<sup>1</sup> USD1 =	44.88		
	<sup>2</sup> USD1 =	44.40		

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's profit before tax as of September 30, 2014.

	Increase (decrease) in US dollar rate	Effect on income before income tax
US dollar denominated accounts	5%	(1,387,965)
US dollar denominated accounts	-5%	1,387,965

The increase in US dollar rate represents the depreciation of the Philippine peso while the decrease in US dollar rate represents appreciation of the Philippine peso.

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

**Equity price risk.** Equity price risk is the risk that the fair value of traded equity instruments decrease as the result of the changes in the levels of equity indices and the value of the individual stocks.

As of September 30, 2014 and 2013, the Group's exposure to equity price risk is minimal.

**Credit risk.** For its cash investments, AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash and AFS investments, the risk is mitigated by the short-term and or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to enter into transactions with a diversity of credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and has internal mechanism to monitor the granting of credit and management of credit exposures. The Group has no significant concentration risk to a counterparty or group of counterparties.

**Liquidity risk.** Liquidity risk is the risk that an entity in the Group will be unable to meet its obligations as they become due. The Group manages liquidity risk by effectively managing its working capital, capital expenditure and cash flows, making use of a centralized treasury function to manage pooled business unit cash investments and borrowing requirements. Currently the Group is maintaining a positive cash position, conserving the Group's cash resources through renewed focus on working capital improvement and capital reprioritization. The Group meets its financing requirements through a mixture of cash generated from its operations and short-term and long-term borrowings. Adequate banking facilities and reserve borrowing capacities are maintained. The Group is in compliance with all of the financial covenants per its loan agreements, none of which is expected to present a material restriction on funding or its investment policy in the near future. The Group has sufficient undrawn borrowing facilities, which could be utilized to settle obligations.

In managing its long-term financial requirements, the policy of the Group, is that not more than 25% of long term borrowings should mature in any twelve-month period. As of September 30, 2014 and December 31, 2013, the portion of the total long-term debt, inclusive of customers' deposits, that will mature in less than one year is 1.52% and 2.06%, respectively. For its short-term funding, the policy of the Group is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

Cash and cash equivalents and trade and other receivables, which are all short-term in nature, have balances of P43,196,325 and P17,739,671 as of September 30, 2014 and P36,118,190 and P17,528,489 as of December 31, 2013, respectively. These financial assets will be used to fund short-term and operational liquidity needs of the Group.

The following table analyzes the financial liabilities of the Group into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity. The amounts disclosed in the table are the contractual undiscounted cash flows:

**SEPTEMBER 30, 2014**

	Total Carrying Value	Contractual undiscounted principal payments				
		Total	On demand	Less than 1 year	1 to 5 years	> 5 years
<b>Financial Liabilities</b>						
<i>Operating</i>						
Trade and other payables *	14,871,921	14,871,920	1,532	14,870,388	-	-
Customers' deposits	5,936,290	5,936,290	-	-	-	5,936,290
<i>Financing</i>						
Bank loans	6,002,278	6,002,278	-	6,002,278	-	-
Long-term debt	51,827,458	52,245,786	-	935,406	11,948,397	39,361,983
Obligations under finance lease	54,872,219	96,303,944	-	7,847,937	33,381,132	55,074,875
Obligations on power distribution system	287,978	560,000	-	40,000	200,000	320,000
<b>Total</b>	<b>133,798,144</b>	<b>175,920,218</b>	<b>1,532</b>	<b>29,696,009</b>	<b>45,529,529</b>	<b>100,693,148</b>

**DECEMBER 31, 2013**

	Total Carrying Value	Contractual undiscounted payments				
		Total	On demand	Less than 1 year	1 to 5 years	> 5 years
<b>Financial Liabilities</b>						
<i>Operating</i>						
Trade and other payables *	16,229,255	15,927,566	7,655	15,915,397	4,514	-
Customers' deposits	5,418,458	5,418,458	-	10,239	25,319	5,382,900
<i>Financing</i>						
Bank loans	3,959,509	3,960,882	-	3,960,882	-	-
Long-term debt	36,200,988	46,960,871	-	2,452,259	14,420,378	30,088,233
Obligations under finance lease	55,202,763	100,967,891	-	6,307,366	41,256,215	53,404,310
Obligations on power distribution system	263,865	560,000	-	40,000	200,000	320,000
<i>Others</i>						
Derivative liabilities	23	23	-	23	-	-
<b>Total</b>	<b>117,274,861</b>	<b>173,795,691</b>	<b>7,655</b>	<b>28,686,167</b>	<b>55,906,426</b>	<b>89,195,443</b>

\* Excludes statutory liabilities

**Capital management.** Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the periods ended September 30, 2014 and December 31, 2013.

Certain entities within the Group that are registered with the Board of Investments are required to raise minimum amount of capital in order to avail of their registration incentives. As of September 30, 2014 and December 31, 2013, these entities have complied with this requirement as applicable.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below at the consolidated level. The Group determines net debt as the sum of interest-bearing short-term and long-term obligations (comprised of long-term debt, obligations under finance lease, redeemable preferred shares and payable to preferred shareholders of a subsidiary) less cash and short-term deposits and temporary advances to related parties.

Gearing ratios of the Group as of September 30, 2014 and December 31, 2013 are as follows:

	<u>SEPT 30, 2014</u>	<u>DEC 31, 2013</u>
Bank Loans	6,002,278	3,959,509
Long - term debt	106,699,677	91,403,751
Cash and cash equivalents	<u>(43,196,325)</u>	<u>(36,118,190)</u>
Net Debt (a)	69,505,630	59,245,070
Equity attributable to equity holders of the parent	<u>127,968,761</u>	<u>122,549,471</u>
Equity and Net Debt (b)	<u>197,474,391</u>	<u>181,794,541</u>
<b>Gearing Ratio (a/b)</b>	<u><b>35.20%</b></u>	<u><b>32.59%</b></u>

## K. FINANCIAL INSTRUMENTS

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments whose fair values are different from their carrying amounts.

	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial liabilities</b>				
<b>Other financial liabilities</b>				
Obligations on power distribution system	54,872,219	62,371,584	263,865	426,172
Obligations under finance leases	287,978	414,118	55,202,763	65,573,581
Long-term debt - fixed rate	49,827,442	48,676,247	34,088,273	34,261,679
<b>Total</b>	<b>104,987,639</b>	<b>111,461,949</b>	<b>89,554,901</b>	<b>100,261,432</b>

As of September 30, 2014 and December 31, 2013, the group does not have any investment in foreign securities nor has it issued any traded foreign-denominated debt securities.

### Fair Value of Financial Instruments

Fair value is defined as the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available, and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with an inactive market, its fair value is determined using a valuation technique (e.g., discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

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

#### *Cash and cash equivalents, trade and other receivables and trade and other payables*

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair value due to the relatively short-term maturity of these financial instruments.

#### *Fixed-rate borrowings*

The fair value of fixed-rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

#### *Variable-rate borrowings and Obligations under finance lease*

Where the repricing of the variable-rate interest-bearing loan is frequent (i.e., three-month repricing), the carrying value approximates the fair value. Otherwise, the fair value is determined by discounting the principal plus the known interest payment using current market rates.



### *Customers' deposits*

The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

### *Redeemable preferred shares*

The fair values of the redeemable preferred shares are based on the discounted value of future cash flows using the applicable rates for similar types of borrowings.

### *AFS investments*

The fair values of AFS investments are based on quoted market prices. The publicly-traded equity securities which are owned by the group are all actively traded in the stock market.

### *Obligations under Power Distribution System*

The fair value of long term obligation on power distribution system is calculated by discounting expected future cash flows at prevailing market rates.

### *Derivative asset and liabilities*

The fair value is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The Group enters into derivative financial instruments with financial institutions with investment grade credit ratings. Derivative valued using a valuation technique with market observable inputs pertains to a foreign exchange forward contract. The most applied valuation technique is forward pricing. The model incorporates various inputs including the credit quality of counterparty and foreign exchange spot and forward rates.

### Fair Value Hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments by valuation

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

As of September 30, 2014 and December 31, 2013, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

### **SEPTEMBER 30, 2014**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Carried at fair value:				
AFS investments	<b>14,634</b>	<b>14,634</b>	-	-
Derivative asset	<b>15,891</b>	.	<b>15,891</b>	-
Disclosed at fair value:				
Obligations under finance leases	<b>62,371,584</b>	.	-	<b>62,371,584</b>
Long-term debt - fixed rate	<b>48,764,220</b>	.	-	<b>48,764,220</b>
Obligations on power distribution system	<b>414,118</b>	.	-	<b>414,118</b>

### **DECEMBER 31, 2013**

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Carried at fair value:				
AFS investments	11,636	11,636	-	-
Derivative asset	30,900	-	30,900	-
Derivative liability	23	-	23	-
Disclosed at fair value:				
Obligations under finance leases	65,573,581	-	-	65,573,581
Long-term debt - fixed rate	34,261,679	-	-	34,261,679
Obligations on power distribution system	426,172	-	-	426,172

During the periods ended September 30, 2014 and December 31, 2013, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

*Derivative financial instruments*

The Group enters into non-deliverable short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases. It also enters into interest rate swap agreements to fully hedge its floating rate exposure on its foreign currency-denominated loans.

As of September 30, 2014 and December 31, 2013, the Group recognized derivative liability relating to these contracts amounting to P15.9 million and P30.9 million, respectively.

The movements in fair value changes of all derivative instruments for the year ended September 30, 2014 and December 31, 2013 are as follows:

	<b>SEPT 2014</b>	DEC 2013
At beginning of period	<b>30,877</b>	(26,542)
Net changes in fair value of derivatives designated as accounting hedges	<b>(14,315)</b>	29,173
Net changes in fair value of derivatives not designated as accounting hedges	<b>(257)</b>	394
Fair value of settled instruments	<b>(414)</b>	27,852
At end of period	<b>15,891</b>	30,877

The gain (loss) amounting to (P0.3 million) in 2014 and P0.4 million in 2013 from the net fair value changes relating to the forward contracts are included as "Foreign exchange gains - net" under "Other income - net". The changes in the fair value of the interest rate swap designated as a cash flow hedge were deferred in equity under "Cumulative translation adjustment."

## L. DISCLOSURES

### 1. Company Information and Basis of Financial Statements Preparation

#### Company Information

Aboitiz Equity Ventures, Inc. (the Company) was incorporated and is domiciled in the Republic of the Philippines. The Company and its subsidiaries (collectively referred to as the "Group") are engaged in various business activities mainly in the Philippines, including power generation and distribution, food manufacturing, banking and financial services, and real estate development. The Company is the publicly-listed holding and management company of the Group. The registered office address of the Company is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila Philippines. The parent and the ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

#### Basis of Preparation

The accompanying unaudited condensed consolidated financial statements include the accounts of Aboitiz Equity Ventures, Inc. (being referred to as "the Company") and its subsidiaries collectively referred to as "Group".

The unaudited consolidated financial statements are prepared on a historical cost basis, except for derivative financial instruments, AFS investments and investment properties which are measured at fair value, and agricultural produce and biological assets which are measured at fair value less estimated point-of-sale costs. These financial statements are presented in Philippine peso and all values are rounded to the nearest thousands, except for earnings per share and exchange rates and as otherwise indicated.

#### Statement of Compliance

The unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2013 annual audited consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2013.

On October 28, 2014, the Audit Committee of the Board of Directors approved and authorized the release of the accompanying unaudited condensed consolidated financial statements of Aboitiz Equity Ventures, Inc. and subsidiaries.

### 2. Summary of Significant Accounting Policies

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the new and revised PFRS and Philippine Interpretations which the Group has adopted starting January 1, 2014. Except as otherwise indicated, adoption of the following new and amended PFRS and Philippine Interpretations did not have any significant impact to the Group's consolidated financial statements:

- PAS 36, Impairment of Assets - Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and had no impact on the Group's financial position or performance.

- Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. This amendment is not relevant to the Group since none of the entities in the Group qualifies as an investment entity under PFRS 10.

- Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation

- PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

- PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

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

#### New Accounting Standards, Interpretations, and Amendments to Existing Standards Not Yet Effective as of January 1, 2014

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

- PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

- PFRS 9, Financial Instruments

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

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

After evaluating the impact of PFRS 9 and considering that it will not have any significant effect on the Group's operating results or financial condition, management has decided not to early adopt the said standard. It will be implemented only when it becomes effective on January 1, 2018. Thus, the interim consolidated financial statements do not reflect the impact of the said standard.

- Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

### 3. Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table .

	Nature of Business	SEPTEMBER 30, 2014		DECEMBER 31, 2013	
		Direct	Indirect	Direct	Indirect
Aboitiz Power Corporation (AP) and Subsidiaries	Power	<b>76.83%</b>	–	76.83%	–
Aboitiz Energy Solutions, Inc. (AESI)	Power	–	<b>100%</b>	–	100%
Balamban Enerzone Corporation (BEZ)	Power	–	<b>100</b>	–	100
Cotabato Ice Plant, Inc.	Manufacturing	–	<b>100</b>	–	100
Lima Utilities Corporation (LUC)	Power	–	<b>100</b>	–	–
Mactan Enerzone Corporation (MEZ)	Power	–	<b>100</b>	–	100
Subic Enerzone Corporation (SEZ)	Power	–	<b>100</b>	–	100
Cotabato Light & Power Co., Inc. (CLP)	Power	–	<b>99.94</b>	–	99.94
Davao Light & Power Co., Inc. (DLP)	Power	–	<b>99.93</b>	–	99.93
Visayan Electric Company (VECO)	Power	–	<b>55.26</b>	–	55.26
Aboitiz Renewables Inc. (ARI) and Subsidiaries	Power	–	<b>100</b>	–	100
AP Renewables, Inc. (APRI)	Power	–	<b>100</b>	–	100
Hedcor, Inc. (HI)	Power	–	<b>100</b>	–	100
Hedcor Mt. Province, Inc.	Power	–	<b>100</b>	–	100
Hedcor Benguet, Inc. (BHI)	Power	–	<b>100</b>	–	100
Hedcor Bukidnon, Inc.	Power	–	<b>100</b>	–	100
Hedcor Itogon, Inc.	Power	–	<b>100</b>	–	100
Hedcor Manolo Fortich, Inc.	Power	–	<b>100</b>	–	100
Hedcor Sabangan, Inc.	Power	–	<b>100</b>	–	100
Hedcor Sibulan, Inc. (HSI)	Power	–	<b>100</b>	–	100
Hedcor Tamugan, Inc. (HTI)	Power	–	<b>100</b>	–	100
Hedcor Tudaya, Inc.	Power	–	<b>100</b>	–	100
Kookaburra Equity Ventures, Inc.	Holding company	–	<b>100</b>	–	100
Cleanergy, Inc. (CI)	Power	–	<b>100</b>	–	100
Hydro Electric Development Corporation (HEDC)	Power	–	<b>99.97</b>	–	99.97
Luzon Hydro Corporation (LHC)	Power	–	<b>100</b>	–	100
Bakun Power Line Corporation	Power	–	<b>100</b>	–	100
Cordillera Hydro Corporation (CHC)	Power	–	<b>100</b>	–	100
Negron Quadrado Geothermal Development, Inc. (formerly Tagoloan Hydro Corporation)	Power	–	<b>100</b>	–	100
Therma Power, Inc. (TPI) and Subsidiaries	Power	–	<b>100</b>	–	100
Abovant Holdings, Inc. (AHI)	Power	–	<b>60</b>	–	60
Teraqua, Inc. (TI)	Power	–	<b>60</b>	–	60
Therma Power Visayas, Inc. (TPVI)	Power	–	<b>100</b>	–	100
Therma Luzon, Inc. (TLI)	Power	–	<b>100</b>	–	100
Therma Marine, Inc. (Therma Marine)	Power	–	<b>100</b>	–	100

Therma Mobile, Inc.(Therma Mobile)	Power	-	100	-	100
Therma South, Inc. (TSI) (formerly Therma Pagbilao, Inc.)	Power	-	100	-	100
Therma Central Visayas, Inc. (TCVI)	Power	-	100	-	100
Therma Southern Mindanao, Inc. (TSMI)	Power	-	100	-	100
Therma Subic, Inc. (Therma Subic)	Power	-	100	-	100
Therma Visayas, Inc. (TVI)(formerly Vesper Industrial and Development Corporation)	Power	-	100	-	100
Adventenergy, Inc. (AI)	Power	-	100	-	100
Cebu Private Power Corporation (CPPC)	Power	-	60	-	60
Prism Energy, Inc. (PEI)	Power	-	60	-	60
AEV International Pte. Ltd and Subsidiary	Holding company	100	-	-	-
Pilmico International Pte. Ltd and Subsidiary (Pilmico International)	Holding company	-	100	-	-
Vinh Hoan 1 Feed Joint Stock Company	Food manufacturing	-	70	-	-
Pilmico Foods Corporation (PILMICO) and Subsidiaries	Food manufacturing	100	-	100	-
Fil-Agri Holdings, Inc.	Holding company	-	100	-	100
Pilmico Animal Nutrition Corporation	Food manufacturing	-	100	-	100
Fil-Agri, Inc.	Real Estate	-	100	-	100
AboitizLand, Inc. (AboitizLand) and Subsidiaries	Real estate	100	-	100	-
Cebu Industrial Park Developers, Inc. (CIPDI)	Real estate	-	60	-	60
Misamis Oriental Land Development, Inc. (MOLDC)	Real estate	-	60	-	60
Propiedad del Norte, Inc. (PDNI)	Real estate	-	100	-	100
Lima Land, Inc (LLI) and Subsidiaries	Real estate	-	100	-	60
Lima Utilities Corporation (LUC)	Power	-	-	-	60
Lima Water Corporation (LWC)	Water	-	100	-	60
Aboitiz Jebsen Company, Inc. (ABOJEB) and Subsidiaries	Ship management	-	-	62.5	-
Jebsen Maritime, Inc. (JMI) and Subsidiary	Manpower services	-	-	62.5	-
Aboitiz Jebsen Manpower Solutions, Inc. (AJMSI)	Manpower services	-	-	62.5	-
Archipelago Insurance Pte Ltd (AIPL)	Insurance	100	-	100	-
AEV Aviation, Inc. (AEV Aviation)	Service	73.31	26.69	73.31	26.69
AEV Properties, Inc.	Real estate	100	-	100	-
Cebu Praedia Development Corporation (CPDC)	Real estate	100	-	100	-

For a total consideration of USD 8.3 million, AEV sold on February 12, 2014 all its interests in Aboitiz Jebsen Company, Inc., Aboitiz Jebsen Manpower Solutions, Inc., and Jebsens Maritime, Inc. (collectively the "Abojeb Group") to PTC Holdings Corporation, Behike Holdings, Inc., Valdicava Holdings, Inc., Jebsen Invest A.S. and Furunes Holdings Inc. As a result of this sale, Abojeb Group was deconsolidated from the March 31, 2014 financial statements of the Group, and a gain amounting to P274 million was reported under "Other income – net" account in the consolidated statements of income.

In May 2014, Pilmico International Pte. Ltd (Pilmico International), a newly incorporated Singapore-based subsidiary of AEV, acquired 70% of the outstanding shares of Vinh Hoan 1 Feed JSC from Vinh Hoan Corporation (VHC) for a total consideration of USD19.4 million. Vinh Hoan 1 Feed JSC is a leading and trusted supplier of aqua feed based in Dong Thap, Vietnam. Founded in 2007, it operates a 130,000 tons per year aqua feed facility producing primarily pangasius feed.

In June 2014, AP completed the acquisition of 100% ownership of Lima Utilities Corporation (LUC) from its parent, Lima Land Inc, a wholly-owned subsidiary of AboitizLand. LUC is the licensed electricity distributor for Lima Technology Center located in Lipa City and Malvar, Batangas. Acquisition cost amounted to P1.33 billion. Said purchase has no impact on the AEV consolidated financial statements since this is a transaction between two AEV-controlled subsidiaries. Its only financial impact to the Group is the recognition of AEV's P89 million share of the transaction cost which is recorded in P&L.

#### 4. Seasonality of Interim Operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In Luzon where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of June to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This provides continuous water flow and thus makes it favorable to all 'run-of-river' hydropower plants' operations.

Any unexpected change in the seasonal aspects will have no material effect on the Group's financial condition or results of operations. During and as of the end of the current interim period, no seasonal aspect had any material effect on the Group's results of operations or financial condition.

## **5. Property, Plant and Equipment**

During the nine months ended September 30, 2014, the Group reported a P12.09 billion acquisition of PPE and LI. Bulk of the acquisition came from Power Group which spent P8.28 billion on the ongoing construction of Davao coal plant and Tudaya and Sabangan hydro power plants and P2.42 billion on various capital expenditures. Aseagas' share of the PPE increase amounted to P577 million, attributed to the ongoing construction of its biomass plant. Likewise, Food Group recorded a P338 million rise in PPE due to the ongoing construction of new swine farms and other capex, and AboitizLand a higher LI due to the P466 million purchase of additional land for future development.

## **6. Material Events and Changes**

### **a. AEV Dividend Declaration**

On March 11, 2014, the BOD of the Company approved the declarations of a regular cash dividend of P1.27 a share (P7.01 billion) and a special cash dividend of P0.53 a share (P2.93 billion) to all stockholders of record as of March 25, 2014, payable on April 22, 2014.

### **b. Joint Venture with ALI**

On January 24, 2014, AEV and Aboitiz Land, Inc. (AboitizLand), a wholly-owned subsidiary of AEV, formally entered into a joint venture agreement with Ayala Land, Inc. (ALI) for the development of a 15-hectare mixed-use community in Mandaue City, Cebu.

### **c. Sale of Abojeb Shares**

On February 12, 2014, AEV completed the divestment of its interests in the shipping and shipping related businesses with the disposition of all its interests in Aboitiz Jebsen Company, Inc., Aboitiz Jebsen Manpower Solutions, Inc., and Jebsens Maritime, Inc. (collectively the "Abojeb Group") to PTC Holdings Corporation, Behike Holdings, Inc., Valdicava Holdings, Inc., Jebsen Invest A.S. and Furunes Holdings Inc. The total consideration of this sale is equivalent to USD 8.3 million. Said divestment is part of AEV's strategy to focus on its identified core businesses such as power generation and distribution, financial services, food and real estate and infrastructure.

### **d. Complete Acquisition of Lima Land, Inc.**

On February 21, 2014, AboitizLand acquired the remaining 360 million common shares in Lima Land, Inc. (LLI) from Marubeni Corporation ("Marubeni"), representing 40% of LLI's total issued and outstanding shares. This brings AboitizLand's ownership in LLI to 100%, following its purchase of Alsons Land Corporation's 60% interest in LLI last October 2013.

LLI is the owner and operator of LiMA Technology Center in Batangas.

### **e. Acquisition of Shares in Vinh Hoan 1 Feed JSC**

On May 29, 2014, Pilmico International Pte. Ltd (Pilmico International), a Singapore-based subsidiary of AEV, and Vinh Hoan Corporation (VHC) signed a Share Sale and Purchase Agreement under which Pilmico International will acquire from VHC 70% of the total outstanding shares of Vinh Hoan 1 Feed JSC (VHF) amounting to USD19.4 million. Vinh Hoan 1 Feed JSC is a leading and trusted supplier of aqua feed based in Dong Thap, Vietnam. Founded in 2007, it operates a 130,000 tons per year aqua feed facility producing primarily pangasius feed. Its R&D team operates a pilot farm facility to continuously improve pangasius health and productivity.

Pilmico International has the obligation to purchase the remaining 30% of the outstanding shares of VHF from the other shareholders within a period of five (5) years at the same price per share, for a total transaction value of USD28 million.

### **f. AboitizLand and AC Infrastructure Holdings' Submitted the Highest Bid for Cavite-Laguna Expressway Project**

On June 13, 2014, AEV was informed by its wholly-owned subsidiary, Aboitiz Land, Inc. ("AboitizLand"), that the consortium of AboitizLand and AC Infrastructure Holdings Corporation, a wholly-owned subsidiary of Ayala Corporation, submitted the highest bid of P11.659 billion for the Cavite-Laguna Expressway Project.

### **g. Notice of Award from DCWD**

On June 20, 2014, J. V. Angeles Construction Corporation informed AEV that it received, on behalf of the Jose V. Angeles Construction Consortium, the Notice of Award from the Davao City Water District (DCWD) for the financing, design, construction and operations of the Tamugan Surface Water Developments Project. The project aims to provide 200 MLD of treated bulk water to DCWD once completed.

### **h. AboitizLand and AC Infrastructure Holdings Filing of a Motion to Intervene**

On July 11, 2014, AEV was advised by AboitizLand that the latter's Team Orion consortium with AC Infrastructure Holdings Corporation, the highest bidder in the Cavite-Laguna Expressway bid (Cala-x Bidding), filed a Motion to Intervene in the appeal to the Office of the President of the Republic of the Philippines filed by one of the disqualified bidders in the Cala-x Bidding.

The said Motion to Intervene will allow Team Orion consortium to participate in any submissions and proceedings that may be conducted in connection with the appeal.

#### **i. Completion of the Acquisition of Vin Hoan Shares**

On July 31, 2014, acquisition of Vin Hoan shares was completed, following the closing of the transaction through the successful completion of the conditions precedent. These conditions, include, among others submission of documents by VHC and execution of long-term supply agreement between VHC and VHF.

#### **j. Approval of the Sale of AEV's Common Shares Held in Treasury**

On August 28, 2014, the BOD of the Company approved the sale of a part of the Company's common shares held in treasury, equivalent to up to Fifty Million (50,000,000) treasury shares. The shares will be sold, either in tranches, or in a single block at prevailing market prices through the facilities of the Exchange. The Board of Directors delegated the authority to Management to determine the timing of the sale of the treasury shares. The proceeds of the sale will be used to build up the Company's cash reserves, working capital and for other general corporate purposes.

#### **k. Sale of AEV's Treasury Shares**

The Company sold 10,757,256 treasury shares on August 29, 2014 and 5,952,230 treasury shares on September 2, 2014 at P55.25 per share. Net proceeds from the sale amounted to P917 million. Remaining balance of treasury shares authorized to be sold stand at 33,290,514 shares.

Except for the above developments and as disclosed in some other portions of this report, no other significant event occurred that would have a material impact on the registrant and its subsidiaries, and no other known trend, event or uncertainty came about that had or were reasonably expected to have a material favorable or unfavorable impact on revenues or income from continuing operations, since the end of the most recently completed fiscal year. There were also no significant elements of income or loss that did not arise from the continuing operations of the registrant and its subsidiaries. Likewise, during and as of the end of the current interim period, there were no other unusual items (due to their nature, size or incidents) that affected liabilities, assets, equity, net income, or cash flows.

Other than those disclosed above, no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons entities or other persons were created during the interim period. There were also no events that would trigger substantial direct or contingent financial obligations or cause any default or acceleration of an existing obligation.

Likewise, there were no other material changes made in such items as: accounting principles & practices, estimates inherent in the preparation of financial statements, status of long-term contracts, changes in the composition of the issuer, and reporting entity resulting from business combinations or dispositions.

Lastly, there were no changes in estimates of amounts reported in prior interim period and financial year that would have a material effect in the current interim period.

#### **7. Events After the Reporting Period**

There are no significant events to disclose.

#### **7. Material Adjustments**

There were no material, non-recurring adjustments made during the period that would require appropriate disclosures. All other adjustments are of a normal recurring nature.

#### **8. Contingencies**

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.

AP obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries and associates in connection with loans and credit accommodations.



## M. SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	DEC 31, 2013	SEPT 30, 2014
<b>LIQUIDITY RATIOS</b>			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	2.64	<b>2.82</b>
Acid test ratio	$\frac{\text{Cash + Marketable Securities + Accounts Receivable+ Other Liquid Assets}}{\text{Current liabilities}}$	2.13	<b>2.34</b>
<b>SOLVENCY RATIOS</b>			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	1.02	<b>1.11</b>
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	2.02	<b>2.11</b>
Net debt to equity ratio	$\frac{\text{Debt - cash \& cash equivalents}}{\text{Total equity}}$	0.48	<b>0.54</b>
Gearing ratio	$\frac{\text{Debt - cash \& cash equivalents}}{\text{Total equity + (Debt - cash \& cash equivalents)}}$	32.59%	<b>35.20%</b>
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	6.10	<b>5.84</b>
<b>PROFITABILITY RATIOS</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total revenues}}$	23.4%	<b>23.5%</b>
Return on Equity	$\frac{\text{Net income after tax}}{\text{Total equity}}$	not applicable for interim reporting	

**ABOITIZ EQUITY VENTURES, INC. & SUBSIDIARIES**  
**AGING OF RECEIVABLES**

**AS OF : SEPTEMBER 30, 2014**

(amts in P000's)

	30 Days	60 Days	90 Days	Over 90 Days	Total
<b>Trade Receivables</b>					
Banking	0	0	0	0	0
Power	7,728,918	1,135,954	462,005	2,838,388	12,165,265
Food Manufacturing	1,381,443	72,015	15,165	151,121	1,619,744
Realty	1,062,170	490,473	52,369	455,151	2,060,163
Holding and Others	616,758	45,383	10,721	123,436	796,298
Transport Services	22,011	5,595	2,089	1,121	30,816
	<b>10,811,300</b>	<b>1,749,420</b>	<b>542,349</b>	<b>3,569,217</b>	<b>16,672,286</b>
<b>Others</b>	<b>1,814,903</b>	<b>31,571</b>	<b>25,529</b>	<b>268,471</b>	<b>2,140,474</b>
	<b>12,626,203</b>	<b>1,780,991</b>	<b>567,878</b>	<b>3,837,688</b>	<b>18,812,760</b>
<b>Less Allowance for Doubtful Accounts</b>					<b>1,073,089</b>
					<b>17,739,671</b>

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**AS OF : DECEMBER 31, 2013**

	30 Days	60 Days	90 Days	Over 90 Days	Total
<b>Trade Receivables</b>					
Power	6,923,784	1,955,317	234,156	2,568,807	11,682,064
Food Manufacturing	1,457,054	69,432	28,775	91,682	1,646,943
Holding and Others	1,012,732	28,591	17,389	50,339	1,109,051
Transport Services	23,237	10,398	379	1,493	35,507
	<b>10,455,815</b>	<b>2,065,744</b>	<b>285,439</b>	<b>3,117,865</b>	<b>15,924,863</b>
<b>Others</b>	<b>2,504,792</b>	<b>67,003</b>	<b>10,101</b>	<b>182,509</b>	<b>2,764,405</b>
	<b>12,960,607</b>	<b>2,132,747</b>	<b>295,540</b>	<b>3,300,374</b>	<b>18,689,268</b>
<b>Less Allowance for Doubtful Accounts</b>					<b>1,160,779</b>
					<b>17,528,489</b>

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**ACCOUNTS RECEIVABLE DESCRIPTION**

Type of Receivable	Nature / Description	Period
Trade	uncollected billings to customers for sale of power, goods and services	30 - 60 days
Non-Trade	claims, operating cash advances and advances to suppliers & employees	30 - 120 days

**NORMAL OPERATING CYCLE**

Power Subsidiaries

Distribution - 60 days

Generation - 65 days

Food Subsidiary - 90 days

Aviation Subsidiary - 60 days

Real Estate Subsidiary - 30 days

Transport Subsidiary - 40 days