

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)
DECEMBER 31, 2018

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
- Not applicable -		

SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2018

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which Statement is Filed	Nature of Guarantee
- Not applicable -				

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE H - CAPITAL STOCK

DECEMBER 31, 2018

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Affiliates	Directors and Officers	Others
Capital stock	2,000,000,000	1,496,551,803	—	1,281,805,946	18,430,230	196,315,627

See Note 19 of the Consolidated Financial Statements.

SPC POWER CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2018

Items	Amount
Unappropriated Retained Earnings, Beginning	P2,647,469,896
Adjustments	
Deferred income tax assets that reduced the amount of provision for income tax	(6,791,130)
Unappropriated Retained Earnings, as Adjusted, Beginning	2,640,678,766
Net Income Based on the Face of Audited Financial Statements	1,951,016,504
Less: Non-actual/Unrealized Income Net of Tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents)	-
Unrealized actuarial gain	4,212,097
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	5,200,000
Deferred income tax assets that decreased the amount of provision for income tax	264,463
Add: Non-actual Losses	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Interest expense - asset retirement obligation	881,545
Net Income Actual/Realized	1,942,221,489
Add (Less)	
Dividend declarations during the period	(1,197,241,442)
Appropriations of Retained Earnings during the period	(1,500,000,000)
Reversals of appropriations	1,350,000,000
Effects of prior period adjustments	-
Treasury shares	(131,008,174)
TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION	P3,104,650,639

SPC POWER CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS
AND INTERPRETATIONS

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Effective as of December 31, 2018	Adopted	Not Adopted	Not Applicable
Philippine Financial Reporting Standards					
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards				✓
PFRS 2	Share-based Payment				✓
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions				✓
PFRS 3	Business Combinations	✓			
PFRS 4	Insurance Contracts				✓
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts				✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓			
PFRS 6	Exploration for and Evaluation of Mineral Resources				✓
PFRS 7	Financial Instruments: Disclosures	✓			
PFRS 8	Operating Segments	✓			
PFRS 9	Financial Instruments	✓			
PFRS 10	Consolidated Financial Statements	✓			
PFRS 11	Joint Arrangements				✓
PFRS 12	Disclosure of Interests in Other Entities	✓			
PFRS 13	Fair Value Measurement	✓			
PFRS 14	Regulatory Deferral Accounts				✓
PFRS 15	Revenue from Contracts with Customers	✓			
Philippine Accounting Standards					
PAS 1	Presentation of Financial Statements	✓			
PAS 2	Inventories	✓			
PAS 7	Statement of Cash Flows	✓			
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓			
PAS 10	Events after the Reporting Period	✓			
PAS 12	Income Taxes	✓			

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property			✓
	Amendments to PAS 40, Transfers of Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✓

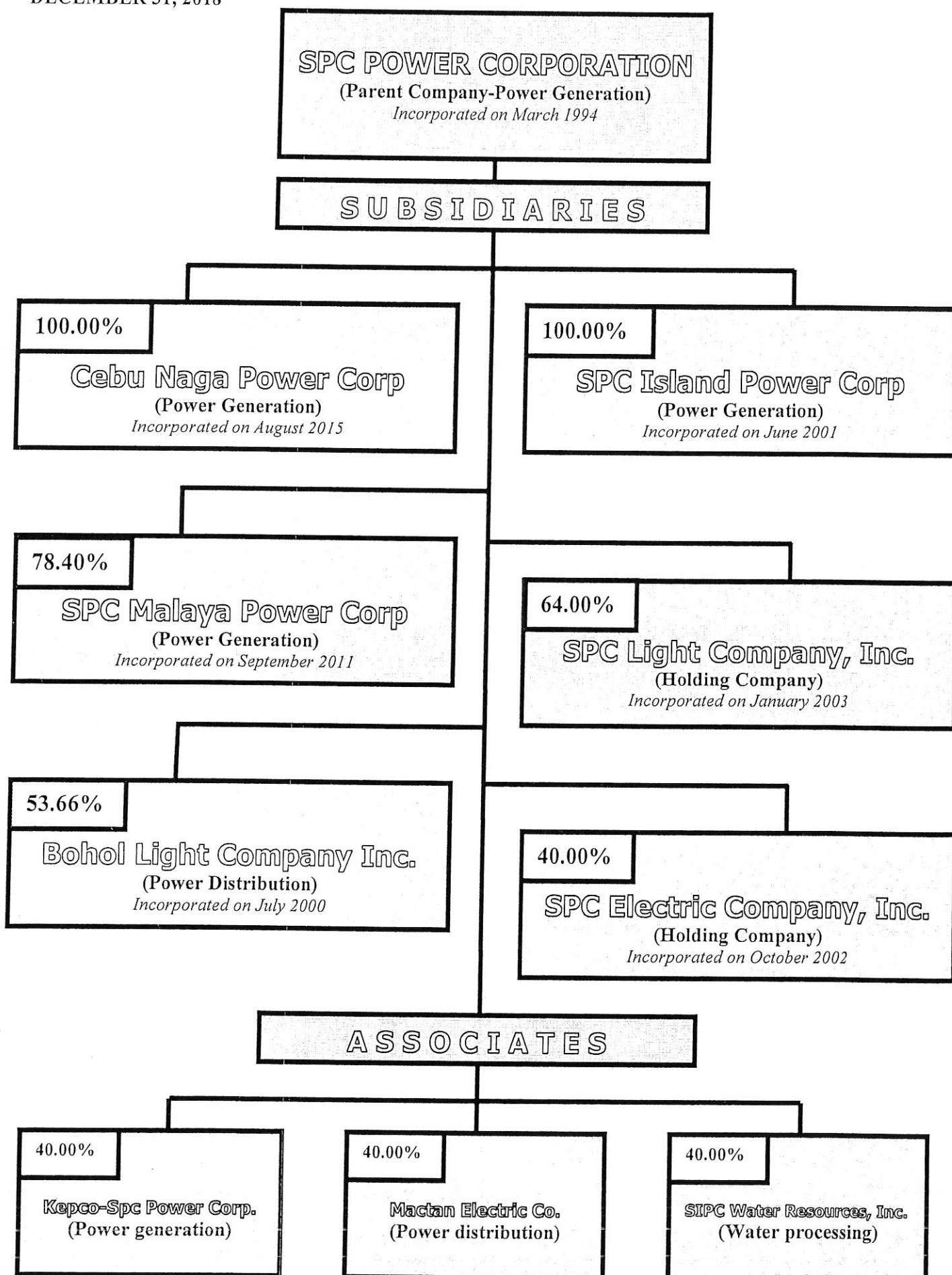
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✓		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✓
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✓		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✓
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✓
Philippine Interpretation IFRIC-17	Distributions of Non-cash Assets to Owners			✓
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments			✓
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✓
Philippine Interpretation IFRIC-21	Levies			✓
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration	✓		
Philippine Interpretation SIC-7	Introduction of the Euro			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted	Not Applicable
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			✓
Philippine Interpretation SIC-15	Operating Leases—Incentives			✓
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			✓
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			✓
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			✓

SPC POWER CORPORATION AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP

DECEMBER 31, 2018



for
AUDITED FINANCIAL STATEMENTS

EMENTS AFTER THE BIR HAS DULY
STAMPED "RECEIVED."

SEC Registration Number

A	S	0	9	4	0	0	2	3	6	5
---	---	---	---	---	---	---	---	---	---	---

COMPANY NAME

[illegible]**PRINCIPAL OFFICE** (No. / Street / Barangay / City / Town / Province)[illegible]

Form Type

A	A	P	F	S
---	---	---	---	---

Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	/	A	
---	---	---	--

COMPANY INFORMATION

Company's Email Address

www.spcpowergroup.com

Company's Telephone Number

(032) 232 0377

Mobile Number

N/A

No. of Stockholders

717

Annual Meeting (Month / Day)

05/30

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person

Jaime M. Balisacan

Email Address

jmbalisacan@spcpower.com

Telephone Number/s

(032) 232 0377

Mobile Number

(0917) 323 1469

CONTACT PERSON'S ADDRESS

7th Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business park, Cebu City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





SPC Power Corporation

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of **SPC POWER CORPORATION** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



ALFREDO L. HENARES

Chairman of the Board/Treasurer



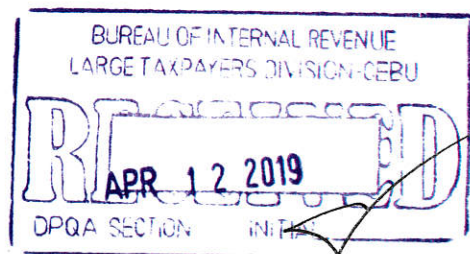
DENNIS T. VILLAREAL

Chief Executive Officer/President



JAIME M. BALISACAN

Senior Vice President – Finance and Administration



Signed this 4th day of April 2019.

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, Cebu Holdings Center
Archbishop Reyes Avenue, Cebu Business Park
Cebu City

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of SPC Power Corporation (Parent Company), which comprise the parent company statements of financial position as at December 31, 2018 and 2017, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the parent company financial statements, including a summary of significant accounting policies.

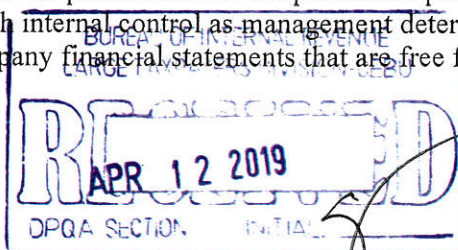
In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of parent company financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the parent company financial statements, management is responsible for assessing the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Parent Company or to cease operations, or has no realistic alternative but to do so.

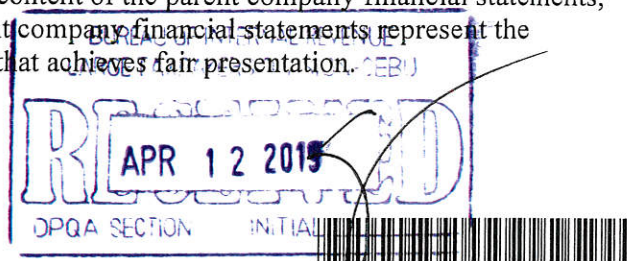
Those charged with governance are responsible for overseeing the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 28 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of SPC Power Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Alvin M. Pinpin.

SYCIP GORRES VELAYO & CO.



Alvin M. Pinpin

Partner

CPA Certificate No. 94303

SEC Accreditation No. 0781-AR-3 (Group A),

April 3, 2018, valid until April 2, 2021

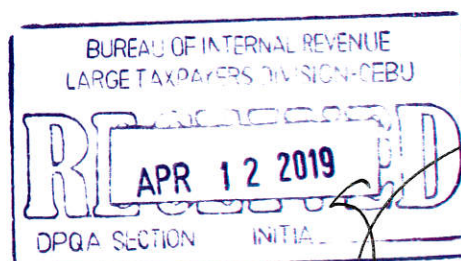
Tax Identification No. 198-819-157

BIR Accreditation No. 08-001998-70-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 7332596, January 3, 2019, Makati City

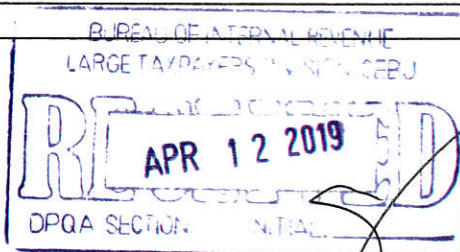
April 4, 2019



SPC POWER CORPORATION
PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

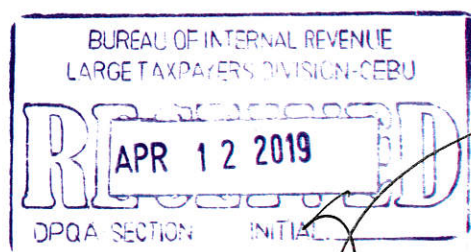
	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱2,201,388,093	₱1,047,835,364
Trade and other receivables (Note 6)	41,627,464	108,107,798
Due from related parties (Note 5)	368,530,669	2,757,502
Due from National Power Corporation (NPC)/Power Sector Assets and Liabilities Management Corporation (PSALM) (Note 7)	1,175,128	1,175,128
Materials and supplies (Note 8)	56,484,295	318,524,302
Prepayments and other current assets (Note 9)	48,229,418	120,537,316
Total Current Assets	2,717,435,067	1,598,937,410
Noncurrent Assets Held for Sale (Note 12)	18,213,000	—
Noncurrent Assets		
Investments in associates (Note 10)	2,852,465,368	2,852,465,368
Investments in subsidiaries (Note 11)	341,177,829	341,177,829
Property, plant and equipment (Note 12)	411,526,116	414,037,013
Deferred income tax asset (Note 22)	—	6,791,130
Pension asset (Note 23)	1,407,927	—
Other noncurrent assets (Notes 13 and 26)	17,360,713	1,155,343,338
Total Noncurrent Assets	3,623,937,953	4,769,814,678
TOTAL ASSETS	₱6,359,586,020	₱6,368,752,088
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	₱64,979,666	₱291,606,080
Due to related parties (Note 5)	3,119,068	1,972,940
Income tax payable	4,571,297	16,845,610
Due to NPC/PSALM (Note 7)	—	511,650,588
Total Current Liabilities	72,670,031	822,075,218
Liability Directly Associated with Noncurrent Assets Held for Sale (Notes 12 and 15)	2,234,000	—
Noncurrent Liabilities		
Asset retirement obligation (ARO) (Note 15)	—	22,637,104
Pension liability (Note 23)	—	2,544,936
Total Noncurrent Liabilities	—	25,182,040
Total Liabilities	74,904,031	847,257,258

(Forward)



	December 31	
	2018	2017
Equity		
Capital stock - P1 par value (Note 17)		
Authorized - 2,000,000,000 shares		
Issued - 1,569,491,900 shares	P1,569,491,900	P1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings (Note 17):		
Appropriated for future expansion projects	1,500,000,000	1,350,000,000
Unappropriated	3,251,244,958	2,647,469,896
Other comprehensive income:		
Remeasurement of employee benefits (Note 23)	3,292,553	(919,544)
Net unrealized valuation gains on financial asset at fair value through other comprehensive income (FVOCI) (Note 13)	4,850,000	-
Net unrealized valuation losses on available-for-sale (AFS) investment (Note 13)	-	(350,000)
Treasury stock at cost - 72,940,097 shares (Note 17)	(131,008,174)	(131,008,174)
Total Equity	6,284,681,989	5,521,494,830
TOTAL LIABILITIES AND EQUITY	P6,359,586,020	P6,368,752,088

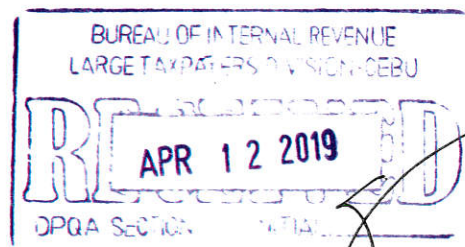
See accompanying Notes to Parent Company Financial Statements.



SPC POWER CORPORATION
PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
REVENUE			
Operating fees (Note 26)	₱10,356,843	₱—	₱390,224,047
COST OF SERVICES			
Plant operations (Notes 18 and 26)	(36,736,663)	—	(205,312,835)
GROSS PROFIT (LOSS)	(26,379,820)	—	184,911,212
GENERAL AND ADMINISTRATIVE EXPENSES (Note 19)	(163,823,927)	(126,444,744)	(168,985,391)
OTHER INCOME (CHARGES)			
Dividend income (Notes 5, 10 and 11)	1,797,383,787	1,754,761,385	719,569,025
Service income (Note 5)	120,007,156	100,006,366	54,549,214
Interest income (Note 4)	41,191,175	10,617,555	16,852,593
Changes in asset retirement obligation (Note 15)	21,284,649	—	—
Interest expense (Notes 15 and 16)	(881,545)	(20,052,142)	(27,388,251)
Others - net (Notes 3, 5 and 26)	226,252,709	129,457,050	6,898,525
	2,205,237,931	1,974,790,214	770,481,106
INCOME BEFORE INCOME TAX	2,015,034,184	1,848,345,470	786,406,927
PROVISION FOR INCOME TAX (Note 22)	64,017,680	41,117,758	44,316,078
NET INCOME	1,951,016,504	1,807,227,712	742,090,849
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Remeasurement of employee benefits, net of tax effect (Note 23)	4,212,097	(919,544)	—
Unrealized valuation gain on financial asset at FVOCI (Note 13)	1,500,000	—	—
	5,712,097	(919,544)	—
TOTAL COMPREHENSIVE INCOME	₱1,956,728,601	₱1,806,308,168	₱742,090,849
EARNINGS PER SHARE (BASIC/DILUTED) (Note 17)	₱1.30	₱1.21	₱0.50

See accompanying Notes to Parent Company Financial Statements.

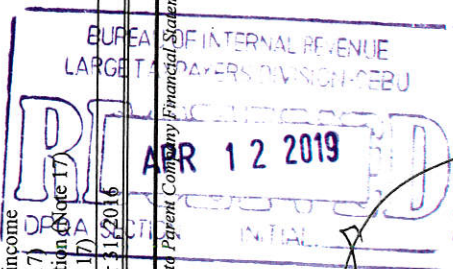


PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

Other Comprehensive Income

	Capital Stock (Note 17)	Additional Paid-in Capital	Retained Earnings (Note 17)		Remeasurement of Employee Benefits (Note 23)	Net Unrealized Valuation Gains on Financial Assets at FVOCI (Note 13)	Unrealized Valuation Losses on AFS Investment (Note 13)	Treasury Stock at Cost (Note 17)	Total
			Appropriated	Unappropriated					
Balances at January 1, 2018, as previously reported	₱1,569,491,900	₱86,810,752	₱1,350,000,000	₱2,647,469,896	(₱919,544)	₱-	(₱350,000)	(₱131,008,174)	₱5,521,494,830
Effect of adoption of PFRS 9 (Note 2)	-	-	-	-	-	3,350,000	350,000	-	3,700,000
Balances at January 1, 2018, as restated	1,569,491,900	86,810,752	1,350,000,000	2,647,469,896	(919,544)	3,350,000	-	(131,008,174)	5,525,194,830
Total comprehensive income	-	-	-	1,951,016,504	4,212,097	1,500,000	-	-	1,956,728,601
Appropriation (Note 17)	-	-	1,500,000,000	(1,500,000,000)	-	-	-	-	-
Reversal of appropriation (Note 17)	-	-	(1,350,000,000)	1,350,000,000	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	(1,197,241,442)	-	-	-	-	-
Balances at December 31, 2018	₱1,569,491,900	₱86,810,752	₱1,500,000,000	₱3,251,244,958	₱3,292,553	₱4,850,000	-	(₱131,008,174)	(₱1,197,241,442)
Balances at January 1, 2017	₱1,569,491,900	₱86,810,752	₱1,250,000,000	₱2,137,483,625	₱-	₱-	(₱350,000)	(₱131,008,174)	₱4,912,428,103
Total comprehensive income	-	-	-	1,807,227,712	(919,544)	-	-	-	1,806,308,168
Appropriation (Note 17)	-	-	500,000,000	(500,000,000)	-	-	-	-	-
Reversal of appropriation (Note 17)	-	-	(400,000,000)	400,000,000	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	(1,197,241,441)	-	-	-	-	-
Balances at December 31, 2017	₱1,569,491,900	₱86,810,752	₱1,350,000,000	₱2,647,469,896	(₱919,544)	₱-	(₱350,000)	(₱131,008,174)	(₱1,197,241,441)
Balances at January 1, 2016	₱1,569,491,900	₱86,810,752	₱1,250,000,000	₱2,273,419,718	₱-	₱-	(₱350,000)	(₱131,008,174)	₱5,048,364,196
Total comprehensive income	-	-	-	742,090,849	-	-	-	-	742,090,849
Appropriation (Note 17)	-	-	850,000,000	(850,000,000)	-	-	-	-	-
Reversal of appropriation (Note 17)	-	-	(850,000,000)	850,000,000	-	-	-	-	-
Cash dividends (Note 17)	-	-	-	(878,026,942)	-	-	-	-	(878,026,942)
Balances at December 31, 2016	₱1,569,491,900	₱86,810,752	₱1,250,000,000	₱2,137,483,625	₱-	₱-	(₱350,000)	(₱131,008,174)	₱4,912,428,103

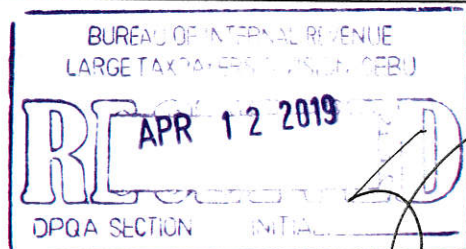
See accompanying Notes to Parent Company Financial Statements.



SPC POWER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

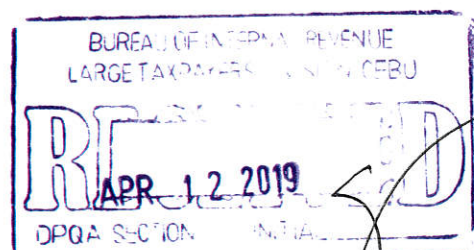
	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱2,015,034,184	₱1,848,345,470	₱786,406,927
Adjustments to reconcile income before income tax to net cash flows:			
Dividend income (Notes 5, 10 and 11)	(1,797,383,787)	(1,754,761,385)	(719,569,025)
Interest income (Note 4)	(41,191,175)	(10,617,555)	(16,852,593)
Changes in asset retirement obligation (Note 15)	(21,284,649)	—	—
Provision for impairment on property, plant and equipment	14,266,880	—	6,900,000
Depreciation and amortization (Notes 12 and 21)	13,141,696	1,910,328	1,730,507
Interest expense (Notes 15 and 16)	881,545	20,052,142	27,388,251
Net changes in pension	259,234	504,540	—
Others - net (Note 26)	7,137,266	765,331	(538,871)
Operating income before working capital changes	190,861,194	106,198,871	85,465,196
Decrease (increase) in:			
Trade and other receivables	65,480,334	(33,082,278)	122,776,243
Due from related parties	(365,773,167)	450,026,032	(214,086)
Due from NPC/PSALM	—	—	914,264
Materials and supplies	265,646,777	(255,647,407)	(48,178,627)
Prepayments and other current assets	72,307,898	(73,368,826)	(43,627,804)
Increase (decrease) in:			
Trade and other payables	(226,626,414)	204,905,878	7,177,277
Due to NPC/PSALM	(511,650,588)	199,494,613	145,297,628
Due to related parties	1,146,128	622,587	1,248,359
Net cash generated from (used in) operations	(508,607,838)	599,149,470	270,858,450
Income taxes paid	(69,500,863)	(33,541,943)	(41,931,032)
Interest paid	—	(21,716,866)	(26,897,018)
Interest received	41,191,175	10,617,555	16,852,593
Net cash flows from (used in) operating activities	(536,917,526)	554,508,216	218,882,993
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Notes 5, 10 and 11)	1,797,383,787	1,794,212,627	557,577,264
Additions to property, plant and equipment (Note 12)	(56,219,762)	(140,178,285)	(236,907,121)
Proceeds from disposal of property and equipment	1,593,750	267,857	309,223
Decrease in other noncurrent assets	1,143,453,081	(835,287)	3,043,679
Investment in an associate (Note 10)	—	—	(79,999,870)
Net cash flows from investing activities	2,886,210,856	1,653,466,912	244,023,175

(Forward)



	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid (Note 17)	(P1,197,241,442)	(P1,200,500,706)	(P874,767,677)
Payments of long-term debt (Note 16)	-	(577,777,778)	(103,911,053)
Cash flows used in financing activities	(1,197,241,442)	(1,778,278,484)	(978,678,730)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,152,051,888	429,696,644	(515,772,562)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	1,500,841	(1,033,188)	380,436
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,047,835,364	619,171,908	1,134,564,034
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	P2,201,388,093	P1,047,835,364	P619,171,908

See accompanying Notes to Parent Company Financial Statements.



SPC POWER CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

SPC Power Corporation (the Parent Company), formerly Salcon Power Corporation, was incorporated in the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 1994.

The Parent Company was formerly a venture company owned by members of the Salcon Consortium which entered into a Rehabilitation, Operation, Maintenance and Management Agreement (ROMM Agreement) with the National Power Corporation (NPC) on March 25, 1994 for the purpose of undertaking the rehabilitation, operation, maintenance and management of the 203.8 megawatt (MW) Naga Power Plant Complex (NPPC) in Colon, Naga, Cebu under the rehabilitate-operate-maintain-and-manage scheme as defined in the ROMM Agreement.

Under the ROMM Agreement, the Parent Company, at its own cost, rehabilitated, operated, maintained and managed the NPPC over the cooperation period of 15 years (Cooperation Period: up to May 29, 2009 for the Land-Based Gas Turbines (LBGTs), and up to March 25, 2012 for the Cebu Thermal Power Plant (CTPP) 1, CTPP 2 and Cebu Diesel Power Plants 1 (CDPP 1), as amended).

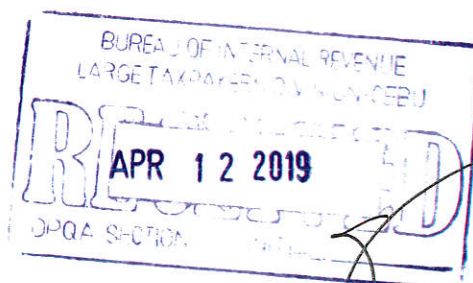
In resolutions dated September 28, 2001, the Board of Directors (BOD) and Stockholders amended the primary purposes for which the Parent Company is formed. Together with its subsidiaries and associates, it is engaged in various business activities within the Philippines that include, among others, the development, construction, rehabilitation, maintenance, management and operation of power generating plants, electricity distribution and related facilities in accordance with existing laws.

On April 2, 2002, the Parent Company's common shares were listed in the Philippine Stock Exchange (PSE) (see Note 17).

On September 9, 2016, the Parent Company's BOD further amended the Parent Company's Articles of Incorporation in order to engage in the business of selling, brokering, marketing, or aggregating electricity to the end users. The amendments were subsequently approved and confirmed by written consent of the stockholders representing at least two-thirds of the outstanding capital stock of the Parent Company. On January 4, 2017, the SEC approved such amendment.

The registered office address of the Parent Company is 7th Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business Park, Cebu City.

The financial statements of the Parent Company were authorized for issue by the BOD on April 4, 2019.



2. Summary of Significant Accounting Policies

Basis of Preparation

The Parent Company's financial statements have been prepared on a historical cost basis, except for financial assets at FVOCI which have been measured at fair value, and are presented in Philippine Peso, the Parent Company's functional currency. All amounts are rounded to the nearest Peso except as otherwise indicated.

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in accordance with Philippine Financial Reporting Standards (PFRSs). These may be obtained at SEC Building, V. Rama Avenue, Englis, Guadalupe, Cebu City.

Statement of Compliance

The Parent Company's financial statements are presented in accordance with the PFRSs.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2018. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Parent Company.

▪ PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required, but comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Parent Company has adopted this new standard without restating comparative information.

As of January 1, 2018, the Parent Company has reviewed and assessed all of its existing financial instruments. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with PAS 39 to their new measurement categories upon transition to PFRS 9 on January 1, 2018, and prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

Financial Assets	Original Measurement Category Under PAS 39	Original Carrying Amount under PAS 39	Reclassification	Remeasurement	New Measurement Category Under PFRS 9	New Carrying Amount under PFRS 9
Cash and cash equivalents	Loans and receivables	P1,047,835,364	P1,047,835,364	P-	Financial assets at amortized cost	P1,047,835,364
Investment in proprietary club shares	AFS investments	1,300,000	1,300,000	3,700,000	Financial assets at FVOCI	5,000,000
Trade and other receivables	Loans and receivables	108,107,798	108,107,798	-	Financial assets at amortized cost	108,107,798
Due from NPC/PSALM	Loans and receivables	1,175,128	1,175,128	-	Financial assets at amortized cost	1,175,128
Due from related parties	Loans and receivables	2,757,502	2,757,502	-	Financial assets at amortized cost	2,757,502
Noncurrent receivable (included in "Other Noncurrent Assets")	Loans and receivables	1,143,240,000	1,143,240,000	-	Financial assets at amortized cost	1,143,240,000



The effects of adoption on the parent company financial statements are as follows:

	As at January 1, 2018
Increase (decrease) in parent company statement of financial position:	
AFS investment	(1,300,000)
Financial asset at FVOCI	5,000,000
Total Assets	₱3,700,000
Net unrealized valuation losses on AFS investment	(₱350,000)
Net unrealized valuation gain on financial asset at FVOCI	3,350,000
Total Liabilities and Equity	₱3,700,000

As of December 31, 2018 and 2017, the Parent Company does not hold financial liabilities designated at fair value through profit or loss.

▪ PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue*, and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with the customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The adoption of PFRS 15 has no impact to the parent company statements of financial position, statements of comprehensive income and statements of cash flows.



- Amendments to PFRS 2, *Share-based Payment*, Classification and Measurement of Share-based Payment Transactions

The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met.

These amendments are not applicable to the Parent Company since it has no share-based payment arrangements.

- Amendments to PFRS 4, *Insurance Contracts*, Applying PFRS 9, *Financial Instruments*, with PFRS 4

The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

The amendments are not applicable to the Parent Company since it is not engaged in the insurance business.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014–2016 Cycle)

The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments are not applicable to the Parent Company since the company is not a venture capital organization or an investment entity, nor does the Parent Company have investment entity associates or joint ventures.



- Amendments to PAS 40, *Investment Property*, Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

These amendments are not applicable to the Parent Company since it does not own any investment property.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a nonmonetary asset or nonmonetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or nonmonetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Since the Parent Company's current practice is in line with the clarifications issued, the Parent Company does not expect any effect on its financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2018

The Parent Company will adopt the pronouncements enumerated below when these become effective. Except as otherwise indicated, the Parent Company does not expect the future adoption of the said pronouncements will have a significant impact on its financial statements.

Effective Beginning on or After January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.



These amendments have no impact on the financial statements of the Parent Company.

- PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2018, the Parent Company performed a preliminary impact assessment of PFRS 16. Based on the initial assessment, the Parent Company does not expect a significant impact to the financial statements.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Parent Company expects that adoption of these amendments will not have any impact to its financial statements since it does not have debt instruments with negative compensation prepayment features.



- Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures

The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

The Parent Company is currently assessing the impact of adopting these amendments.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Parent Company is currently assessing the impact of adopting this interpretation and expects that it will have no effect on its financial statements.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).



The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. The Parent Company does not expect any effect on its financial statements since the Parent Company's current practice is in line with these amendments.

Annual Improvements to PFRSs 2015-2017 Cycle

- Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments are currently not applicable to the Parent Company but may apply to future transactions.

- Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Parent Company.



- Amendments to PAS 23, *Borrowing Costs*, Borrowing Costs Eligible for Capitalization

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

The Parent Company does not expect any effect on its financial statements once it is adopted since the Parent Company's current practice is in line with these amendments.

Effective Beginning On or After January 1, 2020

- Amendments to PFRS 3, Definition of a Business

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

These amendments will apply to future business combinations of the Parent Company.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, Definition of Material

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective Beginning on or After January 1, 2021

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.



The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted. The new standard has no impact on the financial statements of the Parent Company because it is not engaged in the insurance business.

Deferred Effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Cash and Cash Equivalents

Cash consists of cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments - Initial Recognition and Subsequent Measurement (Prior to the Adoption of PFRS 9)

Date of Recognition. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the trade date - the date on which the Parent Company commits to purchase or sell the asset.

Initial Recognition of Financial Instruments. The Parent Company recognizes a financial asset or financial liability in the parent company statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.



All financial instruments, including loans and receivables, are initially measured at fair value. Except for financial assets and liabilities valued at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction costs. The Parent Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables and AFS investments. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income.

As of December 31, 2017, the Parent Company has no financial assets and financial liabilities at FVPL and HTM investments.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL. This accounting policy relates to the Parent Company's cash and cash equivalents, trade and other receivables, due from NPC/PSALM and due from related parties and noncurrent receivable included as part of "other noncurrent assets" in the parent company statement of financial position as of December 31, 2017 (see Notes 4, 5, 6, 7 and 13).

Receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are measured at amortized cost using the effective interest method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The losses arising from impairment of receivables are recognized in the parent company statement of comprehensive income. Any effect of restatement of foreign-currency-denominated assets is recognized in "Others - net" in the parent company statement of comprehensive income.

Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

AFS Financial Assets. AFS financial assets are those non-derivative financial assets that are designated in this category or are not classified in any of the three preceding categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirements, or changes in market conditions. After initial recognition, AFS financial assets are measured at fair value with unrealised gains or losses being recognized as other comprehensive income and as other equity reserve until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in the other comprehensive income and as other equity reserve is included in the parent company statement of comprehensive income and as other equity reserve under finance costs. AFS financial assets are classified as noncurrent unless the intention is to dispose such assets within 12 months from the reporting date.



As of December 31, 2017, included under this category is the Parent Company's investment in proprietary club shares presented under "Other noncurrent assets" in the parent company statement of financial position (see Note 13).

Other Financial Liabilities. Issued financial instruments or their components, which are not designated as liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Parent Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR. Any effect of restatement of foreign-currency-denominated liabilities is recognized in "Others - net" in the parent company statement of comprehensive income.

This accounting policy applies primarily to the Parent Company's trade and other payables, due to NPC/PSALM, long-term debt and due to related parties that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable) (see Notes 5, 7 and 14).

Financial Instruments - Classification and Measurement (upon adoption of PFRS 9)

Classification and Measurement upon the Adoption of PFRS 9

Classification of Financial Assets. Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Parent Company's business model for managing the financial assets. The Parent Company classifies its financial assets into the following measurement categories:

- Financial assets measured at amortized cost;
- Financial assets measured at FVPL;
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

Contractual Cash Flows Characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Parent Company assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.



In making this assessment, the Parent Company determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business Model. The Parent Company's business model is determined at a level that reflects how Parent Company of financial assets are managed together to achieve a particular business objective. The Parent Company's business model does not depend on management's intentions for an individual instrument.

The Parent Company's business model refers to how it manages its financial assets in order to generate cash flows. The Parent Company's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Parent Company in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Parent Company's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if (a) it is held within a business model for which the objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the parent company statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for bad debts" in the parent company statement of income.

As at December 31, 2018, the Parent Company has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, due from NPC/PSALM and due from related parties (see Notes 4, 5, 6 and 7)

Financial Assets at FVPL. Financial assets at FVPL are measured at FVPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.



Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Parent Company may choose at initial recognition to designate the financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Parent Company, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL, and the gains or losses from disposal of financial investments.

As at December 31, 2018, the Parent Company does not have equity instruments at FVPL.

Financial Assets at FVOCI. A financial asset is measured at FVOCI if (a) it is held within a business model for which the objective is achieved by both collecting contractual cash flows and selling financial assets and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Parent Company may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Parent Company may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Parent Company's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Parent Company; and,
- the amount of the dividend can be measured reliably.

As at December 31, 2018, the Parent Company's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other noncurrent assets" (see Notes 13 and 24).

Classification of Financial Liabilities. Financial liabilities are measured at amortized cost, except for the following:

- Financial liabilities measured at fair value through profit or loss;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Parent Company retains continuing involvement;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and,
- Contingent consideration recognized by an acquirer in accordance with PFRS 3.



A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or,
- if a Parent Company of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Parent Company's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Parent Company's financial liabilities include trade and other payables, due to NPC/PSALM and due to related parties (see Notes 5, 7 and 14).

Impairment of Financial Assets (Prior to the Adoption of PFRS 9)

The Parent Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the assets (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be readily estimated. Evidence of impairment may include indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.



AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of comprehensive income, is transferred from the statement of changes in equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

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

Impairment of Financial Assets (Upon the Adoption of PFRS 9)

Upon adoption of PFRS 9, the standard introduces the single, forward-looking “expected loss” impairment model, replacing the “incurred loss” impairment model under PAS 39.

The Parent Company recognizes ECL for the following financial assets that are not measured at FVPL:

- Debt instruments that are measured at amortized cost and FVOCI;
- Loan commitments; and,
- Financial guarantee contracts

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and,
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.
- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.



- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term;
- or,
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Parent Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determination of the Stage for Impairment. At each reporting date, the Parent Company assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Parent Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

Simplified Approach. The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade and other receivables'. The Parent Company has established a provision matrix for commercial and industrial business segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Parent Company considers a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, the Parent Company has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Parent Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Parent Company and all of the counterparties.



Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Parent Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or,
- the Parent Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or,
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Parent Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the company financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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



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

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

Materials and Supplies

Materials and supplies, which consist of spare parts, fuel and consumables used in the operation, repairs and maintenance of the property, plant and equipment, are stated at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. NRV is the current replacement cost in the ordinary course of business.

Value-added Tax (VAT)

Revenue, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Noncurrent Assets Held for Sale

The Parent Company classifies noncurrent assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense, if any. Liabilities directly associated with noncurrent asset held for sale are classified and presented separately.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.

Investments in Associates and Subsidiaries

The Parent Company's investments in associates and subsidiaries are accounted for at cost less any impairment loss, in accordance with PAS 27, *Separate Financial Statements*. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture. A subsidiary is an entity that is controlled by the Parent Company.



Property, Plant and Equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any allowance for impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment and borrowing costs for long term construction projects when the recognition criteria are met. Cost also includes asset retirement obligation specifically for property, plant and equipment installed/constructed on the leased properties.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

The carrying amount of the replaced part, regardless of whether the replaced part had been depreciated separately, is derecognized if an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation of property, plant and equipment commences once the assets are available for use and is computed on a straight-line basis over the estimated useful lives of the assets or lease term, whichever is shorter, as follows:

Buildings, plant machinery and equipment	2-15 years
Motor vehicles	2-12 years
Furniture and office equipment	2-12 years
Partitions and air conditioners	2-12 years

The remaining useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of consumption of future economic benefits from items of property, plant and equipment.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged to current operations.

Construction in progress represents assets under construction and is stated at cost. This includes cost of construction, equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and available for operational use.



Asset Retirement Obligation (ARO)

The Parent Company has a contractual obligation under the Land Lease Agreement (LLA) (see Note 25) with PSALM (the Lessor) pursuant to the acquisition of the LBGTs to dismantle and remove all movable and immovable improvements directed to be removed by the Lessor, to clean and free the leased premises from all environmental waste, hazardous substances and hazardous materials, including those resulting from any dismantling, to repair any damage caused to the leased premises, and to restore the leased premises to the condition it was found at the acquisition date to the full satisfaction of the Lessor, subject to ordinary wear and tear, within 180 days from the termination of the lease agreement or expiration of the lease term.

The ARO recognized represents the best estimate of the expenditures required to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term. Such cost estimates are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The Parent Company recognized the fair value of the liability for these obligations and capitalizes the present value of these costs as part of the property, plant and equipment account, which are depreciated on a straight-line basis over the remaining useful lives of the related property, plant and equipment. Each year, the ARO is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under "Interest expense" in the parent company statement of comprehensive income.

While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligations in future years. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with the following under the cost model of accounting for the related asset subject to (a) changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period, (b) the amount deducted from the cost of the asset shall not exceed its carrying amount, the excess shall be recognized immediately in the parent company statement of comprehensive income, and (c) if the adjustment results in an addition to the cost of an asset, the Parent Company shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Parent Company shall test the asset and account for any impairment loss in accordance with PAS 36.

The adjusted depreciable amount of the asset, after adjustment for changes in ARO, is depreciated over its useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the ARO shall be recognized in profit or loss as they occur.

Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of comprehensive income in those expense categories consistent with the function of the impaired asset.



An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock. Capital stock is recognized at par value for all issued shares.

Additional Paid-in Capital. Consideration received in excess of par value are recognized as additional paid-in capital, net of incremental costs that are directly attributable of the issuance of new shares.

Treasury Shares. These own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the parent company statement of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Retained Earnings. Retained earnings include cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments.

Revenue Recognition

Prior to the adoption of PFRS 15, revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Parent Company and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty.

Upon adoption of PFRS 15, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Parent Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Parent Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

The Parent Company has concluded that it is the principal in its revenue arrangements because it controls the goods or services before these goods or services are transferred to the customer. The following specific recognition criteria must also be met before revenue is recognized:



Operating Fees

Revenue consists of: (i) fees received from National Grid Corporation of the Philippines for rendering ancillary services; and (ii) energy fees for electricity sold to the Wholesale Electricity Spot Market (WESM).

Under PAS 18, revenue from power generation is recognized in the period actual capacity is generated.

Under PFRS 15, the Parent Company has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power. For power generation where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer. In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time.

Some contracts with customers provide unspecified quantity of energy, and includes provisional Energy Regulatory Commission (ERC) rates. Under PFRS 15, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of constraint on variable consideration resulted in the same revenue recognition under PAS 18.

Other Income. Other income is recognized as earned when the related services or performance obligations are rendered or satisfied under PAS 18 and PFRS 15. In 2018 and 2017, this account consists mainly of incidental income derived from operating and preserving the NPPC after November 28, 2016 (see Notes 3 and 26) and service income not directly related to generation and distribution of electricity. The account also includes net gains/proceeds from disposal of assets, scraps and used oil.

Interest Income. Interest income is recognized as interest accrues taking into account the effective yield of the asset.

Dividend Income. Dividend income from investments in associates and subsidiaries is recognized when the Parent Company's right to receive payment is established.

Cost and Expense Recognition

Cost and expenses are recognized in the parent company statement of comprehensive income when incurred.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset, specifically major capital projects; otherwise they are recognized as an expense.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.



Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specific asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments on non-cancellable leases are directly charged against current operations on a straight-line basis over the lease term. Operating lease payments on cancellable leases are directly charged against current operations based on the terms of the lease.

Pension Expense

The Parent Company has a funded, noncontributory defined pension plan covering all regular and permanent employees. The cost of providing benefits is determined using the projected unit credit method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability; and
- Remeasurements of net defined benefit liability.

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability is recognized as expense or income in the parent company statement of comprehensive income.



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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Tax

Current Income Tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

Deferred Income Tax. Deferred income tax is provided, using the balance sheet liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

