

2016				
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Lease of office space from:				
SPEC	₱3,192,902	(₱798,225)	30-day; Noninterest-bearing	Unsecured
SPDC	671,177	(167,794)	30-day; Noninterest-bearing	Unsecured
BWUI	303,704	(707,065)	10% escalation every two years	Unsecured
Collection charges:				
BWUI	195,528	16,821	₱1.53 per receipt	Unsecured, No impairment
Advances to (from):				
Kepco Philippines Corp.	497,043	(497,043)	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	428,995	(192,912)	60-day; Noninterest-bearing	Unsecured
	73,140	146,556	60-day; Noninterest-bearing	Unsecured, No impairment
BWUI	194,802	23,353	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	63,948	140,531	60-day; Noninterest-bearing	Unsecured, No impairment
SII	44,279	90,669	60-day; Noninterest-bearing	Unsecured, No impairment
SPI	39,126	151,528	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	21,653	52,266	60-day; Noninterest-bearing	Unsecured, No impairment
SIPC Water Resources, Inc. (SWRI)	27,159	146,427	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	13,939	18,736	60-day; Noninterest-bearing	Unsecured, No impairment
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees	5,105,534	5,943,682	60-day; Noninterest-bearing	Unsecured, No impairment

Compensation and Benefits of Key Management Personnel

The Group considers all senior officers as key management personnel. The compensation of key management personnel follows:

	2017	2016	2015
Short-term benefits	₱30,238,987	₱31,889,772	₱32,876,102
Pension expense	337,679	159,000	194,772
	₱30,576,666	32,048,772	₱33,070,874



6. Trade and Other Receivables

This account consists of:

	2017	2016
Receivable from customers (net of allowance for impairment loss of ₱22.9 million and ₱16.0 million as of 2017 and 2016, respectively) (see Note 5)	₱405,974,878	₱310,367,119
NPC/PSALM	1,497,011	1,498,252
Others	50,435,362	22,843,715
	₱457,907,251	₱334,709,086

Receivable from customers arises from generation and sale of energy, distribution of purchased energy, and from provision of ancillary services.

Receivables from NPC/PSALM and customers are noninterest-bearing and are generally on a term of 1-30 days and 30-90 days, respectively.

Others mainly consist of advances to suppliers and contractors, officers and employees, insurance claims, and accrued interest receivables from short-term investments.

Allowance for impairment losses pertains to trade receivables that are individually determined to be impaired at reporting date. These relate to debtors who are either in significant financial difficulties, have defaulted on payments or whose accounts are under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements.

Additional allowance for doubtful accounts amounting to ₱7.0 million and ₱2.6 million was provided in 2017 and 2016, respectively (see Note 21).

The following table shows the movement in the allowance for impairment:

	2017	2016
At January 1	₱16,040,588	₱13,431,300
Provision for the year (see Note 17)	6,954,697	2,609,288
At December 31	₱22,995,285	₱16,040,588

7. Due from/Due to NPC/PSALM

This account consists of:

	Due from NPC/PSALM		Due to NPC/PSALM	
	2017	2016	2017	2016
Cost of fuel purchases and others (see Note 31)	₱—	₱—	₱511,650,588	₱312,155,975
Others	1,175,128	1,175,128	—	—
	₱1,175,128	₱1,175,128	₱511,650,588	₱312,155,975

Cost of fuel purchases and other adjustments substantially pertains to the cost of fuel used in the operation of the NPPC. Based on management's assessment of the timing when these are to be



settled, cost of fuel purchases and other adjustments amounting to ₱511.7 million and ₱303.4 million as of December 31, 2017 and 2016, respectively, are presented as current liabilities, and ₱8.7 million as of December 31, 2016 is presented as a noncurrent liability (see Note 31).

"Others" mainly consist of amounts reimbursable by PSALM for other services rendered under OMSC.

8. Materials and Supplies

This account consists of:

	2017	2016
On hand - at NRV (net of allowance for obsolescence and impairment of ₱85.5 million as of December 31, 2017 and 2016)	₱597,236,778	₱242,233,311
In transit - at cost	7,975,262	28,963,376
At lower of cost and NRV	₱605,212,040	₱271,196,687

Materials and supplies include fuel, lubricants, chemicals, spare parts, supplies and other consumables used in the operations, repairs and maintenance of the power generation and utility plants, property and equipment.

The cost of materials and supplies recognized as part of cost of services in the consolidated statements of comprehensive income amounted to ₱697.8 million, ₱916.7 million and ₱1,006.3 million in 2017, 2016 and 2015, respectively (see Note 20).

9. Prepayments and Other Current Assets

This account consists of:

	2017	2016
Input VAT	₱84,883,754	₱26,248,883
Deferred input VAT	6,820,047	10,225,475
Deferred charges	8,645,102	-
Prepaid rent (see Note 30)	3,229,772	2,764,772
Prepaid insurance	2,521,722	792,355
Prepaid income tax	462,469	71,130
Others	61,107,989	35,125,449
	₱167,670,855	₱75,228,064

Others mainly consists of deferred input vat of fuel owned by PSALM used in the operations of NPPC but still to be invoiced to the Parent Company.



10. Investments in Associates

This account consists of:

	2017	2016
Acquisition cost:		
At January 1	₱2,852,565,368	₱2,772,565,498
Additions	-	79,999,870
At December 31	2,852,565,368	2,852,565,368
Accumulated equity in net earnings and other comprehensive income:		
At January 1	3,220,429,113	2,257,516,934
Equity in net earnings for the year	1,137,429,320	1,175,524,975
Share in remeasurement of employee benefits of associates, net of tax	(278,202)	747,080
Dividends received	(1,028,339,061)	(213,359,876)
At December 31	3,329,241,170	3,220,429,113
	₱6,181,806,538	₱6,072,994,481

The Group's associates, corresponding equity ownerships, and acquisition costs follow:

	Principal Activity	% of Ownership	
KSPC	Power generation	40.0	₱2,472,464,616
MECO	Power distribution	40.0	380,000,752
SWRI	Water processing	40.0	100,000
			₱2,852,565,368

On October 12, 2016, the Parent Company exercised its pre-emptive rights over the additional shares issued by MECO and acquired 7,999,987 common shares, with a par value of ₱10 per share, or for a total consideration of ₱80.0 million.

KSPC

KSPC was registered with the SEC on June 22, 2005 primarily to build, operate, maintain, own and manage the 2x100 MW CFBC boiler coal-fired base load power plant in Naga, Cebu, Philippines.

Summarized financial information pertaining to KSPC as of and for the years ended December 31 follows:

	2017	2016
Current assets	₱2,982,862,285	₱5,763,978,320
Noncurrent assets	11,862,369,837	12,560,352,284
Current liabilities	645,576,392	3,458,553,357
Noncurrent liabilities	714,506,076	1,522,615,119
Equity	13,485,149,654	13,343,162,128
Revenue	8,317,177,602	6,750,634,088
Gross profit	3,708,509,782	3,045,977,315
Net income	2,563,051,257	2,566,070,825
Other comprehensive income (loss)	(215,914)	2,219,511

(Forward)



	2017	2016
Total comprehensive income	₱2,562,835,343	₱2,568,290,336
Group's share in net income	1,025,220,503	1,026,428,330
Carrying amount of the investment	5,394,822,743	5,338,027,733
Dividends received from KSPC	968,339,128	133,359,999

KSPC declared and paid cash dividends to the Parent Company amounting to ₱968.3 million, ₱133.4 million and ₱624.2 million in 2017, 2016 and 2015, respectively (see Note 5).

MECO

MECO is a distribution utility granted by the NEC under Presidential Decree No. 269, a franchise for 25 years from October 10, 1991 to engage in, conduct and carry on the business of generating, buying and selling electric light, heat and power for sale within the limits of the City of Lapu-lapu and the Municipality of Cordova, Cebu until October 9, 2016. On July 17, 2016, MECO was granted a renewal of its franchise for another 25 years.

Summarized financial information pertaining to MECO as of and for the years ended December 31 follows:

	2017	2016
Current assets	₱2,539,970,643	₱2,369,092,558
Noncurrent assets	2,135,870,438	1,980,366,090
Current liabilities	699,418,468	640,886,379
Noncurrent liabilities	1,799,843,043	1,640,916,262
Equity	2,176,579,570	2,067,656,007
Revaluation increment on property, plant and equipment, and others (adjusted at consolidated level following the Group's policy of cost model)	209,371,063	230,501,121
Revenue	5,324,917,027	5,093,225,666
Gross profit	209,173,187	380,367,434
Net income	250,336,245	341,866,639
Other comprehensive loss	(479,591)	(351,809)
Income after adjustment of depreciation on appraisal increase and others	280,522,042	372,741,612
Group's share in net income after adjustment of depreciation on appraisal increase and others	112,208,817	149,096,645
Carrying amount of the investment	786,883,795	734,866,748
Dividends received from MECO	59,999,933	79,999,877

MECO declared and paid cash dividends to the Parent Company amounting to ₱60.0 million in 2017 and ₱80.0 million in 2016 and 2015, respectively (see Note 5).

SWRI

SWRI is incorporated to engage in the business of providing water services for the operation, maintenance, refurbishment and expansion of power production and electrical generating facilities, including supply of water for the operation of said facilities. As of December 31, 2017, SWRI has not yet started operations.



11. Property, Plant and Equipment

This account consists of:

2017									
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land Held by Subsidiaries	Construction in Progress	Total
Cost									
At January 1	₱183,551,183	₱141,427,929	₱619,102,246	₱29,503,285	₱62,169,587	₱37,411,523	₱33,870,952	₱248,521,098	₱1,355,557,803
Additions (see Notes 17 and 30)	8,854,541	4,002,824	5,348,214	5,884,821	1,139,693	381,783	25,080,338	140,253,994	190,946,208
Transfers	-	-	1,661,633	-	-	-	-	(10,944,748)	(9,283,115)
Disposals	-	-	(8,873,044)	(1,218,267)	-	(455,982)	-	-	(10,547,293)
At December 31	192,405,724	145,430,753	617,239,049	34,169,839	63,309,280	37,337,324	58,951,290	377,830,344	1,526,673,603
Accumulated Depreciation and Impairment									
At January 1	103,758,082	94,737,416	389,844,585	25,056,413	32,670,864	34,487,044	-	-	680,554,404
Depreciation during the year (see Note 23)	8,207,698	8,482,736	54,409,770	2,044,048	3,777,717	1,396,490	-	-	78,318,459
Disposals	-	-	(8,873,044)	(1,218,265)	-	(453,553)	-	-	(10,544,862)
At December 31	111,965,780	103,220,152	435,381,311	25,882,196	36,448,581	35,429,981	-	-	748,328,001
Net Book Value	₱80,439,944	₱42,210,601	₱181,857,738	₱8,287,643	₱26,860,699	₱1,907,343	₱58,951,290	₱377,830,344	₱778,345,602
2016									
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land Held by Subsidiaries	Construction in Progress	Total
Cost									
At January 1	₱176,356,857	₱137,714,713	₱581,229,057	₱26,725,854	₱59,848,159	₱37,492,674	₱21,438,795	₱8,143,339	₱1,048,949,448
Additions	7,194,326	3,713,216	38,627,266	4,702,465	2,321,428	831,899	12,432,157	248,521,098	318,343,855
Transfers (see Note 12)	-	-	2,060,825	-	-	-	-	(8,143,339)	(6,082,514)
Disposals	-	-	(2,814,902)	(1,925,034)	-	(913,050)	-	-	(5,652,986)
At December 31	183,551,183	141,427,929	619,102,246	29,503,285	62,169,587	37,411,523	33,870,952	248,521,098	1,355,557,803
Accumulated Depreciation									
At January 1	95,540,020	86,127,246	331,276,773	25,653,156	29,039,489	33,767,858	-	-	601,404,542
Depreciation during the year (see Note 23)	2,518,062	8,610,170	61,101,224	1,317,726	3,631,375	1,612,679	-	-	78,791,236
Impairment (see Note 21)	5,700,000	-	-	-	-	-	-	-	5,700,000
Disposals	-	-	(2,533,412)	(1,914,469)	-	(893,493)	-	-	(5,341,374)
At December 31	103,758,082	94,737,416	389,844,585	25,056,413	32,670,864	34,487,044	-	-	680,554,404
Net Book Value	₱79,793,101	₱46,690,513	₱229,257,661	₱4,446,872	₱29,498,723	₱2,924,479	₱33,870,952	₱248,521,098	₱675,003,399



On June 30, 2016, PSALM turned over the Power Barge 104 to the Parent Company for rehabilitation prior to commercial operation. Pending completion of the rehabilitation and prior to the start of commercial operation, the total acquisition and rehabilitation costs amounted to ₱372.5 million and ₱236.4 million as of December 31, 2017 and 2016, respectively, and is presented as "Construction in progress" included under "Property, plant and equipment" in the consolidated statements of financial position. The rehabilitation of the PB 104 is expected to be completed within the second quarter of 2018.

Provision for impairment of ₱5.7 million was recognized in 2016 to write down machinery and equipment to their net realizable value (see Note 21).

The cost of fully depreciated property, plant and equipment that are still being used by the Group amounted to ₱336.8 million and ₱331.5 million as of December 31, 2017 and 2016, respectively.

12. Other Noncurrent Assets

This account consists of:

	2017	2016
Noncurrent receivable (see Notes 31 and 32)	₱1,143,240,000	₱1,143,240,000
Goodwill (see Note 13)	32,522,016	32,522,016
Noncurrent portion of prepaid rent (see Notes 9 and 30)	5,610,666	6,522,922
Franchise (net of accumulated amortization of ₱8.1 million and ₱7.6 million as of 2017 and 2016, respectively)	3,819,467	4,296,901
Software costs (net of accumulated amortization of ₱1.2 million and 0.6 as of 2017 and 2016, respectively)	4,866,011	5,474,263
Available-for-sale investments	1,300,000	1,300,000
Others	9,021,616	14,466,213
	₱1,200,379,776	₱1,207,822,315

Noncurrent portion of prepaid rent pertains to unamortized advance payments of lease rentals in relation to the Parent Company and SIPC's LLAs with PSALM (see Note 30).

Franchise pertains to the costs incurred by BLCI to acquire the franchise to operate the Bohol Provincial Electric System which is amortized over 25 years.

Available-for-sale financial assets pertain to the Parent Company's investments in proprietary golf club shares.



13. Impairment Testing of Goodwill

Goodwill acquired through business combinations have been allocated to a single cash-generating unit composing the distribution business, which is a reportable segment. The recoverable amount of each unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Carrying amount of goodwill related to BLCI amounted to ₱32.5 million as of December 31, 2017 and 2016. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the distribution utility with those of the Group.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Interest rate used to discount the net cash flows from operations is BLCI's WACC of 14.97%, using the capital asset pricing model.
- Energy sold is projected at 4% to 7% annual growth based on the actual average for 2017 and 2016, depending on the customer category.
- Operating expenses are projected to increase from 5% to 7% depending on the nature of expenses.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, no impairment on goodwill was recognized in 2017 and 2016.

Sensitivity to Changes in Assumptions

With regard to the assessment of value-in-use of BLCI, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

14. Trade and Other Payables

This account consists of:

	2017	2016
Trade (see Note 25)	₱527,945,252	₱220,418,497
Nontrade	117,173,866	64,717,571
Accrued expenses (see Note 16)	67,618,607	53,682,362
	₱712,737,725	₱338,818,430

Trade payables pertain to purchases of goods and services. These are noninterest-bearing and are normally settled on 30-60 day terms.

Nontrade payables include accrual for deferred output VAT of ₱72.2 million and ₱30.6 million as of December 31, 2017 and 2016, respectively, and various accounts with nontrade suppliers and contractors.



Accrued expenses include accrued interest on bank loans and customers' deposits, withholding taxes, and terminal leave pay of certain employees who were rehired following the end of the Cooperation Period on March 25, 2012 (see Notes 1 and 20).

15. Long-term Debt

- On October 28, 2014, the Parent Company availed of a six-year-term loan amounting to ₱650.0 million from a local bank maturing on October 28, 2020:

Interest Rate	Payment Schedule	Collateral	Principal	
			2017	2016
Repriced every October 28 and April 28 based on PDST-R2 3 mos. plus all-in spread of 2%	Nine (9) equal semi-annual installments of ₱72,222,222 over a period of 4 years starting October 28, 2016	None		
			₱	₱577,777,778
Less unamortized transaction costs			-	1,549,263
			-	576,228,515
			-	144,444,447
Less current portion			₱	₱431,784,068

The loan proceeds were used to pay-off the ₱650.0 million short-term debt availed by the Parent Company in May 2014 that was used to finance the acquisition of the Naga Power Plant in September 2014 (see Note 31). The outstanding loan balance amounting to ₱431.8 million as of December 31, 2016 was prepaid on October 28, 2017. Interest expense from this loan amounted to ₱19.2 million, ₱26.0 million and ₱27.2 million in 2017, 2016 and 2015, respectively.

The loan agreement provides, among others, that the Parent Company shall not, without prior written consent of the creditor: incur additional loans; purchase its issued and outstanding shares of stocks; change, alter or modify or permit any changes, alteration or modification in the nature of its business on which it is presently conducted, or otherwise change, alter or modify the purpose for which the Parent Company was formed; declare or distribute dividends (see Note 19) or allow advances to its officers and/or stockholders or any of its subsidiaries or affiliates or return any capital to its stockholders. As of December 31, 2016, the Parent Company has complied with the debt covenants.

- In October 2009, the Parent Company availed of a seven-year-term loan amounting to US\$4.0 million from a local bank maturing on October 28, 2016 for which the loan proceeds were used to partly finance the acquisition of the Panay and Bohol Diesel Power Plants by SIPC in 2009. The outstanding balance of the loan amounting to ₱31.5 million as of December 31, 2015 was fully paid on October 28, 2016. Interest expense from this loan amounted to ₱0.6 million and ₱1.5 million in 2016 and 2015, respectively.



16. Customers' Deposits

This account consists of:

	2017	2016
Bill deposits	₱75,707,947	₱66,286,018
Material deposits	41,337,734	34,554,161
	₱117,045,681	₱100,840,179

Bill Deposits

Bill deposits are obtained from customers and maintained at approximately equivalent to one month consumption principally as guarantee for any uncollected bills upon termination of the service contract. Under the Magna Carta for Residential Electricity Consumers (Magna Carta) as amended and Distribution Service and Open Access Rules (DSOAR) as amended, dated November 15, 2010 and February 22, 2010, respectively, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC and the same shall be credited yearly to the bills of the registered customer.

The Magna Carta and DSOAR also provide that bill deposits, together with accrued interests, shall be refunded within one month from the termination of the services if all bills have been paid. In addition to this, the customer who has paid his electric bills on or before its due date for three consecutive years may demand for the full refund of the deposit even prior to the termination of the service.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Material Deposits

Large load consumers applying for power connection may pay for the transformers and poles in advance. This is subject to a refund which can be applied as a reduction from the accounts of the consumers at 25% of the consumers' monthly billing for deposits prior to June 2010 and 75% of the consumers' monthly billing from June 2010 onwards until such amounts are fully refunded or for five years, whichever period is shorter.

Interest on Bill and Meter Deposits

The implementing guidelines of the Magna Carta provide that the interest rate then on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the then Energy Regulatory Board (ERB) Resolution No. 95-21 issued on August 3, 1995. The ERB Resolution No. 95-21 was issued by the then ERB on August 3, 1995 adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta as amended, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. In the case of non-residential customers, the DSOAR, as amended provides that the Company shall pay interest on bill deposits at the rate equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. Interest expense on bill deposits amounting to ₱0.2 million, ₱0.5 million, and ₱0.4 million in 2017, 2016, and 2015, respectively, are presented as part of "Interest expense" in the consolidated statements of comprehensive income. Outstanding interest expense accrued on bill deposits amounted to ₱2.7 million and ₱3.0 million as of December 31, 2017 and 2016, respectively,



and are presented as part of "Accrued expenses" under "Trade and other payables" in the consolidated statements of financial position (see Note 14).

17. Asset Retirement Obligation

As discussed in Notes 2, 3 and 30 to the consolidated financial statements, the Parent Company and SIPC have a contractual obligation under the LLA with PSALM to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term. In this regard, the Parent Company and SIPC established an obligation to recognize its estimated liability for asset retirement.

The Parent Company and SIPC also have an option under the LLA to purchase optioned assets within the lease premises that may be offered by the Lessor. As of December 31, 2017, SIPC has exercised its option to purchase the optioned assets covering all the lots underlying the Bohol Diesel Power Plant (BDPP) with a total area of 27,527 square meters (see Note 30). As a result of the purchase, the ARO recognized for BDPP was reversed in 2017.

The movement of the asset retirement obligation follows:

	2017	2016
At January 1	₱112,303,852	₱106,607,414
Accretion of interest	6,006,307	5,696,438
Reversal (see Note 30)	(21,111,756)	—
At December 31	₱97,198,403	₱112,303,852

The actual dismantlement and restoration cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required to complete all dismantlement and removal activities.

18. Pension Plan

Under the existing regulatory framework, Republic Act No. 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Parent Company has a funded defined benefit pension plan covering substantially all of its employees which require contributions to be made to a separately administered fund, while SIPC and BLCI have unfunded, noncontributory, defined benefit pension plan covering substantially all of its regular and permanent employees.

The following tables summarize the components of pension expense recognized in the consolidated statements of comprehensive income and amounts recognized in the consolidated statements of financial position.



The components of pension expense recognized under "Plant operations" and "General and administrative" in the consolidated statements of comprehensive income follow:

	2017	2016
Current service cost	₱14,575,118	₱2,296,036
Interest cost on benefit obligation	546,527	414,853
	₱15,121,645	₱2,710,889

Remeasurement effects recognized under "Other comprehensive income" in the parent company statements of comprehensive income amounted to ₱5.4 million and nil in 2017 and 2016, respectively.

Changes in the present value of the defined benefit obligation follow:

	2017	2016
At January 1	₱22,097,565	₱19,112,597
Current service cost	14,575,118	2,296,036
Interest cost	810,119	688,932
Remeasurement loss (gain) due to:		
Experience adjustments	(987,641)	—
Changes in demographic assumptions	(4,297,702)	—
Changes in financial assumptions	449,533	—
At December 31	₱32,646,992	₱22,097,565

Changes in the fair value of plan assets are as follows:

	2017	2016
At January 1	₱10,758,874	₱10,484,795
Contributions to the retirement fund	917,640	—
Interest income included in net interest cost	263,592	274,079
Gains(losses) on return on plan assets	599,508	—
At December 31	₱12,539,614	₱10,758,874

Changes in the amounts recognized in the consolidated statements of financial position for pension liability follows:

	2017	2016
At January 1	₱11,338,691	₱8,627,802
Pension expense	15,121,645	2,710,889
Remeasurement loss	(5,435,318)	—
Contribution to the retirement fund	(917,640)	—
At December 31	₱20,107,378	₱11,338,691



The fair value of plan assets by each class as at December 31 follows:

	2017	2016
Available for sale securities	₱10,439,504	₱9,655,872
Deposits in banks	1,473,531	1,004,765
Accrued interest income	105,018	103,011
Others	526,634	—
Total assets	12,544,687	10,763,648
Total liabilities	5,073	4,774
Fair value of plan assets	₱12,539,614	₱10,758,874

The principal assumptions used in determining pension benefit obligation for the Group's plans as of December 31 are shown below:

	2017	2016
Discount rate	5.70-6.06%	2.45-5.08%
Future salary increase	5.00-6.00%	6.00-8.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2017 and 2016, assuming all other assumptions were held constant:

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2017	2016
Discount rate	+100 basis points	(₱1,116,739)	(₱1,905,000)
	-100 basis points	1,284,462	1,337,752
Future salary increase rate	+100 basis points	₱1,372,297	₱1,212,515
	-100 basis points	(1,216,470)	(1,842,750)

The weighted average duration of the benefit payments ranges from 12.26 to 19.67 years. The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017:

Plan Year	
Less than one year	₱12,502,020
More than one year to five years	12,973,348
More than five years to 10 years	14,477,322
More than 10 years to 15 years	18,018,242
More than 15 years to 20 years	14,117,555
More than 20 years	61,872,688
	₱133,961,175



19. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2017 and 2016:

Issued shares	1,569,491,900
Treasury shares	72,940,097
Issued and outstanding shares, December 31	1,496,551,803

On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of ₱1.80 per share. Gross proceeds from this issuance of new shares amounted to ₱2.8 billion. As of December 31, 2017, the Parent Company has 782 stockholders including 73 depository participants counted as one stockholder each.

As of December 31, 2017 and 2016, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the accumulated equity in net earnings of associates amounting to ₱3.3 billion and ₱3.2 billion as of December 31, 2017 and 2016 respectively, until actually declared by the associates. It is further restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2017 and 2016.

Appropriation

On December 3, 2014, the Board of Directors (BOD) of the Parent Company approved a total appropriation to ₱850.0 million for the construction of a new CFBC Coal-Fired Power Plant with a capacity of 2x100 MW upon acquisition of the Naga Power Plant Complex (see Note 31).

On November 24, 2015, the BOD of the Parent Company approved additional appropriation of ₱400.0 million from the unappropriated retained earnings of the Parent Company in compliance with the negative covenants provided in its loan agreement with a local bank executed on October 27, 2014.

On March 30, 2016, the BOD of the Parent Company approved the reversal of appropriation amounting to ₱850.0 million and the appropriation of retained earnings by the same amount for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas region within the years 2016–2020.

On November 20, 2017, the BOD of the Parent Company approved the following: (i) reversal of retained earnings appropriated on November 24, 2015 amounting to ₱400.0 million due to the full prepayment of the related long-term debt on October 28, 2017 (see Note 15) and the reinstatement of the same amount as unappropriated retained earnings; (ii) retention of previously approved appropriation of retained earnings amounting to ₱850.0 for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas within the years 2018-2020; and (iii) appropriation of ₱500.0 million out of the unappropriated retained earnings of the Parent Company for the construction of two run-of-river hydro-electric power plant projects in Palawan with a capacity of 15.8 MW to commence within the years 2018-2019.



Dividends

Cash dividends declared by the Parent Company and subsidiaries in the last three years are summarized as follows:

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2017				
SPC	May 30, 2017	June 14, 2017	₱598.6	₱0.40
	November 20, 2017	December 6, 2017	598.6	0.40
SIPC	November 20, 2017	December 6, 2017	700.0	28.0 (common)
SLCI	November 20, 2017	December 6, 2017	5.0	0.1586
BLCI	August 8, 2017	August 15, 2017	15.0	0.20
	December 6, 2017	December 15, 2017	22.5	0.30
SECI	November 20, 2017	December 6, 2017	20.0	1.0574
SMPC	November 20, 2017	December 6, 2017	3.65	14.60
2016				
SPC	March 30, 2016	April 18, 2016	449.0	0.30
	December 9, 2016	December 26, 2016	429.0	0.29
SLCI	December 13, 2016	December 2, 2016	50.0	1.59
BLCI	June 17, 2016	June 30, 2016	42.0	0.56
	December 12, 2016	December 19, 2016	48.8	0.65
SIPC	November 21, 2016	December 1, 2016	450.0	18.0 (common)
2015				
SPC	March 10, 2015	April 17, 2015	149.7	0.10
BLCI	December 10, 2015	November 30, 2015	40.0	0.50
SMPC	December 15, 2015	December 28, 2015	68.5	274.6
SIPC	December 7, 2015	November 30, 2015	300.0	12.0 (common)

Non-controlling Interest

As of December 31, 2017, the Group has 53.66% direct and indirect ownership interest in BLCI which is primarily engaged in the business of supply and distribution of electricity in the area presently comprised by Tagbilaran City, Bohol. The summarized financial information of BLCI as of December 31 is provided below:

	2017	2016
Statements of financial position:		
Current assets	₱308,966,848	₱318,681,072
Noncurrent assets	161,448,279	158,804,301
Current liabilities	136,255,146	175,087,910
Noncurrent liabilities	122,464,058	111,058,018
Equity	211,695,923	191,339,445
Statements of comprehensive income:		
Revenue	914,288,398	931,216,019
Costs and expenses	861,701,716	869,909,711
Net comprehensive income	53,408,074	60,099,357
Net income attributable to non-controlling interest	26,810,692	27,850,041
Accumulated non-controlling interest	98,099,891	102,971,235

In 2017, the Group made an adjustment to reflect the attribution of net income to the equity holders of the Parent and NCI as of January 1, 2015 based on the effective ownership of the Parent Company to certain subsidiaries with NCI. The adjustment increased the "Equity attributable to the equity holders of the Parent" account with a corresponding decrease in the "Equity attributable to Non-controlling Interests" account as of January 1, 2015 by ₱371.0 million. There was no third statement of financial position presented since the total equity of the Group did not change.



20. Plant Operations

This account consists of:

	2017	2016	2015
Purchased power (see Notes 5 and 25)	₱824,759,636	₱823,656,610	₱741,519,252
Fuel, lubricants and chemicals (see Note 8)	653,021,718	846,432,688	965,364,926
Personnel costs (see Note 22)	91,082,912	93,691,104	84,576,289
Depreciation and amortization (see Note 23)	76,447,813	76,519,340	145,278,961
Spares, materials and supplies (see Note 8)	44,771,908	70,300,443	40,917,439
Repairs and maintenance	15,914,310	23,225,637	35,851,126
Others (see Note 25)	29,572,936	43,106,001	21,306,366
	₱1,735,571,233	₱1,976,931,823	₱2,034,814,359

21. General and Administrative Expenses

This account consists of:

	2017	2016	2015
Personnel costs (see Note 22)	₱50,214,568	₱40,374,295	₱38,928,978
Business development	27,519,729	68,903,481	47,831,883
Directors' fees	15,451,969	15,267,856	14,840,496
Shared expenses	13,539,434	12,603,473	12,952,984
Professional fees	13,000,590	12,509,261	11,000,572
Taxes, licenses and regulatory charges	8,977,629	20,036,128	85,434,384
Transportation and travel	8,301,520	7,246,331	8,509,456
Insurance	7,936,556	3,264,397	6,208,404
Provisions (see Notes 6, 8 and 11)	6,954,697	9,509,288	4,962,000
Rentals (see Note 5 and Note 30)	6,660,922	6,337,801	6,310,778
Repairs and maintenance	3,909,747	4,461,234	4,221,024
Communications	3,576,133	3,707,678	3,450,567
Depreciation and amortization (see Note 23)	3,235,371	3,864,773	5,235,494
Office supplies	2,632,006	2,720,092	2,882,499
Power and water	2,661,134	2,562,188	2,238,376
Association dues	1,857,594	2,074,873	1,647,644
Janitorial and security	1,771,602	1,558,656	2,311,902
Corporate social responsibility	1,745,645	1,331,838	607,311
Entertainment, amusement and recreation	1,549,041	1,816,136	1,906,545
Supervision and regulation	750,000	750,000	750,000
Freight and handling	472,026	500,781	575,095
Trainings and seminars	342,595	468,054	1,155,833
Brokerage fees	146,063	183,293	200,364
Community benefits	—	—	849,297
Others	5,577,215	5,937,884	5,049,733
	₱188,783,786	₱227,989,791	₱270,061,619

Taxes, licenses and regulatory charges in 2015 include fines amounting to ₱55.1 million imposed on MECO in 2015 for non-compliance to certain ERC rules.

Provisions include provision for doubtful accounts, inventory obsolescence or probable losses, and impairment of machineries and equipment.



22. Personnel Costs

This account consists of:

	2017	2016	2015
Salaries and wages	₱82,455,364	₱95,948,852	₱90,834,947
Retirement	6,711,150	2,524,707	1,547,030
Other employee benefits	52,130,966	35,591,840	31,123,290
	₱141,297,480	₱134,065,399	₱123,505,267

23. Depreciation and Amortization

This account consists of:

	2017	2016	2015
Depreciation of property, plant and equipment (see Note 11):			
Plant operations (see Note 20)	₱75,970,380	₱76,519,340	₱119,250,677
General and administrative (see Note 21)	2,348,079	2,271,896	1,778,181
	78,318,459	78,791,236	121,028,858
Amortization of franchise:			
Plant Operations (see Note 20)	477,433	477,433	477,433
Amortization of software costs:			
General and administrative (see Note 21)	608,251	608,251	—
Amortization of prepaid rent:			
Plant operations (see Note 20)	—	—	26,028,284
General and administrative (see Note 21)	279,041	507,193	2,979,880
	₱79,683,184	₱80,384,113	₱150,514,455

On September 25, 2014, the Parent Company purchased the 153.1 MW Naga Power Plant Complex consisting of the thermal and diesel power plants for which the Parent Company paid ₱463.3 million (see Note 31). These assets were depreciated over their estimated useful lives ranging from 3 months to 5 years, and contributed to the increase in depreciation in 2015.

24. Unbundling of Rates

Unbundling of Electricity Bill

In compliance with EPIRA, BLCI started to bill its customers using the final unbundled rates approved by the ERC in May 2008, per ERC decision dated March 27, 2008. The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001 specified that BLCI billing will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, and Interclass and Lifeline Subsidies. Local Franchise Taxes, the Power Act Reduction (PAR, for Residential Customers) and the Universal Charge are also separately indicated in the customer's billing statements. The Universal Charges, which are billed and collected merely on behalf of the national government agency, do not form part of BLCI's revenues.



The components of the unbundled bill presented below pertain only to those with recovery mechanism.

Unbundled Bill Component	Mechanism
Generation and System Loss Charges	▪ Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities (DU), as Amended (AGRA)
Transmission Charge	▪ Guidelines for the Adjustment of Transmission Rates by DU (TRAM) ▪ Rules for Calculation of the Over or Under Recovery in the Implementation of Transmission Rates and the Corresponding System Loss Rates by DU
Inter-class Subsidy	▪ Guidelines for a "True-Up" Mechanism of the Over or Under Recovery in the Implementation of Inter-class Cross Subsidy Removal by DU
Lifeline Rate/Subsidy	▪ Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DU

For the years ended December 31, 2017, 2016 and 2015, BLCI's billing had the following components:

	2017	2016	2015
Generation charge	₱641,052,121	₱667,052,275	₱559,777,182
Distribution charge	96,057,099	97,924,952	93,979,602
Transmission charge	95,162,864	80,143,875	85,511,849
System loss charge	57,872,781	61,838,122	49,877,480
Metering charge	12,540,006	12,967,859	12,582,661
Supply charge	8,681,516	8,767,090	8,907,194
Inter-class, lifeline subsidy and others	2,024,495	1,610,639	1,554,695
Franchise tax	897,516	911,207	865,626
Power act reduction	-	-	(5,684,409)
	₱914,288,398	₱931,216,019	₱807,371,880

Implementation of Value-Added Tax

With the enactment of R.A. No. 9337, the ERC issued on November 7, 2005 Resolution No. 20, Series of 2005 which prescribed the Guidelines for Implementing the Recovery of VAT and Other Provisions of R.A. No. 9337 affecting the Power Industry. R.A. No. 9337 removes the 2% national franchise tax but imposes a VAT on generation, transmission, distribution, and supply of electricity. Similar to the local franchise tax, the VAT is a separate item in the customers' bills. The 12% VAT is imposed on electricity consumptions starting February 1, 2006.

25. Significant Contracts

The Group has the following significant contracts:

Parent Company

On May 26, 2015, the Parent Company entered into an Ancillary Services Procurement Agreement (ASPA) with National Grid Corporation of the Philippines (NGCP) that took effect on September 26, 2015 after getting the provisional approval of the ERC. The Parent Company and NGCP executed the ASPA for the supply of dispatchable reserve and reactive power support for a period of five (5) years under a non-firm arrangement.



SIPC

SIPC and NGCP entered into a Connection Agreement on August 28, 2010, in order for SIPC's generation facilities to remain connected to the transmission system of the NGCP and to continue to avail of the transmission services. This Agreement is subject to the terms and conditions for the connection of the generation facility to the transmission system pursuant to the Revised Rules, Terms and Conditions for the Provision of Open Access Transmission Service. Total transmission charges, lodged in "Others" under "Plant operations" amounted to ₱7.7 million, ₱6.8 million and ₱7.1 million in 2017, 2016 and 2015, respectively (see Note 20).

On April 18, 2013, SIPC entered into an Ancillary Services Procurement Agreement (ASPA) with NGCP with provisional approval granted by the ERC on November 11, 2013. The ASPA, however, was made effective only on February 25, 2014 due to the impact of supertyphoon Yolanda in November 2013. SIPC and NGCP executed the ASPA for the supply of contingency reserve, dispatchable reserve, reactive power support, and black start service for a period of five (5) years under a non-firm arrangement.

As of December 31, 2017, SIPC has power supply contracts with six distribution utilities (seven as of December 31, 2016) for the supply of peaking power requirements with terms ranging from three to five years from effectivity of the contracts.

SMPC

SMPC participates in the annual bidding for the OMSC for the 650 MW Malaya Thermal Power Plant (MTPP) with PSALM. SMPC won the bidding processes and accordingly operated the MTPP from October 25, 2011 to October 25, 2014. However, biddings for the OMSC for the MTPP after October 25, 2014 were won and awarded to another bidder.

SMPC plans to participate in future biddings for the OMSC for MTPP. However, it cannot be ascertained whether SMPC will win or not. Management believes that the impact of this uncertainty to the Group is not significant since revenue contributed by SMPC's OMSC with PSALM was already nil in 2015, 2016, and 2017. Management further believes that the Group has sufficient resources to keep it operating for the next 12 months while SMPC waits for future biddings.

BLCI

On August 26, 2005, BLCI entered into a Contract for the Supply of Electric Energy (CSEE) consisting of the Transition Supply Contract (TSC) and the Regular Bilateral Contract for the purchase of electricity from the NPC, effective for a period of ten years from August 26, 2005 to August 25, 2015. On June 26, 2006, BLCI entered into the first Amended CSEE with the NPC. The decrease of contracted energy levels from June 26, 2006 to August 25, 2015 is due to the unrealized forecasted energy. On August 22, 2008, BLCI entered into the second Amended CSEE with the NPC. BLCI requested for an increase on its contracted energy levels from August 26, 2008 to August 25, 2015 due to the reconnection of four commercial accounts which were previously directly connected with NPC. Unless otherwise provided, the applicable provisions of the CSEE shall be deemed modified by the applicable Wholesale Electricity Spot Market (WESM) Rules, upon commercial operation of the WESM, as declared by Department of Energy. BLCI is a registered as a direct WESM participant. WESM started operation in the Visayas region on December 26, 2010. With the operation of WESM, BLCI requested for a decrease on its contracted energy levels with PSALM from May 2011 to August 2012. The CSEE with PSALM was terminated on August 26, 2015.



Pursuant to Section 8 of R.A. No. 9136, the National Transmission Corporation (TransCo) was created and assumed the electrical transmission functions of the NPC. On November 13, 2006, BLCI and TransCo entered into a Transmission Service Agreement (TSA) to support the CSEE between BLCI and NPC. By virtue of R.A. No. 9511 dated December 1, 2008, the NGCP was granted a franchise to engage in the business of conveying or transmitting electricity through high voltage backbone system of interconnected transmission lines, substations and related facilities and for other purposes. These activities were previously undertaken by TransCo.

Under the amended CSEE, BLCI committed to purchase from NPC an amended monthly contracted energy with equivalent demand as follows:

	Contracted Energy (in kWh)	Equivalent Demand (in kW)
2010	6,803,300–8,147,500	15,617–17,524
2011	2,766,074–3,856,028	6,334–8,571
2012	2,655,866–4,207,549	5,947–9,353
2013	2,950,380–4,563,771	6,607–10,145
2014	3,256,675–4,925,242	7,293–10,948
2015	3,584,222–5,310,531	8,027–11,805

On March 22, 2013, the Energy Regulatory Commission (ERC) provisionally approved the Power Sales Contract (PSC) between BLCI and KSPC that was executed on October 12, 2012. Contract period is 10 years with an annual contract quantity of 43,800,000 kWh. KSPC started its supply to BLCI on July 26, 2013. On June 29, 2015, ERC issued the final approval on the PSC between BLCI and KPSC with modification on the base price particularly on the fuel cost component.

On August 11, 2015, BLCI entered into a PSC with Unified Leyte Geothermal Energy, Inc. (ULGEI). Contract period is 6 years with an annual contract quantity of 67,452,000 kWh. ULGEI started to supply electricity to BLCI on August 26, 2015.

Total power purchases from ULGEI, KSPC, NGCP, PEMC and PSALM, net of discounts, amounted to ₱799.3 million, ₱809.4 million and ₱701.6 million in 2017, 2016 and 2015, respectively, and presented as "Purchased power" under "Plant operations" in the consolidated statements of comprehensive income (see Note 20).

The outstanding payables to ULGEI, KSPC, NGCP and PEMC, included under "Trade and other payables" (see Note 14), on purchased power amounted to ₱85.6 million and ₱87.9 million as of December 31, 2017 and 2016, respectively.

26. Income Tax

	2017	2016	2015
Current	₱157,359,677	₱185,682,524	₱148,182,474
Deferred	368,847	(2,719,004)	7,883,433
	₱157,728,524	₱182,963,520	₱156,065,907



The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the consolidated statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 follows:

	2017	2016	2015
Income before income tax	₱1,831,852,935	₱1,970,361,854	₱1,668,395,628
Provision for income tax computed at 30%	₱549,555,881	₱591,108,556	₱500,518,688
Adjustments to income tax resulting from:			
Equity in net earnings of associates	(341,228,796)	(352,657,493)	(343,440,422)
Impact of OSD	(44,729,860)	(47,224,340)	(2,636,497)
Interest income already subjected to final tax	(1,934,497)	(6,965,871)	(3,708,872)
Others	(3,934,204)	(1,297,332)	5,333,010
	₱157,728,524	₱182,963,520	₱156,065,907

The Group's deferred income tax assets and deferred income tax liabilities relate to the following:

	2017	2016
Deferred income tax assets on:		
Asset retirement obligation	₱29,159,520	₱33,691,154
Pension liability	5,255,920	2,662,884
Allowance for impairment losses	-	189,390
Accrued rent expense	-	213,078
	34,415,440	36,756,506
Deferred income tax liability on excess of fair value over acquisition cost - property, plant and equipment and inventory	1,919,665	779,263
Net deferred income tax assets	₱32,495,775	₱35,977,243

On July 7, 2008, R.A. 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. On November 26, 2008, the BIR issued Revenue Regulation 16-2008 for the implementing guidelines of the law.

The Parent Company and SIPC availed of the OSD in the computation of their taxable income in 2017, 2016 and 2015. BLCI likewise started to avail of OSD since 2016.



27. Segment Information

For management purposes, the Group is organized into business units based on their products and services provided as follows:

- Generation - generation and supply of power and ancillary services to NPC/PSALM, NGCP, distribution utilities, WESM and other customers.
- Distribution - distribution and sale of electricity to the end-users.
- Others - includes the operations of SECI and SLCI such as to manage, operate and invest in power generating plants and related facilities.

These operating segments are consistent with those reported to the BOD, the Group's Chief Operating Decision Maker (CODM).

The Group operates and generates revenue principally only in the Philippines (i.e., one geographical location). Thus, geographical segment information is not presented.

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements.

No inter-segment revenues are earned within the Group for 2017, 2016 and 2015.

2017						
	Before Adjustments and Eliminations				Adjustments and	After
	Generation	Distribution	Others	Total	Eliminations	Eliminations/ Consolidated
Revenue	₱1,435,832,793	₱914,288,398	₱-	₱2,350,121,191	₱-	₱2,350,121,191
Income before income tax	2,372,999,117	69,518,729	14,428,929	2,456,946,775	(625,093,840)	1,831,852,935
Net income	2,231,381,248	53,408,074	14,428,929	2,299,218,251	(625,093,840)	1,674,124,411
Total assets	7,319,348,133	470,415,127	114,519,457	7,904,282,717	2,967,806,291	10,872,089,008
Property, plant and equipment	625,426,592	152,919,010	-	778,345,602	-	778,345,602
Total liabilities	1,250,188,474	258,719,204	110,508	1,509,018,186	(1,083,494)	1,507,934,692
Depreciation and amortization (see Note 23)	60,765,167	18,918,017	-	79,683,184	-	79,683,184
Capital expenditures	168,706,281	22,239,927	-	190,946,208	-	190,946,208
2016						
	Before Adjustments and Eliminations				Adjustments and	After
	Generation	Distribution	Others	Total	Eliminations	Eliminations/ Consolidated
Revenue	₱1,989,513,231	₱931,216,019	₱-	₱2,920,729,250	₱-	₱2,920,729,250
Income before income tax	1,435,762,865	78,079,595	50,074,688	1,563,917,148	406,444,706	1,970,361,854
Net income	1,270,779,584	60,099,357	50,074,688	1,380,953,629	406,444,705	1,787,398,334
Total assets	7,454,751,125	477,485,373	175,107,861	8,107,344,359	2,317,841,154	10,425,185,513
Property, plant and equipment	525,881,301	149,122,098	-	675,003,399	-	675,003,399
Total liabilities	1,715,161,728	286,145,926	50,127,839	2,051,435,493	(542,236,571)	1,509,198,922
Depreciation and amortization (see Note 23)	61,613,521	18,770,592	-	80,384,113	-	80,384,113
Capital expenditures	291,299,097	27,044,758	-	318,343,855	-	318,343,855



2015						
	Before Adjustments and Eliminations				Adjustments and	After
	Generation	Distribution	Others	Total	Eliminations	Eliminations/ Consolidated
Revenue	₱1,944,551,744	₱807,371,880	₱-	₱2,751,923,624	₱-	₱2,751,923,624
Income before income tax	1,509,943,598	61,084,998	49,960,750	1,620,989,346	47,406,282	1,668,395,628
Net income	1,372,367,321	42,595,368	49,960,750	1,464,923,439	47,406,282	1,512,329,721
Total assets	7,470,277,592	444,304,272	125,014,615	8,039,596,479	1,475,570,991	9,515,167,470
Property, plant and equipment	307,174,406	140,370,500	-	447,544,906	-	447,544,906
Total liabilities	1,673,440,843	222,314,184	109,280	1,895,864,307	(421,594,560)	1,474,269,747
Depreciation and amortization (see Note 23)	131,013,130	19,501,325	-	150,514,455	-	150,514,455
Capital expenditures	145,641,657	14,161,472	-	159,803,129	-	159,803,129

Revenue from the Group's major external customers, which account for 50%, 61% and 60% in 2017, 2016 and 2015, respectively, amounted to ₱1,176.9 million, ₱1,753.5 million and ₱1,635.3 million, respectively.

Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	2017	2016	2015
Segment net income	₱2,299,218,251	₱1,380,953,629	₱1,464,923,439
Equity in net earnings of associates (see Note 10)	1,137,429,320	1,175,524,975	1,144,801,407
Dividend income	(1,762,523,160)	(769,080,270)	(1,097,395,125)
Group net income	₱1,674,124,411	₱1,787,398,334	₱1,512,329,721

Reconciliation of Total Assets

	2017	2016
Segment assets	₱7,904,282,717	₱8,107,344,359
Inter-segment receivables	(4,454,453)	(545,607,530)
Investments in associates and subsidiaries	2,939,738,728	2,830,926,668
Goodwill	32,522,016	32,522,016
Group assets	₱10,872,089,008	₱10,425,185,513

Reconciliation of Total Liabilities

	2017	2016
Segment liabilities	₱1,509,018,186	₱2,051,435,493
Inter-segment payables	(1,083,494)	(542,236,571)
Group liabilities	₱1,507,934,692	₱1,509,198,922



Key Performance Indicators

The following financial indicators are used, among others, to evaluate the performance of the Group as of and for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
For the years ended December 31:			
Earnings per share (see Note 28)	₱1.10	₱1.16	₱0.99
Share in net earnings of associates (see Note 10)	1,137,429,320	1,175,524,975	1,144,801,407
Return on equity	18.35%	21.09%	20.49%
Return on assets	15.75%	17.93%	16.54%
Cash flows:			
Net cash flows from operating activities	677,925,988	981,803,073	521,009,585
Net cash flows from (used in) investing activities	843,738,523	(181,555,533)	482,583,023
Net cash flows from (used in) financing activities	(1,829,013,293)	(994,940,718)	(379,596,021)
As of December 31:			
Balance of cash and cash equivalents at end of period	1,445,250,136	1,749,497,644	1,940,459,937
Current ratio	2.10	2.88	4.04
Debt ratio	0.14	0.14	0.16
Debt-to-equity ratio	0.16	0.17	0.18
Solvency ratio	1.17	1.24	1.13

28. Earnings Per Share

The following presents information necessary to calculate earnings per share attributable to equity holders of the Parent Company:

	2017	2016	2015
Net income attributable to equity holders of the Parent	₱1,643,265,605	₱1,733,661,950	₱1,476,042,128
Weighted average number of common shares issued and outstanding	1,496,551,803	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	₱1.10	₱1.16	₱0.99

Computation of weighted average number of common shares issued and outstanding follows:

Number of shares issued	1,569,491,900
Less weighted average number of treasury shares	72,940,097
	1,496,551,803

There are no potentially dilutive common shares issued as of December 31, 2017, 2016 and 2015.



29. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise of long-term debt and cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and other receivables, trade and other payables, due from/due to NPC/PSALM, other noncurrent receivable included under "Other noncurrent assets", due from/due to related parties, dividend payable, and customers' deposits which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk.

The Group's senior management oversees the management of these risks. The Group's senior management ensures that the Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk appetite.

The BOD reviews and approves policies for managing each of these risks and they are summarized below.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

As of December 31, 2016, the Group's policy is to manage its interest cost using the variable-rate debts.

As of December 31, 2017, the Group does not have a financial liability that is exposed to interest rate risk since all the outstanding short and long-term debts have been paid as of October 28, 2017 (see Note 15).

The following table sets out the maturity profile and the interest rate of the Group's financial liabilities that are exposed to interest rate risk:

	Interest rate	Term	Peso Equivalent
Long-term debt:			
2016	4.01%	2-7 years	₱577,777,778

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate borrowings). There is no other impact on the Group's equity other than those already affecting the consolidated statement of comprehensive income.

	Increase (Decrease) in Basis Points	Effect on Income Before Income Tax
2016	+500	(₱580,667)
	-500	580,667



Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

The tables below summarize the maturity profile of the Group's financial assets used to manage liquidity risk and financial liabilities at December 31 based on contractual undiscounted payments:

2017						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,445,250,136	₱1,445,250,136	₱-	₱-	₱-	₱-
Trade and other receivables:						
NPC	1,497,011	-	-	-	-	1,497,011
Receivable from customers	405,974,878	302,960,726	31,407,755	15,428,333	29,007,423	27,170,641
Others	50,435,362	19,376,748	2,023,952	1,496,866	507,258	27,030,538
	457,907,251	322,337,474	33,431,707	16,925,199	29,514,681	55,698,190
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128
Due from related parties	1,845,907	106,643	17,300	473,708	33,110	1,215,146
	1,906,178,422	1,767,694,253	33,449,007	17,398,907	29,547,791	58,088,464
AFS:						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	1,907,478,422	1,768,994,253	33,449,007	17,398,907	29,547,791	58,088,464
Financial Liabilities						
Trade and other payables:						
Trade	526,206,010	411,579,834	96,048,060	1,645,788	562,052	16,370,276
Accrued expenses	47,443,412	36,408,744	528,934	198,859	234,753	10,072,122
Nontrade	48,971,352	17,995,469	1,181,994	316,821	431,909	29,045,159
	622,620,774	465,984,047	97,758,988	2,161,468	1,228,714	55,487,557
Dividends payable	-	-	-	-	-	-
Due to NPC/PSALM	511,650,588	-	-	-	-	511,650,588
Due to related parties	563,995	22,259	44,693	-	-	497,043
Long-term debt	-	-	-	-	-	-
Customers' deposits	117,045,681	-	-	-	-	117,045,681
	1,251,881,038	466,006,306	97,803,681	2,161,468	1,228,714	684,680,869
Net Financial Assets (Liabilities)	₱655,597,384	₱1,302,987,947	(₱64,354,674)	₱15,237,439	₱28,319,077	(₱626,592,405)

2016						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	₱1,749,497,644	₱1,749,497,644	₱-	₱-	₱-	₱-
Trade and other receivables:						
NPC	1,498,252	1,498,252	-	-	-	-
Receivable from customers	310,367,119	225,674,303	28,695,916	11,559,674	8,942,503	35,494,723
Others	22,843,715	8,667,167	164,439	181,647	687,568	13,142,894
	334,709,086	235,839,722	28,860,355	11,741,321	9,630,071	48,637,617
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128
Due from related parties	1,581,466	60,352	23,544	87,861	15,658	1,394,051
	2,086,963,324	1,985,397,718	28,883,899	11,829,182	9,645,729	51,206,796
AFS:						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	2,088,263,324	1,986,697,718	28,883,899	11,829,182	9,645,729	51,206,796
Financial Liabilities						
Trade and other payables:						
Trade	220,418,497	199,093,534	5,511,800	4,195,248	80,671	11,537,244
Accrued expenses	46,820,968	29,500,599	1,916,771	228,948	10,716	15,163,934
Nontrade	22,926,461	11,464,786	574	-	-	11,461,101
	290,165,926	240,058,919	7,429,145	4,424,196	91,387	38,162,279
Dividends payable	22,028,175	18,768,693	-	-	-	3,259,482
Due to NPC/PSALM	303,442,871	1,246,418	29,356,357	-	-	272,840,096
Due to related parties	689,956	47,387	55,931	89,596	-	497,042
Long-term debt	629,907,778	-	5,839,830	-	-	624,067,948
Customers' deposits	100,840,179	-	-	-	-	100,840,179
	1,347,074,885	260,121,417	42,681,263	4,513,792	91,387	1,039,667,026
Net Financial Assets (Liabilities)	₱741,188,439	₱1,726,576,301	(₱13,797,364)	₱7,315,390	₱9,554,342	(₱988,460,230)



Foreign Currency Risk

Foreign currency risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Fair value foreign currency risk is the risk that the fair value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group follows a policy to manage its currency risk by closely monitoring its cash flow position and exposures in US dollar currency.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities). Philippine Dealing System (PDS) closing rates used are ₱49.93 and ₱49.72 on December 31, 2017 and 2016, respectively. There is no other impact on the Group's equity other than those already affecting the profit and loss.

	Increase (Decrease) in US Dollar Rate	Effect on Income Before Income Tax
2017	+1	₱1,753,725
	-1	(1,753,725)
2016	+1	₱1,925,371
	-1	(1,925,371)

Foreign-Currency-denominated Monetary Assets and Liabilities

The foreign-currency-denominated monetary assets and monetary liabilities and their Philippine Peso equivalents follow:

	U.S. Dollar		Peso Equivalent	
	2017	2016	2017	2016
Cash and cash equivalents	\$3,517,368	\$4,202,933	₱175,622,193	₱208,969,823
Trade and other payables:				
Trade	(5,000)	(330,506)	(249,650)	(16,432,744)
Long-term debt	-	-	-	-
Net foreign currency-denominated monetary assets	\$3,512,368	\$3,872,427	₱175,372,543	₱192,537,079

As a result of the translation of these foreign currency-denominated assets and liabilities, the Group reported a net unrealized foreign exchange loss of ₱0.2 million, ₱3.6 million and ₱3.3 million in 2017, 2016 and 2015, respectively.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting to a financial loss.

The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that exposure to bad debts is not significant.



With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, due from NPC/PSALM, due from related parties and noncurrent receivable, the Group's exposure to credit risk arises from default of the counterparty.

The Group's credit risk from cash and cash equivalents is mitigated by Philippine Deposit Insurance Corporation's (PDIC) insurance coverage on the cash in bank. While the Group does not hold collateral as security, its credit risk from trade and other receivables is mitigated by the customers' deposits which are collected to guarantee any uncollected bills from the customers upon termination of the service contract.

The Group's maximum exposure equals to the carrying amount of the aforementioned instruments, excluding cash on hand, and is offset by the PDIC insurance coverage and customers' deposits. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

2017			
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	₱1,444,922,676	(₱8,167,421)	₱1,436,755,255
Trade and other receivables	457,907,251	(75,707,947)	382,199,304
Due from related parties	1,845,907	—	1,845,907
Due from NPC/PSALM	1,175,128	—	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	1,143,240,000
	3,049,090,962	(83,875,368)	2,965,215,594
AFS financial asset	1,300,000	—	1,300,000
	₱3,050,390,962	(₱83,875,368)	₱2,966,515,594

2016			
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	₱1,749,157,304	(₱10,244,762)	₱1,738,912,542
Trade and other receivables	334,709,086	(80,715,783)	253,993,303
Due from related parties	1,581,466	—	1,581,466
Due from NPC/PSALM	1,175,128	—	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	1,143,240,000
	3,229,862,984	(90,960,545)	3,138,902,439
AFS financial asset	1,300,000	—	1,300,000
	₱3,231,162,984	(₱90,960,545)	₱3,140,202,439

As of December 31, 2017 and 2016, the Group's significant concentration of credit risk pertains to its trade and other receivables and due from NPC/PSALM amounting to ₱1,602.3 million and ₱1,212.3 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.



The following tables set out the aging analysis of the Group's past due but not impaired financial assets as of December 31:

2017							
	Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	P1,444,922,676	P-	P-	P-	P-	P-
Trade and other receivables:							
NPC/PSALM	1,497,011	-	-	-	-	1,497,011	-
Receivable from customers	428,905,375	302,960,725	31,407,754	15,428,333	29,007,424	27,170,642	22,930,497
Others	50,435,362	19,376,748	2,023,953	1,496,865	507,258	27,030,538	-
	480,837,748	322,337,473	33,431,707	16,925,198	29,514,682	55,698,191	22,930,497
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128	-
Due from related parties	1,845,907	106,644	17,300	473,709	33,109	1,215,145	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	-	1,143,240,000	-
	3,072,021,459	1,767,366,793	33,449,007	17,398,907	29,547,791	1,201,328,464	22,930,497
AFS Financial Asset							
Quoted equity security	1,300,000	1,300,000	-	-	-	-	-
	P3,073,321,459	P1,768,666,793	P33,449,007	P17,398,907	P29,547,791	P1,201,328,464	P22,930,497
2016							
	Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	P1,749,157,304	P1,749,157,304	P-	P-	P-	P-	P-
Trade and other receivables:							
NPC/PSALM	1,498,252	1,498,252	-	-	-	-	-
Receivable from customers	326,407,707	225,674,303	28,695,916	11,559,674	8,942,503	35,494,723	16,040,588
Others	22,843,715	8,667,167	164,439	181,647	687,568	13,142,894	-
	350,749,674	235,839,722	28,860,355	11,741,321	9,630,071	48,637,617	16,040,588
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128	-
Due from related parties	1,581,466	60,352	23,544	87,861	15,658	1,394,051	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	1,143,240,000	-	-	-	-	-
	3,245,903,572	3,128,297,378	28,883,899	11,829,182	9,645,729	51,206,796	16,040,588
AFS Financial Asset							
Quoted equity security	1,300,000	1,300,000	-	-	-	-	-
	P3,247,203,572	P3,129,597,378	P28,883,899	P11,829,182	P9,645,729	P51,206,796	P16,040,588

Financial assets classified as neither past due nor impaired are assessed by the Group to be highly probable of collection, taking into consideration the parties involved and its collection experience.

The tables below summarize the credit quality of the Group's neither past due nor impaired financial assets as of December 31:

2017						
	Total	Neither Past Due nor Impaired			Past Due	Individually Impaired
		High Grade	Standard	Substandard		
Loans and Receivables						
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	P1,444,922,676	P-	P-	P-	P-
Trade and other receivables:						
NPC/PSALM	1,497,011	-	-	-	1,497,011	-
Receivable from customers	428,905,375	188,139,334	111,428,522	3,392,869	103,014,153	22,930,497
Others	50,435,362	18,409,057	967,691	-	31,058,614	-
	480,837,748	206,548,391	112,396,213	3,392,869	135,569,778	22,930,497
Due from NPC/PSALM	1,175,128	-	-	-	1,175,128	-
Due from related parties	1,845,907	25,763	80,880	-	1,739,264	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	1,143,240,000	-
	3,072,021,459	1,651,496,830	112,477,093	3,392,869	1,281,724,170	22,930,497
AFS Financial Asset						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	P3,073,321,459	P1,652,796,830	P112,477,093	P3,392,869	P1,281,724,170	P22,930,497



	2016					
	Total	Neither Past Due nor Impaired			Past Due	Individually Impaired
		High Grade	Standard	Substandard		
Loans and Receivables						
Cash and cash equivalents (excluding cash on hand)	P1,749,157,304	P1,749,157,304	P-	P-	P-	P-
Trade and other receivables:						
NPC/PSALM	1,498,252	1,498,252	-	-	-	-
Receivable from customers	326,407,707	170,693,950	54,980,353	-	84,692,816	16,040,588
Others	22,843,715	6,138,065	2,529,102	-	14,176,548	-
	350,749,674	178,330,267	57,509,455	-	98,869,364	16,040,588
Due from NPC/PSALM	1,175,128	-	-	-	1,175,128	-
Due from related parties	1,581,466	-	60,352	-	1,521,114	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	1,143,240,000	-	-	-	-
	3,245,903,572	3,070,727,571	57,569,807	-	101,565,606	16,040,588
AFS Financial Asset						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	P3,247,203,572	P3,072,027,571	P57,569,807	P-	P101,565,606	P16,040,588

The Group grades its financial assets as follows:

- *Cash and Cash Equivalents:* These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Receivable/Due from NPC/PSALM, NGCP and Distribution Utilities:* These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, OMSC, Ancillary Services Procurement Agreement, Power Supply Contracts (PSCs), and/or collectible from government institution.
- *Receivable from Customers of BLCI:* Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.
- *Due from Related Parties:* These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.
- *Other Receivables:* Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

Fair Value of Financial Assets and Financial Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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 their value due to the relatively short-term maturity of these financial instruments.



- *AFS Investments.* Market values have been used to determine the fair value of listed AFS investments.
- *Noncurrent Receivable (included in "Other Noncurrent Assets").* The fair value of noncurrent receivable is based on the net present value of cash flows using the prevailing market rate of interest. As of December 31, 2017 and 2016, the carrying value of the noncurrent receivable approximates its fair value.
- *Long-term Debt.* The fair value of borrowings with floating interest rate is based on the discounted net present value of cash flows using an effective discount rate of 4.15% and 4.53% as of December 31, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the carrying values of the Group's financial instruments, except for the long-term debt, approximate its fair values due to their relatively short-term maturity. Fair value of the long-term debt amounted to ₱587.3 million as of December 31, 2016, while carrying value amounted to ₱576.2 million as of December 31, 2016.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of December 31, 2017 and 2016, the Group considers its AFS financial assets with fair values of ₱1.3 million under Level 1 classification. The long term debt, that has a fair values of ₱587.3 million as of December 31, 2016, is under Level 3 classification.

During the reporting period ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

The Group considers its total equity as its core capital and is not subject to any externally imposed capital requirements. As of December 31, 2017 and 2016, the Group's equity amounted to ₱9,364.2 million and ₱8,916.0 million, respectively.



30. Other Matters

Electricity Power Industry Reform Act (EPIRA) of 2001

On June 8, 2001 the EPIRA was signed into law and took effect on June 26, 2001. The law provides, among others, for the privatization of the assets of NPC, the creation of PSALM to accept transfers of all assets and assume all outstanding obligations of NPC, and the restructuring of the electric power industry sector as a whole. The law also provides for the mandate and framework to introduce competition in the electricity market and penalize anti-competitive behaviour. The IRR of the EPIRA was approved by the Joint Congressional Power Commission on February 27, 2002.

The EPIRA and its covering IRR provide for significant changes in the power industry including the following: (i) Competition in the retail supply of electricity; (ii) Open access to the transmission and distribution systems; (iii) Establishment of a Wholesale Electricity Spot Market (WESM); (iv) Unbundling of the generation, transmission and distribution rates; and (v) Removal of existing cross-subsidies provided by industrial and commercial users to residential customers.

An important milestone in the Philippine power industry was reached when the WESM began commercial operations on June 23, 2006. In the Visayas region, WESM started operations on December 26, 2010. The establishment of the WESM is one of the preconditions to retail competition and open access required by the EPIRA.

SIPC, after complying with the requirements set under WESM rules, has been participating in the WESM since the start of commercial operation of the WESM in the Visayas Grid on December 26, 2010 up to the present. The Parent Company started participating in the WESM starting in the last quarter of 2014.

Land Lease Agreements (LLAs)

The Parent Company and SIPC entered into LLAs with PSALM (as Lessor) in furtherance of and as an ancillary contract to the respective APA with PSALM, governing the sale of the PSALM assets as follows:

- *Panay and Bohol Diesel Power Plants.* The purchase of the Panay and Bohol Diesel Power Plants was covered by LLA between the Parent Company and PSALM which provides, among others, that the control and possession of the facilities will be turned over to the Parent Company upon completion of the conditions precedent to closing. Subsequently, with the written consent of PSALM, the Parent Company assigned its rights and obligations under the APA and LLA to SIPC. Following the completion of the conditions precedent and the completion of the respective Certificates of Closing of the Parent Company, SIPC and PSALM, the control and possession of the purchased assets were turned over and transferred to SIPC on March 25, 2009 (the "Closing Date").

The term of the LLA is 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date (March 25, 2009) amounted to ₱10.6 million.

- *LBGTs.* On January 29, 2010, the Parent Company executed the LLA with a term of 10 years from Closing Date, which may be renewed or extended for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date amounted to ₱1.2 million.



- *153.1 MW Naga Power Plant (consisting of CTPP 1, CTPP 2 and CDPP 1) (see Note 31).* On September 25, 2014, the Parent Company executed the LLA with a term of 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full in 2014 amounted to ₱712.5 million.

Under the LLAs, the Parent Company and SIPC shall use and occupy the leased premises primarily for the operation, management, expansion and maintenance of the power plants, and shall not assign or transfer any of their right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM. The Parent Company and SIPC, at their own expense, shall be solely responsible for obtaining all the necessary authorizations, licenses and permits for any alterations, additions, facilities, improvements and installations introduced on the leased premises. Within a period of 180 days from the termination of the LLAs or expiration of the lease terms, the Parent Company and SIPC are obliged to perform activities to facilitate clean-up, return and surrender of the leased premises (see Notes 2 and 3).

The LLAs also cover an option to purchase optioned assets within the leased premises that may be offered by the Lessor. The purchase price (on a per square meter basis) shall be equivalent to the highest of the following valuations and/or amounts: (i) the assessment of the Provincial Assessor; (ii) the assessment of the Municipal or City Assessor; and (iii) the zonal valuation of the Bureau of Internal Revenue. The unused rentals corresponding to the area of the optioned assets over which the option was exercised shall be deducted from the purchase price.

As of December 31, 2017, SIPC has exercised its option to purchase the optioned assets covering all the lots underlying the Bohol Diesel Power Plant with a total area of 27,527 square meters. The aggregate of the purchase price amounting to ₱35.6 million is shown as part of "Property, plant and equipment" account in the statements of financial position (see Note 11).

The current portion of the remaining prepaid rent amounting to ₱0.4 million as of December 31, 2017 and 2016, is presented as part of "Prepayments and other current assets" and the noncurrent portion amounting to ₱5.6 million and ₱6.5 million as of December 31, 2017 and 2016, respectively, is presented as part of "Other noncurrent assets", in the consolidated statements of financial position (see Notes 9 and 12).

Rent expense under the LLAs amounted to ₱0.2 million, ₱0.4 million and ₱0.4 million in 2017, 2016 and 2015, respectively (see Notes 21 and 23).

Tax Reform for Acceleration and Inclusion Act (TRAIN)

Republic Act (RA) No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect businesses on a prospective basis, the management assessed that the same will not have any significant impact on the consolidated financial statement balances as of the reporting date.



31. Acquisition of the 153.1 MW Naga Power Plant Complex (NPPC)

Prior to the expiration of the OMSC on September 25, 2014, the Parent Company purchased the NPPC after exercising its "right-to-top" (RTT) the winning bid, which right was pursuant to the LLA with PSALM that was executed when the LBGTs were acquired by the Parent Company in 2010. Pursuant to the APA executed by the Parent Company and PSALM covering the purchase of the assets consisting of the thermal and diesel power plants (CTPP 1 and CTPP 2, and CDPP 1), the Parent Company paid PSALM a total of ₱463.3 million. The Parent Company and PSALM also entered into an LLA, as an ancillary contract to the APA, covering the land where the purchased assets are located, and paid in full the total lease rentals amounting to ₱712.5 million. Following the issuance of Notice of Award on July 28, 2014 and after completing all the conditions for Closing, PSALM turned over the NPPC to the Parent Company on September 25, 2014, coinciding with the termination of the OMSC.

More than one year after PSALM awarded the NPPC to the Parent Company, the Supreme Court (SC) declared the APA and the LLA for the sale of the NPPC to be null and void per decision promulgated on September 28, 2015.

On December 1, 2015, the Parent Company filed its Motion for Reconsideration of the SC Decision dated September 28, 2015. In said Motion for Reconsideration, the Parent Company stressed that, as the owner of the LBGT and the lease on the land on which the LBGT stands, it has an interest in the whole of the Complex and not just within the leased premises. This is due to the fact that the Parent Company's payment for the LBGT necessarily includes payment for the RTT, the LBGT and the land subject of the LBGT-LLA which forms part of the Complex, and the Parent Company shares in the use, upkeep and maintenance of the Co-Use Facilities within the Complex, thus, showing that the Parent Company's interest extends to the whole of the Complex.

On December 9, 2015, the SC resolved to deny the Motion for Reconsideration. Thus, a Motion For Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc was filed by the Parent Company on February 2, 2016. However, on April 6, 2016, the SC issued a Resolution where it resolved among others to deny the said Motion For Leave and noted without action, the attached Urgent Motion for Second Reconsideration and /or Referral to En Banc, in view of the denial of the Motion for Leave. Accordingly, an amount equivalent to ₱1.143 billion (i.e., amount paid by the Parent Company to PSALM in 2014, net of withholding tax) was recognized as other noncurrent receivable as of December 31, 2016 and 2015. On October 5, 2016, the SC granted the manifestation/motion of Therma Power Visayas, Inc. (TPVI) dated March 16, 2016 praying for the reinstatement of the notice of award in favor of TPVI dated April 30, 2014. The Parent Company then filed an Urgent Motion For Reconsideration with Alternative Motion to Refer to the En Banc, on November 2, 2016. In a Resolution dated November 28, 2016, the SC denied the same. Another Urgent Motion For Reconsideration was filed by the Parent Company on December 9, 2016. This was followed up by the filing on January 19, 2017 of a Supplemental Motion/Petition for Referral to the En Banc which argued that there was a violation of SPC's substantive right to due process in reinstating the Notice of Award in favour of TPVI and a violation of procedural due process in lifting the Entry of Judgment of September 28, 2015.

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and were recorded in the Books of Entries of Judgments.



On April 26, 2017, the SC issued a final resolution denying both the Motion for Reconsideration and the Supplemental Motion/Petition for Referral to the En Banc filed on December 9, 2016 and January 19, 2017, respectively. In its final resolution, the SC confirmed that the September 28, 2015 Decision and the October 5, 2016 Resolution became final on November 28, 2016.

After receipt of the Notice of the Second Entry of Judgment in February 2017, the Parent Company was anticipating a speedy turnover of the NPPC. However, serious negotiations never transpired to date through no fault of the Parent Company.

Considering that the NPPC has been in the possession of the Parent Company even after November 28, 2016, it has to operate the plant as the best way to preserve it in preparation for the eventual turn-over to PSALM.

By virtue of a legal right of retention, the Parent Company remains a possessor in good faith and will continue to retain the NPPC and the concomitant obligation to preserve it pending the return of the purchase price as well as reimbursement of expenses for the necessary and useful improvements it made on the NPPC.

The Parent Company believes that how the matter will be fully settled between the Parent Company and PSALM could be finalized over two years. Any adjustments arising from the settlement will be reflected in the financial statements as they are determined.

32. Notes to Consolidated Statements of Cash Flows

Changes in Liabilities Arising from Financing Activities in 2017

	January 1, 2017	Dividend Declaration	Dividend Attributable to NCI	Amortization of Transaction Costs	Cash Flows	December 31, 2017
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases and hire purchase contracts	P576,228,515	P-	P-	P1,549,263	(P577,777,778)	P-
Dividends payable	22,028,175	(1,197,241,440)	31,965,900	-	(1,251,235,515)	-
Total liabilities from financing activities	P598,256,690	(P1,197,241,440)	P31,965,900	P1,549,263	(P1,829,013,293)	P-

Non-cash Transactions in 2015

The Group entered into the following non-cash transactions in 2015 related to the recognition of the noncurrent receivable amounting to P1.143 billion as discussed in Note 31:

- Transfer of property, plant and equipment to noncurrent receivable (included in "Other noncurrent assets") amounting to P307.8 million.
- Transfer of prepaid rent to noncurrent receivable (both included in "Other noncurrent assets") amounting to P645.6 million.
- Additions to noncurrent receivable (included in "Other noncurrent assets") with corresponding recognition of other income amounting to P189.9 million.



SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE A - FINANCIAL ASSETS
RECEIVABLES, AVAILABLE-FOR-SALE INVESTMENTS AND OTHER SHORT-TERM INVESTMENTS
DECEMBER 31, 2017**

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Loans and receivables:				
Cash and cash equivalents	-	P1,445,250,136	P1,445,250,136	P21,170,288
Trade and other receivables:				
National Power Corporation	-	1,497,011	1,497,011	-
Receivable from customers	-	405,974,878	405,974,878	-
Others	-	50,435,362	50,435,362	-
		457,907,251	457,907,251	-
Due from National Power Corporation	-	1,175,128	1,175,128	-
Due from related parties	-	1,845,907	1,845,907	-
Noncurrent receivable (included in "Other noncurrent assets")	-	1,143,240,000	1,143,240,000	-
		3,049,418,422	3,049,418,422	21,170,288
Quoted available-for-sale investments:				
Cebu Country Club	1	1,300,000	1,300,000	-
Total financial assets	-	P3,050,718,422	P3,050,718,422	P21,170,288

See Note 29 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES,
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

DECEMBER 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period	
					Current	Noncurrent
Total						

- Not applicable -

SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2017**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period	
					Current	Noncurrent
SPC Electric Company, Inc.	P13,428	P5,959	(P13,428)	P-	P5,959	-
Bohol Light Company, Inc.	186,349	208,425	(277,824)	-	116,950	-
SPC Island Power Corporation	450,195,131	1,594,228	(451,181,590)	-	607,769	-
SPC Malaya Power Corporation	66,000	2,248,452	(66,000)	-	2,248,452	-
SPC Light Company, Inc.	20,332	5,599	(20,332)	-	5,599	-
Cebu Naga Power Plant Corporation	82,866	19,770	-	-	102,636	-
	P450,564,106	P4,082,433	(P451,559,174)	P-	P3,087,365	-
						P3,087,365

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

DECEMBER 31, 2017

Description	Beginning Balance	Additions at Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other changes Additions (Deductions)	Ending Balance
Goodwill	₱32,522,016	₱-	₱-	₱-	₱-	₱32,522,016

See Notes 12 and 13 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

DECEMBER 31, 2017

Title of Issue and Type of Obligation	Amount Authorized by Indenture	Current Portion of Long-term Debt	Long-term Debt
- Not applicable -			

See Note 15 of the Consolidated Financial Statements.