

# COVER SHEET

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S.E.C. Registration Number

S P C P O W E R C O R P O R A T I O N  
( f o r m e r l y S A L C O N P O W E R C O R P . )

( Company's Full Name )

7 t h F l o o r C e b u H o l d i n g s C e n t e r  
A r c h b i s h o p R e y e s A v e n u e ,  
C e b u B u s i n e s s P a r k , C e b u C i t y

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

Mr. Reynante C. Del Rosario

Contact Person

810 44 74 to 77

Company Telephone Number

1 2 3 1  
Month Day  
Calendar Year

SEC FORM

1 7 - Q  
FORM TYPE

0 5 3 0  
Month Day  
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2017
2. SEC Identification Number AS094-002365 3. BIR Tax Identification No. 003-868-048
- SPC POWER CORPORATION
4. Exact name of issuer as specified in its charter
- Metro Manila, Philippines
5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code  (SEC Use Only)
- 7<sup>th</sup> Floor, Cebu Holdings Center, Cebu Business Park, Cebu City 6000  
(Manila Office: 7<sup>th</sup> Floor, Citibank Center, 8741 Paseo de Roxas, Makati City)
7. Address of Issuer's principal office Postal Code
- (63 32) 232 0375; 232 0477 / (63 2) 810 4474 to 77, 810 4450, 810 4465
8. Issuer's telephone number, including area code
- N.A.
9. Former name of former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Section 4 and 8 of the RSA
- | Title of Each Class                             | Number of Shares of Common Stock<br>Outstanding and Amount of Debt<br>Outstanding |
|---|---|
| <u>Common Shares (as of September 30, 2017)</u> | <u>1,496,551,803 shares</u>   |
| <u>Total Debt (as of September 30, 2017)</u>    | <u>₱1,872,649,114</u>   |
11. Are any or all of the securities listed on a Stock Exchange?
- Yes [ ☒ ] No [ ☐ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

common shares

12. Check whether the issuer:

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

Yes [ ☒ ]      No [ ☐ ]

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

Yes [ ☒ ]      No [ ☐ ]

## **PART I – FINANCIAL INFORMATION**

### **ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated interim financial statements of the Parent Company and its Subsidiaries (the “Group”) are attached herewith as follows:

- a. Consolidated Statements of Financial Position – September 30, 2017 (unaudited) and December 31, 2016 (audited).
- b. Consolidated Statements of Comprehensive Income – Three Months Ended September 30, 2017 and 2016 (unaudited).
- c. Consolidated Statements of Comprehensive Income – Nine Months Ended September 30, 2017 and 2016 (unaudited).
- d. Consolidated Statements of Changes in Stockholders’ Equity – Nine Months Ended September 30, 2017 and 2016 (unaudited).
- e. Consolidated Statements of Cash Flows – Nine Months ended September 30, 2017 and 2016 (unaudited).
- f. Notes to the Consolidated Financial Statements.

### **ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

Hereunder is management’s discussion and analysis of the significant factors affecting the financial performance, financial position and cash flows of the Parent Company and Subsidiaries (collectively referred to as the “Group”). The discussion and analysis should be read in conjunction with the accompanying interim consolidated financial statements and the notes thereto as well as the schedules and disclosures set forth elsewhere in this report.

#### **Financial Conditions and Results of Operations**

##### **Results of Operations**

##### Three Months Ended September 30, 2017 and 2016

Consolidated net income fell 51.2% to P219.9 million in the third quarter of 2017 from P450.4 million in the same period last year. The significantly lower bottom line was attributed mainly to the power system disturbance brought about by “Intensity Scale 5 Earthquake” that hit the Visayas region on July 6, 2017. Operations of the Wholesale Electricity Spot Market (WESM) were suspended in the Visayas region starting July 6,



2017 and resumed operations on August 1, 2017. However, even after WESM operations were resumed, the system was consistently placed on yellow and red alerts up to early September 2017.

During the times that market operations were suspended or when the system was on yellow or red alerts, the System Operator ordered the generating plants to run as needed but the settlements were based on administered prices or must-run-unit (MRU) rule which do not include recovery of capital costs and fixed operating and maintenance expenses.

Consolidated revenues decreased by 9.9% to P658.6 million in July – September 2017 from P730.7 million in the same period last year. The lower average selling prices based on administered prices and/or MRU rule contributed mainly to the drop in revenues despite robust rise in the volume of electricity generated and sold.

Consolidated cost of services went up by 25.6% to P649.2 million in the third quarter of 2017 from P516.9 million in the same period last year due mainly to more fuel used to generate electricity needed by the system during the occasions of market intervention/market suspension.

Consolidated administrative and general expenses rose by 19.3% to P37.4 million in July – September 2017 from P31.4 million in the same period last year due mainly to higher expenses for personnel and insurance.

Equity share in the earnings of associates decreased by 13.3% to P230.2 million in the third quarter of 2017 from P265.4 million in the same period last year. This was due mainly to higher operating expenses and the expiration on February 2017 of the income tax holiday previously granted to a major associate (better margins from the sale of power as well as the lower financing costs attributed to the pre-termination of long-term debts in April 2017 were negated by higher provision for income taxes).

Total other income generated separately from power generation and distribution was also lower in 2017 as compared to the previous year.

#### Nine Months Ended September 30, 2017 and 2016

The third quarter results slowed the growth of the January – September 2017 consolidated net income to P1,202.6 million, 18.6% lower than the net income of P1,477.9 million generated in the same nine-month period last year.

The decline in consolidated net income in the first nine months of 2017 was also attributed to lower earnings contributed by the investee companies due mainly to higher operating expenses and the expiration on February 2017 of the income tax holiday previously granted to a major associate. Equity share in the earnings of associates decreased by 11.5% to P853.4 million in the first nine months of 2017 from P964.3 million within the same stretch last year.

The consolidated net income translates to P0.79 in earnings per share in the first nine months of 2017 compared to P0.97 in the same period last year.

The performance likewise translated to a return on average equity of 13.05% in the first nine months of 2017 versus 17.29% in the same period last year.

Equity share in the earnings of associates accounted for 71% of the consolidated net income in the first nine months of 2017. Power generation pitched in 26% while power distribution and others brought in 3%.

Consolidated revenues in the first nine months of 2017 decreased by 12.2% year-on-year to ₱2,020.9 million. This was primarily attributed to lower year-to-date dispatch of available generation capacities and lower average selling prices in the third quarter of 2017.

Consolidated cost of services remained at ₱1,541.1 million in the first nine months of 2017 (even with the substantial increase in fuel cost in the last quarter of 2017), slightly higher by 0.5% only as compared to the same period last year.

Consolidated administrative and general expenses were substantially subdued by 22.1% to ₱114.3 million in the first nine months of 2017 from ₱146.7 million in the same period last year due mainly to lower expenses for business development and taxes.

Other income (service income) generated separately from power generation and distribution also helped the bottom line. These amounted to ₱72.7 million in the first nine months of 2017 versus ₱36.4 million only in the same period last year.

### **Financial Condition**

#### September 30, 2017 Vs. December 31, 2016

Total consolidated assets of the Group increased by ₱961.6 million to ₱11,386.8 million as at end-September 2017 from the last audited balance of ₱10,425.2 million as at end-December 2016. The 9.2% increase in total assets was attributed mainly to the additional cash inflows generated from operating and investing activities; continued growth in the carrying value of investment in associates; additional investments in properties, plant and equipment; and increase in receivables and inventories.

Consolidated liabilities also went up by ₱363.5 million (favorably much slower than the increase in total assets) to ₱1,872.6 million as at end-September 2017 from ₱1,509.2 million as at end-December 2016. This was due mainly to increase in trade and other payables and Due to PSALM for cost of fuel used in the operation of NPPC.

Total stockholders' equity likewise increased by ₱598.2 million to ₱9,514.2 million as at end-September 2017 from ₱8,916.0 million as at end-December 2016. The 6.7% increase came from the total comprehensive income in the first nine months of 2017 amounting to ₱1,202.6 million less cash dividends declared and paid amounting to ₱604.4 million. Book value per share grew to ₱6.36 as at end-September 2017 compared to ₱5.96 as at end-December 2016.

Further details of significant items that contributed to the changes in assets, liabilities and stockholders' equity are discussed below.

Cash and cash equivalents increased by 16.3% to ₱2,034.0 million as at end-September 2017 from ₱1,749.5 million as at end-December 2016. Details of changes in the balance of cash and cash equivalents are discussed in the section for Cash Flows below.



The Group's trade and other receivables increased by 56.8% to ₱524.8 million as at end-September 2017 from ₱334.7 million as at end-December 2016. This was due mainly to outstanding receivables for ancillary services and sales to the spot market/customers under bilateral contracts for the month of September 2017. It was also due to claims for additional compensation from PEMC during the intervals when administered prices were imposed for the billing period from June 26, 2017 to July 25, 2017 amounting to ₱51.2 million.

Materials and supplies inventory rose by 37.9% to ₱374.0 million as at end-September 2017 from ₱271.2 million as at end-December 2016 due mainly to spare parts intended for the ongoing rehabilitation of PB 104 as well as increase in the level of fuel inventory.

Prepayments and other current assets increased by 39.9% to ₱105.2 million as at end-September 2017 from ₱75.2 million at the beginning of the year due mainly to carry-over of unused input tax for offsetting against future output tax.

Investment in associates increased further to ₱6,313.7 million as of September 30, 2017 from ₱6,073.0 million as of December 31, 2016. The increase reflected fresh equity share in the net earnings of associates amounting to ₱853.4 million less dividends declared amounting to ₱612.7 million.

Property, plant and equipment grew by 16.8% to ₱788.4 million from ₱675.0 million. The increase was net of the following: (i) additions to property, plant and equipment amounting to ₱173.5 million, and (ii) depreciation and disposal of assets amounting to ₱59.0 million and ₱1.1 million, respectively, in the first nine months of 2017.

As at end-September 2017, total other noncurrent assets stood at ₱1,174.5 million, slightly lower compared to the balance of ₱1,175.3 million as of December 31, 2016. The balance of this account is inclusive of ₱1,143.2 million that was paid by the Parent Company to PSALM for the acquisition of the 153.1 MW Naga Power Plant Complex (NPPC). Please see Note 12 of the interim consolidated financial statements.

Trade and other payables increased by 84.4% to ₱624.9 million as at end-September 2017 from ₱338.8 million as at end-December 2016 due mainly to unpaid fuel purchases and cost of goods and services intended for SIPC and PB 104 as of September 30, 2017.

Dividends payable (pertaining to unclaimed cash dividends declared to non-controlling interests in 2016) was already substantially claimed/paid as of September 30, 2017.

Income tax payable decreased by 85.0% to ₱5.2 million as at end-September 2017 from ₱34.8 million as at-December 2016. The decrease was due to lower taxable income in the third quarter of 2017 (income tax is payable in November 2017) as compared to the fourth quarter of 2016 (income tax was paid on April 11, 2017).

Customers' deposits grew by 12.2% to ₱113.2 million as at end-September 2017 from ₱100.8 million as at end-December 2016 due mainly to additional bill and material deposits received from customers in the first nine months of 2017.

Noncurrent portion of Due to PSALM increased by ₱183.8 million to ₱192.5 million as at end-September 2017 from ₱8.7 million as at end-December 2016. The increase was due mainly to the cost of PSALM-owned fuel used in the operation of NPPC.

Long-term debt – net of current portion decreased by 16.6% to P360.0 million as at end-September 2017 from P431.8 million as at end-December 2016 due to periodic principal payment amounting to P72.2 million in April 2017.

Unappropriated retained earnings increased by 10.4% to P6,206.0 million as at end-September 2017 from P5,621.4 million at the beginning of the year. The net increase is reflective of the comprehensive income attributable to equity holders of the Parent Company in the first nine months of 2017 amounting to P1,183.1 million, reduced by cash dividends amounting to P598.6 million that was declared by the Parent Company's Board of Directors on May 30, 2017.

### **Cash Flows**

In the nine months ended September 30, 2017, the Group continued to support its liquidity mainly from cash generated from operating activities and dividends received from its investments.

Net cash inflows generated from operating activities in the first nine months of 2017 amounted to P544.1 million, 37.2% lower compared to P866.6 million in the same period last year due mainly to lower cash profit.

Net cash flows generated from (used in) investing activities in the first nine months of 2017 consisted of the following major items: (i) receipt of cash dividends amounting to P612.7 million from investee companies; and (ii) new additions to property, plant and equipment amounting to P173.5 million.

Net cash flows used for financing activities in the first nine months of 2017 pertained to payment of cash dividends and loan principal amortization amounting to P626.4 million and P72.2 million, respectively.



### Key Performance Indicators

The following financial indicators are used, among others, to evaluate the performance of the Group as of September 30, 2017 and December 31, 2016 and for the nine months ended September 30, 2017 and 2016:

Key Performance Indicators*	2017	2016
A. For Nine Months Ended September 30, 2017 and 2016:		
Earnings Per Share	0.79	0.97
Share In Net Earnings of Associates	P853,424,165	P964,270,478
Return on Equity	13.05%	17.29%
Return on Assets	11.03%	14.65%
Cash Flows:		
Net cash flows generated from operating activities	P544,068,686	P866,641,937
Net cash flows generated from (used in) investing activities	P439,140,434	(P70, 652,169)
Net cash flows used in financing activities	(P698,660,902)	(P477,354,000)
B. As of September 30, 2017 and December 31, 2016:		
Balance of cash and cash equivalents at end of period	P2,034,014,696	P1,749,497,644
Current ratio	2.82	2.88
Debt ratio	0.16	0.15
Debt-to-equity ratio	0.20	0.17
Solvency ratio (annualized)	0.90	1.24

\*The formulas used to compute the performance indicators are shown below:

#### Earnings Per Share

EPS is a measure of profitability representing net income attributable to equity holders divided by the weighted average number of shares outstanding as of the end of the period.

#### Share in Net Earnings of Associates

This indicates profitability of the investments and investees' contribution to the Group's net income. It is determined by multiplying the associate's net income by the investor's percentage of ownership, less goodwill impairment cost, if any. Goodwill is the

difference between the acquisition cost of the investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition.

### **Return on Equity**

Return on Equity = Total comprehensive income divided by average total stockholders' equity. This ratio indicates the level of profit earned by the Group in comparison with the total amount of stockholders' equity found in the statements of financial position. The higher the return on equity, the higher the Group's ability to produce internally generated cash flows. Moreover, the higher the Group's return on equity compared to other companies in the same industry, the better.

### **Return on Assets**

Return on Assets = Total comprehensive income divided by average total assets. This ratio measures the ability of the Group's management to realize an adequate return on the average total resources employed for the business. A high percentage rate indicates how the Group is well run and has a healthy return on assets employed.

### **Cash Flows**

The Group uses the Statements of Cash Flows to determine the sources and application of funds for the period and to analyze and evaluate how the sources and uses of capital are being managed.

### **Current Ratio**

Current Ratio = Total current assets divided by total current liabilities. This ratio is a rough indication of the Group's ability to service its current obligations. The higher the current ratio, the greater the Group's ability to pay its current obligations.

### **Debt Ratio**

Debt ratio = total liabilities divided by total tangible assets. The ratio indicates the degree of protection provided for the Group's creditors. A high ratio generally indicates greater risk being assumed by creditors. On the other hand, a low ratio indicates greater long-term financial safety.

### **Debt-to-Equity Ratio**

Debt-to-equity ratio = total liabilities divided by total equity. The ratio indicates how leveraged the Group is. It compares the resources provided by creditors against the resources provided by the stockholders in running the business of the Group.

### **Solvency Ratio**

Solvency Ratio = total sum of total comprehensive income, depreciation and amortizations divided by total liabilities. This ratio provides another measurement of how likely the Group will be able to continue meeting its debt obligation. The higher the ratio, the greater the Company's ability to continue meeting its debt obligations.

**Any Significant Elements of Income or Loss from Continuing Operations**

There are no significant elements of income or loss from continuing operations.

**Material Off-Balance Sheet Items**

There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

**Material Commitments for Capital Expenditures**

As of September 30, 2017, there are no material commitments for capital expenditures other than in the ordinary course of business to improve power generation and distribution facilities. Funding comes from internally generated cash from operations.

**Known Trends**

Except as already discussed herein and in the notes to the interim consolidated financial statements, management is not aware of any other trend, event or uncertainty to have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations. Management is likewise not aware of any other event that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SPC POWER CORPORATION**  
*Issuer*

*By:*

  
**JAIME M. BALISACAN**  
*VP - Finance*

  
**MA. LUZ L. CAMINERO**  
*Corporate Secretary*

Date: November 14, 2017

Date: November 14, 2017



**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Philippine Pesos)

	Sept. 30, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Incr. / (Decr.)	
			Amount	Percent
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	2,034,014,696	1,749,497,644	284,517,052	16.3%
Trade and other receivables - net	524,767,858	334,709,086	190,058,772	56.8%
Due from related parties	1,330,058	1,581,466	(251,408)	-15.9%
Due from NPC/PSALM	1,175,128	1,175,128	0	0.0%
Material and supplies	373,962,478	271,196,687	102,765,791	37.9%
Prepayments and other current assets	105,240,595	75,228,064	30,012,531	39.9%
<b>Total Current Assets</b>	<b>3,040,490,813</b>	<b>2,433,388,075</b>	<b>607,102,738</b>	<b>24.9%</b>
<b>Noncurrent Assets</b>				
Investment in associates	6,313,674,890	6,072,994,481	240,680,409	4.0%
Property, plant and equipment - net	788,395,570	675,003,399	113,392,171	16.8%
Goodwill	32,522,016	32,522,016	0	0.0%
Deferred income tax assets	37,280,190	35,977,243	1,302,947	3.6%
Other noncurrent assets - net	1,174,464,537	1,175,300,299	(835,762)	-0.1%
<b>Total Noncurrent Assets</b>	<b>8,346,337,203</b>	<b>7,991,797,438</b>	<b>354,539,765</b>	<b>4.4%</b>
<b>TOTAL ASSETS</b>	<b>11,386,828,016</b>	<b>10,425,185,513</b>	<b>961,642,503</b>	<b>9.2%</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Trade and other payables	624,890,145	338,818,430	286,071,715	84.4%
Due to related parties	179,034	689,956	(510,922)	-74.1%
Dividends payable	217	22,028,175	(22,027,958)	-100.0%
Income tax payable	5,228,934	34,795,153	(29,566,219)	-85.0%
Current portion of long-term debt	144,444,447	144,444,447	0	0.0%
Due to NPC/PSALM	303,442,871	303,442,871	0	0.0%
<b>Total current liabilities</b>	<b>1,078,185,648</b>	<b>844,219,032</b>	<b>233,966,616</b>	<b>27.7%</b>
<b>Noncurrent Liabilities</b>				
Customers' deposits	113,182,051	100,840,179	12,341,872	12.2%
Due to NPC/PSALM	192,536,713	8,713,104	183,823,609	2109.7%
Asset retirement obligation	116,713,737	112,303,852	4,409,885	3.9%
Long-term debt - net of current portion	360,083,270	431,784,068	(71,700,798)	-16.6%
Pension liability	11,947,695	11,338,691	609,004	5.4%
<b>Total noncurrent liabilities</b>	<b>794,463,466</b>	<b>664,979,894</b>	<b>129,483,572</b>	<b>19.5%</b>
<b>Total Liabilities</b>	<b>1,872,649,114</b>	<b>1,509,198,926</b>	<b>363,450,188</b>	<b>24.1%</b>


(Forward)


**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(Amounts in Philippine Pesos)

	Sept. 30, 2017 (Unaudited)	Dec. 31, 2016 (Audited)	Incr. / (Decr.)	
			Amount	Percent
<b>Stockholders' Equity</b>				
Capital stock - P1 par value				
Authorized - 2,000,000,000 shares				
Issued - 1,569,491,900 shares	1,569,491,900	1,569,491,900	0	0.0%
Additional paid-in capital	86,810,752	86,810,752	(0)	0.0%
Retained earnings:				
Unappropriated	6,205,966,200	5,621,443,413	584,522,787	10.4%
Appropriated	1,250,000,000	1,250,000,000	0	0.0%
Other comprehensive income:				
Remeasurement of employee benefits	99,615	99,615	(0)	0.0%
Net unrealized valuation losses				
on available-for-sale investment	(350,000)	(350,000)	0	0.0%
Share in remeasurement of employee				
benefits of associates	194,814	194,814	0	0.0%
Treasury stock at cost - 72,940,097 shares	(131,008,174)	(131,008,174)	0	0.0%
Equity attributable to equity holders of Parent	8,981,205,107	8,396,682,320	584,522,787	7.0%
Equity attributable to Non-controlling interests	532,973,795	519,304,267	13,669,528	2.6%
Total Stockholders' Equity	9,514,178,902	8,915,986,587	598,192,315	6.7%
<b>TOTAL LIABILITIES and EQUITY</b>	<b>11,386,828,016</b>	<b>10,425,185,513</b>	<b>961,642,503</b>	<b>9.2%</b>

See accompanying Notes to Consolidated Financial Statements.

  
Mary Ann G. Daugdaug  
Accountant

  
Jaime M. Balisacan  
VP - Finance

**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Philippine Pesos)

	Three Months Ended Sept. 30		Increase / (Decrease)	
	2017 (Unaudited)	2016 (Unaudited)	Amount	Percent
REVENUE	658,617,047	730,692,581	(72,075,534)	-9.9%
COST OF SERVICES				
Plant operations	649,214,708	516,947,069	132,267,639	25.6%
GROSS MARGIN	9,402,339	213,745,512	(204,343,173)	-95.6%
GENERAL AND ADM. EXPENSES	(37,440,577)	(31,393,608)	(6,046,969)	19.3%
OTHER INCOME (CHARGES):				
Equity in net earnings of associates	230,198,231	265,442,981	(35,244,750)	-13.3%
Interest Income	6,191,898	5,617,398	574,500	10.2%
Interest Expense	(6,650,479)	(8,441,332)	1,790,853	-21.2%
Service Income	18,182,903	36,365,906	(18,183,003)	-50.0%
Others - net	6,464,071	14,335,388	(7,871,317)	-54.9%
INCOME BEFORE INCOME TAX	226,348,386	495,672,245	(269,323,859)	-54.3%
PROVISION FOR/(BENEFIT FROM) INCOME TAX				
Current	6,729,655	46,291,565	(39,561,910)	-85.5%
Deferred	(313,169)	(985,386)	672,217	-68.2%
	6,416,486	45,306,179	(38,889,693)	-85.8%
NET INCOME	219,931,900	450,366,066	(230,434,166)	-51.2%
OTHER COMPREHENSIVE INCOME			0	0.0%
TOTAL COMPREHENSIVE INCOME	219,931,900	450,366,066	(230,434,166)	-51.2%
ATTRIBUTABLE TO:				
Equity holders of the Parent	212,756,583	441,134,982	(228,378,399)	-51.8%
Non-controlling interests	7,175,317	9,231,084	(2,055,767)	-22.3%
	219,931,900	450,366,066	(230,434,166)	-51.2%
EARNINGS PER SHARE (Note 3):				
Basic/diluted, for income for the period attributable to equity holders of the Parent	0.14	0.29	(0.15)	-51.8%

See accompanying Notes to Consolidated Financial Statements.

  
Mary Ann G. Daugdaug  
Accountant

  
Jaime M. Balisacan  
VP - Finance



SPC POWER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Nine Months Ended Sept. 30		Increase / (Decrease)	
	2017	2016		
	(Unaudited)	(Unaudited)	Amount	Percent
REVENUE	2,020,916,027	2,301,543,376	(280,627,349)	-12.2%
COST OF SERVICES				
Plant operations	1,541,120,324	1,534,199,903	6,920,421	0.5%
GROSS MARGIN	479,795,703	767,343,473	(287,547,770)	-37.5%
GENERAL AND ADM. EXPENSES	(114,332,078)	(146,737,799)	32,405,721	-22.1%
OTHER INCOME (CHARGES):				
Equity in net earnings of associates	853,424,165	964,270,478	(110,846,313)	-11.5%
Interest Income	16,502,855	18,139,384	(1,636,529)	-9.0%
Interest Expense	(21,091,594)	(24,747,680)	3,656,086	-14.8%
Service Income	72,732,013	36,365,906	36,366,107	100.0%
Others - net	16,914,143	8,467,904	8,446,239	99.7%
INCOME BEFORE INCOME TAX	1,303,945,207	1,623,101,666	(319,156,459)	-19.7%
PROVISION FOR/(BENEFIT FROM) INCOME TAX				
Current	102,645,116	147,442,943	(44,797,827)	-30.4%
Deferred	(1,302,947)	(2,247,872)	944,925	-42.0%
	101,342,169	145,195,071	(43,852,902)	-30.2%
NET INCOME	1,202,603,038	1,477,906,595	(275,303,557)	-18.6%
OTHER COMPREHENSIVE INCOME	0	0	0	0.0%
TOTAL COMPREHENSIVE INCOME	1,202,603,038	1,477,906,595	(275,303,557)	-18.6%
ATTRIBUTABLE TO:				
Equity holders of the Parent	1,183,143,509	1,451,734,207	(268,590,698)	-18.5%
Non-controlling interests	19,459,529	26,172,388	(6,712,859)	-25.6%
	1,202,603,038	1,477,906,595	(275,303,557)	-18.6%
EARNINGS PER SHARE (Note 3):				
Basic/diluted, for income for the period attributable to equity holders of the Parent	0.79	0.97	(0.18)	-18.5%

See accompanying Notes to Consolidated Financial Statements.

  
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Accountant

  
Jaime M. Balisacan  
VP - Finance



**EPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

	Capital Stock	Additional Paid-In Capital	Treasury Stock at Cost	Remeasurement of Employee Benefits	Equity Attributable to Equity Holders of the Parent			Net Unrealized Valuation	Total	Non-controlling Interest	Total
					Share of Associates in	Retained Earnings	Unappropriated				
					Appropriated						
Balances at January 1, 2017	P1,569,491,900	P86,810,752	(P131,008,174)	P99,615	P194,814	P1,250,000,000	P5,621,443,413	(P350,000)	P8,396,682,320	P519,304,267	P 8,915,986,587
total comprehensive income	-	-	-	-	-	-	1,183,143,509	-	1,183,143,509	19,459,529	1,202,603,038
cash dividends	-	-	-	-	-	-	(598,620,721)	-	(598,620,721)	(5,790,001)	(604,410,722)
appropriation	-	-	-	-	-	-	-	-	-	-	-
Balances at September 30, 2017	P1,569,491,900	P86,810,752	(P131,008,174)	P99,615	P194,814	P1,250,000,000	P6,205,966,200	(P350,000)	P8,981,205,107	P532,973,795	P9,514,178,902
Balances at January 1, 2016	P1,569,491,900	P86,810,752	(P131,008,174)	P99,615	(P552,266)	P1,250,000,000	P4,765,808,415	(P350,000)	P7,540,300,242	P500,597,481	P8,040,897,723
total comprehensive income	-	-	-	-	-	-	1,451,734,207	-	1,451,734,207	26,172,388	1,477,906,595
cash dividends	-	-	-	-	-	-	(448,965,541)	-	(448,965,541)	(16,212,004)	(465,177,545)
appropriation	-	-	-	-	-	-	-	-	-	-	-
Balances at September 30, 2016	P1,569,491,900	P86,810,752	(P131,008,174)	P99,615	(P552,266)	P1,250,000,000	P5,768,577,085	(P350,000)	P8,543,068,908	P510,557,865	P9,053,626,776

See accompanying Notes to Consolidated Financial Statements.

  
**Mary Ann G. Daugdaug**  
Accountant


  
**Jaime M. Balisacan**  
VP - Finance

SPC POWER CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months ended Sept. 30	
	2017	2016
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	1,303,945,207	1,623,101,666
Adjustments for:		
Equity in net losses (earnings) of associates	(853,424,165)	(964,270,478)
Depreciation and amortizations	59,969,712	60,143,747
Interest expense	21,091,594	24,747,680
Interest income	(16,502,855)	(18,139,384)
Others -net	1,717,370	1,099,051
Operating income before working capital changes	516,796,863	726,682,282
Decrease (increase) in:		
Trade and other receivables	(190,058,772)	191,389,338
Due from NPC/PSALM	0	(582,747)
Due from related parties	251,408	(79,530)
Prepayments and other current assets	(30,012,531)	(8,971,450)
Materials and supplies	(102,765,791)	(33,482,446)
Increase (decrease) in:		
Trade and other payables	286,962,295	38,176,190
Due to NPC/PSALM	183,823,609	86,061,581
Due to related parties	(510,922)	(190,552)
Customers' deposits	12,341,872	7,396,304
Net cash generated from operations	676,828,031	1,006,398,970
Income tax paid	(132,211,335)	(137,446,877)
Interest paid	(17,050,865)	(20,449,540)
Interest received	16,502,855	18,139,384
Net cash flows from operating activities	544,068,686	866,641,937
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash dividends received	612,743,754	213,359,877
Additions to plant, property and equipment	(173,468,428)	(64,757,898)
Decrease (increase) in:		
Other noncurrent assets	(134,892)	(219,254,148)
Net cash provided by (used in) investing activities	439,140,434	(70,652,169)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of long-term debt	(72,222,222)	(15,437,289)
Cash dividends paid	(626,438,680)	(461,916,711)
Net cash provided by (used in) financing activities	(698,660,902)	(477,354,000)
<b>NET EFFECT OF EXCHANGE RATE CHANGES</b>	(31,166)	7,056,512
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	284,517,052	325,692,280
<b>CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD</b>	1,749,497,644	1,940,459,937
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	2,034,014,696	2,266,152,217

See accompanying Notes to Financial Statements.

  
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**SPC POWER CORPORATION AND SUBSIDIARIES**  
**SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. General**

The consolidated financial statements comprise the financial statements of the Parent Company and the following wholly owned and majority owned subsidiaries:

	Nature of Business	% of Ownership		
		Direct	Indirect	Total
SPC Island Power Corporation	Power generation	100.00%	—	100.00%
Cebu Naga Power Corporation	Power generation	100.00%	—	100.00%
SPC Malaya Power Corporation	Power generation	40.00%	38.40%	78.40%
SPC Light Company, Inc.	Holding company	40.00%	24.00%	64.00%
Bohol Light Company, Inc.	Power distribution	39.90%	13.76%	53.66%
SPC Electric Company, Inc.	Holding company	40.00%	—	40.00%

**2. Accounting Policies**

The Group's consolidated interim financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). Measurements are on historical cost basis, except for available-for-sale (AFS) investments which have been measured at fair value, and are presented in Philippine Peso, the Group's functional and presentation currency.

The accounting policies adopted in the preparation of the interim financial statements are the same as those mentioned in the audited financial statements for the year 2016, except the accounting of income from continued operations of the Naga Power Plant Complex (NPPC) after the Supreme Court Decisions became final and executory on November 28, 2016.

Following further consultations with external legal counsels, the Parent Company's management recognized that, as an exercise of its consequent rights, it is entitled to retain the NPPC as well as the income from continuous operations thereof until PSALM fully returns the ₱1.143 billion price paid and reimburses all necessary and useful expenses (see Note 12).

**3. Earnings Per Share**

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

	Nine Months Ended September 30	
	2017	2016
Net income attributable to equity holders of the parent	<b>₱1,183,143,509</b>	₱1,451,734,207
Weighted average number of common shares issued and outstanding	<b>1,496,551,803</b>	1,496,551,803
Basic/Diluted earnings per share	<b>₱0.79</b>	₱0.97

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

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



There are no dilutive potential common stocks issued as of September 30, 2017.

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#### **4. Seasonal Aspects**

The group does not have any seasonal aspect that has a material effect on its financial condition and results of operations.

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#### **5. Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income, or Cash Flows That Are Unusual Because of Their Nature, Size or Incidence.**

Aside from what are already disclosed in the management's discussion and analysis of financial condition and results of operations, there are no other assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

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#### **6. Nature and Amount of Changes in Estimates of Amounts Reported in Prior Interim Periods of the Current Financial Year or Changes in Estimates of Amounts Reported in Prior Financial Years, if Those Changes Have a Material Effect in the Current Interim Period.**

There are no changes in estimates of amounts in the nine months ended September 30, 2017.

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#### **7. Issuances, Repurchases & Repayments of Debts & Equity Securities.**

There are no issuances, repurchases and repayments of debt and equity securities during the nine months ended September 30, 2017.

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#### **8. Segment Information**

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

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

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

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

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



No inter-segment revenues were earned within the Group in the nine months ended September 30, 2017 and 2016.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of September 30, 2017 and 2016:

September 30, 2017						
	Before Eliminations			Total	Adjustments and Eliminations	After Eliminations/ Consolidated
	Generation	Distribution	Others			
Revenue	₱1,341,149,057	₱679,766,970	₱—	₱2,020,916,027	₱—	₱2,020,916,027
Income before income tax	1,017,518,737	50,738,497	4,217,560	1,072,474,794	231,470,412	1,303,945,206
Net income	928,325,069	38,589,997	4,217,560	971,132,626	231,470,412	1,202,603,038
Total assets	7,673,564,827	484,206,152	129,209,137	8,286,980,116	3,099,847,900	11,386,828,016
Property, plant and equipment	636,900,147	151,495,423	—	788,395,570	—	788,395,570
Total liabilities	1,604,271,083	269,276,711	11,557	1,873,559,351	(910,237)	1,872,649,114
Depreciation and amortization	45,846,318	14,123,393	—	59,969,711	—	59,969,711

September 30, 2016						
	Before Eliminations			Total	Adjustments and Eliminations	After Eliminations/ Consolidated
	Generation	Distribution	Others			
Revenue	₱1,597,030,208	₱704,513,168	₱—	₱2,301,543,376	₱—	₱2,301,543,376
Income before income tax	826,069,693	62,439,691	9,469,677	897,979,061	725,122,605	1,623,101,666
Net income	693,531,444	48,452,979	10,799,567	752,783,990	725,122,605	1,477,906,595
Total assets	7,475,939,693	477,274,538	134,398,805	8,087,613,036	2,577,292,079	10,664,905,115
Property, plant and equipment	297,442,188	150,747,098	—	448,189,286	—	448,189,286
Total liabilities	1,433,207,145	248,831,471	23,796	1,682,062,412	(70,784,073)	1,611,278,339
Depreciation and amortization	46,054,936	14,088,786	—	60,143,749	—	60,143,749

#### Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

#### *Reconciliation of Net Income*

	Nine Mos. Ended September 30	
	2017	2016
Segment net income	₱971,132,626	₱513,636,117
Equity in net earnings of associates	853,424,165	964,270,478
Dividend income	(621,953,753)	—
Group net income	₱1,202,603,038	₱1,477,906,595

#### *Reconciliation of Total Assets*

	Sept 30, 2017	Dec. 31, 2016
Segment assets	₱8,286,980,115	₱8,107,344,359
Inter-segment receivables	(4,281,195)	(545,607,530)
Investments in associates and subsidiaries	3,071,607,080	2,830,926,668
Goodwill	32,522,016	32,522,016
Group assets	₱11,386,828,016	₱10,425,185,513

*Reconciliation of Total Liabilities*

	Sept 30, 2017	Dec. 31, 2016
Segment liabilities	<b>₱1,873,559,351</b>	₱2,051,435,497
Inter-segment payables	(910,237)	(542,236,571)
Group liabilities	<b>₱1,872,649,114</b>	₱1,509,198,926

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**9. Effect of Changes in the Composition of the Issuer During the Interim Period, Including Business Combinations, Acquisition or Disposal of Subsidiaries & Long-term Investments, Restructurings, and Discontinuing Operations.**

There are no changes in the composition of the registrant during the interim period.

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**10. Changes in Contingent Liabilities or Contingent Assets Since the Last Annual Balance Sheet Date.**

There are no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

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**11. Financial Risk Management and Policies**

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

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

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

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

Interest Rate Risk

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

The Group's policy is to manage its interest cost using the variable-rate debts.



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

Parent Company	Interest rates	Term	Total	Peso Equivalent
<b>Philippine Peso currency denominated debt</b>				
2017	4.01%	2–7 years		<b>₱505,555,556</b>
2016	4.01%	2–7 years		<b>₱577,777,778</b>

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

	Increase (decrease) in basis points	Effect on income before income tax
2017	+500	(₱508,083)
	-500	508,083
2016	+500	(₱580,667)
	-500	580,667

#### Liquidity Risk

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

The tables below summarize the maturity profile of the Group's financial assets and liabilities at September 30, 2017 and December 31, 2016 based on contractual undiscounted payments:

September 30, 2017						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
<b>Financial Assets</b>						
Loans and receivables:						
Cash and cash equivalents	₱2,034,014,696	₱2,034,014,696	₱–	₱–	₱–	₱–
Trade and other receivables:						
NPC	1,497,011	–	–	–	–	1,497,011
Receivable from customers	460,805,211	378,944,749	23,351,017	7,764,190	15,324,970	35,420,285
Others	62,465,636	24,595,106	12,256,214	435,038	1,884,981	23,294,297
	524,767,858	403,539,855	35,607,231	8,199,228	17,209,951	60,211,593
Due from NPC/PSALM	1,175,128	–	–	–	–	1,175,128
Due from related parties	1,330,058	45,656	28,506	21,349	77,639	1,156,908
	2,561,287,740	2,437,600,207	35,635,737	8,220,577	17,287,590	62,543,629
AFS:						
Quoted equity security	1,300,000	1,300,000	–	–	–	–
	2,562,587,740	2,438,900,207	35,635,737	8,220,577	17,287,590	62,543,629
<b>Financial Liabilities</b>						
Trade and other payables:						
Trade	₱494,022,376	₱401,011,730	₱79,530,876	₱1,127,701	₱598,896	₱11,753,173
Accrued expenses	33,181,325	19,309,130	1,923,585	303,865	467,980	11,176,765
Non-trade	44,846,280	13,786,633	784,762	236,168	380,559	29,658,158
	572,049,981	434,107,493	82,239,223	1,667,734	1,447,435	52,588,096
Dividends payable	217	–	–	–	–	217
Due to NPC/PSALM	303,442,871	–	–	–	–	303,442,871
Due to related parties	179,034	78,149	76,931	23,954	–	–
Long-term debt	504,527,717	–	72,222,222	–	–	432,305,495
Customers' deposits	113,182,051	–	–	–	–	113,182,051
	1,493,381,871	434,185,642	154,538,376	1,691,688	1,447,435	901,518,730
<b>Net Financial Assets (Liabilities)</b>	<b>₱1,069,205,869</b>	<b>₱2,004,714,565</b>	<b>(₱118,902,639)</b>	<b>₱6,528,889</b>	<b>₱15,840,155</b>	<b>(₱838,975,101)</b>



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

### Foreign Currency Risk

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities). Philippine Dealing System (PDS) closing rates used are ₱50.815 and ₱49.720 on September 30, 2017 and December 31, 2016, respectively. There is no other impact on the Group's equity other than those already affecting the profit and loss.

	Increase (decrease) in US dollar rate	Effect on income before income tax
<b>2017</b>	<b>+1</b>	<b>₱1,886,950</b>
	<b>-1</b>	<b>(1,886,950)</b>
<b>2016</b>	<b>+1</b>	<b>₱1,925,371</b>
	<b>-1</b>	<b>(1,925,371)</b>

### Foreign Currency-denominated Monetary Assets and Liabilities

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

	U.S. Dollar		Peso Equivalent	
	Sept. 30, 2017	Dec. 31, 2016	Sept. 30, 2017	Dec. 31, 2016
Cash and cash equivalents	\$3,730,091	US\$4,202,933	₱189,544,592	₱208,969,850
Trade and other payables:				
Trade and other payable	(16,720)	(330,506)	(849,627)	(16,432,744)
Net foreign-currency-denominated monetary assets	US\$3,713,371	US\$3,872,428	₱188,694,965	₱192,537,106

### Credit Risk

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

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

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

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

	September 30, 2017		
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	₱2,030,255,104	(₱11,237,116)	₱2,019,017,988
Trade and other receivables	524,767,858	(87,710,772)	437,057,086
Due from related parties	1,330,058	—	1,330,058
Due from NPC/PSALM	1,175,128	—	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	1,143,240,000
	3,700,768,148	(98,947,888)	3,601,820,260
AFS financial asset	1,300,000	—	1,300,000
	₱3,702,068,148	(₱98,947,888)	₱3,603,120,260



December 31, 2016			
	Maximum exposure	Offset	Exposure to credit risk
<b>Loans and receivables:</b>			
Cash and cash equivalents (excluding cash on hand)	₱1,749,157,304	(₱10,244,762)	₱1,738,912,543
Trade and other receivables	334,709,086	(80,715,783)	253,993,303
Due from related parties	1,581,466	—	1,581,466
Due from NPC/PSALM	1,175,128	—	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	1,143,240,000
	3,229,862,984	(90,960,545)	3,138,902,440
AFS financial asset	1,300,000	—	1,300,000
	₱3,231,162,984	(₱90,960,545)	₱3,140,202,440

As of September 30, 2017 and December 31, 2016, the Group's significant concentration of credit risk pertains to its trade and other receivables and due from NPC/PSALM amounting to ₱525.9 million and ₱1,212.3 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

The following tables set out the aging analysis of the Group's past due but not impaired financial assets as of September 30, 2017 and December 31, 2016:

September 30, 2017							
Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired	
		1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days		
<b>Loans and Receivables</b>							
Cash and cash equivalents (excluding cash on hand)	₱2,030,255,104	₱2,030,255,104	₱—	₱—	₱—	₱—	₱—
Trade and other receivables:							
NPC/PSALM	1,497,011	—	—	—	—	1,497,011	—
Receivable from customers	476,845,799	378,944,749	23,351,017	7,764,190	15,324,970	35,420,285	16,040,588
Others	62,465,636	24,595,106	12,256,214	435,038	1,884,981	23,294,297	—
	540,808,446	403,539,855	35,607,231	8,199,228	17,209,951	60,211,593	16,040,588
Due from NPC/PSALM	1,175,128	—	—	—	—	1,175,128	—
Due from related parties	1,330,058	45,656	28,506	21,349	77,639	1,156,908	—
Noncurrent receivable (included in “Other noncurrent assets”)	1,143,240,000	1,143,240,000	—	—	—	—	—
	3,716,808,736	3,577,080,615	35,635,737	8,220,577	17,287,590	62,543,629	16,040,588
<b>AFS Financial Asset</b>							
Quoted equity security	1,300,000	1,300,000	—	—	—	—	—
	₱3,718,108,736	₱3,578,380,615	₱35,635,737	₱8,220,577	₱17,287,590	₱62,543,629	₱16,040,588

December 31, 2016							
	Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	P1,749,157,304	P1,749,157,304	P—	P—	P—	P—	P—
Trade and other receivables:							
NPC/PSALM	1,498,252	1,498,252	—	—	—	—	—
Receivable from customers	326,407,707	225,674,303	28,695,916	11,559,674	8,942,503	35,494,723	16,040,588
Others	22,843,715	8,667,167	164,439	181,647	687,568	13,142,894	
	350,749,674	235,839,722	28,860,355	11,741,321	9,630,071	48,637,617	16,040,588
Due from NPC/PSALM	1,175,128	—	—	—	—	1,175,128	—
Due from related parties	1,581,466	60,352	23,544	87,861	15,658	1,394,051	—
Noncurrent receivable (included in "Other noncurrent assets")							
	1,143,240,000	1,143,240,000	—	—	—	—	—
	3,245,903,572	3,128,297,378	28,883,899	11,829,182	9,645,729	51,206,796	16,040,588
AFS Financial Asset							
Quoted equity security	1,300,000	1,300,000	—	—	—	—	—
	P3,247,203,572	P3,129,597,378	P28,883,899	P11,829,182	P9,645,729	P51,206,796	P16,040,588



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

The tables below summarize the credit quality of the Group's neither past due nor impaired financial assets as of September 30, 2017 and December 31, 2016:

September 30, 2017						
	Total	Neither Past Due nor Impaired			Past Due	Individually Impaired
		High Grade	Standard	Substandard		
<b>Loans and Receivables</b>						
Cash and cash equivalents (excluding cash on hand)	₱2,030,255,104	₱2,030,255,104	₱—	₱—	₱—	₱—
Trade and other receivables:						
NPC/PSALM	1,497,011	—	—	—	1,497,011	—
Receivable from customers	476,845,799	378,944,749	—	—	81,860,462	16,040,588
Others	62,465,636	24,595,106	—	—	37,870,530	—
	540,808,446	403,539,855	—	—	121,228,003	16,040,588
Due from NPC/PSALM	1,175,128	—	—	—	1,175,128	—
Due from related parties	1,330,058	45,656	—	—	1,284,402	—
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	1,143,240,000	—	—	—	—
	3,716,808,736	3,577,080,615	—	—	123,687,533	16,040,588
<b>AFS Financial Asset</b>						
Quoted equity security	1,300,000	1,300,000	—	—	—	—
	₱3,718,108,736	₱3,578,380,615	₱—	₱—	₱123,687,533	₱16,040,588

December 31, 2016						
	Total	Neither Past Due nor Impaired			Past Due	Individually Impaired
		High Grade	Standard	Substandard		
<b>Loans and Receivables</b>						
Cash and cash equivalents (excluding cash on hand)	₱1,749,157,304	₱1,749,157,304	₱—	₱—	₱—	₱—
Trade and other receivables:						
NPC/PSALM	1,498,252	1,498,252	—	—	—	—
Receivable from customers	326,407,707	170,693,950	54,980,353	—	84,692,816	16,040,588
Others	22,843,715	6,138,065	2,529,102	—	14,176,548	—
	350,749,674	178,330,267	57,509,455	—	98,869,364	16,040,588
Due from NPC/PSALM	1,175,128	—	—	—	1,175,128	—
Due from related parties	1,581,466	—	60,352	—	1,521,114	—
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	1,143,240,000	—	—	—	—
	3,245,903,572	3,070,727,571	57,569,807	—	101,565,606	16,040,588
<b>AFS Financial Asset</b>						
Quoted equity security	1,300,000	1,300,000	—	—	—	—
	₱3,247,203,572	₱3,072,027,571	₱57,569,807	₱—	₱101,565,606	₱16,040,588

The Group grades its financial assets as follows:

- *Cash and Cash Equivalents:* These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Receivable/Due from NPC/PSALM, NGCP and Distribution Utilities:* These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, OMSC, Ancillary Services Procurement Agreement, and Power Supply Contracts (PSCs).
- *Receivable from Customers of BLCI:* Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and

receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.

- *Due from Related Parties:* These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.
- *Other Receivables:* Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

#### Fair Value of Financial Assets and Liabilities

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

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

*Cash and Cash Equivalents, Trade and Other Receivables, and Trade and Other Payables.* The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate their value due to the relatively short-term maturity of these financial instruments.

*AFS Investments.* Market values have been used to determine the fair value of listed AFS investments.

*Noncurrent receivable (included in "Other noncurrent assets").* The fair value of noncurrent receivable is based on the net present value of cash flows using the prevailing market rate of interest. As of September 30, 2017 and December 31, 2016, the carrying value of the noncurrent receivable approximates its fair value.

*Long-term Debt.* The fair value of borrowings with floating interest rate is based on the discounted net present value of cash flows using an effective discount rate of 4.01% as of September 30, 2017 and December 31, 2016, respectively.

The estimated fair values of the categories of the Company's financial instruments approximate their carrying values as of September 30, 2017 and December 31, 2016.

#### Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during as of September 30, 2017 and December 31, 2016.

The Group considers its equity as capital and is not subject to any externally imposed capital requirements. As of September 30, 2017 and December 31, 2016, the Group's equity amounted to ₱9,514.2 million and ₱8,916.0 million, respectively.



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**12. Existence of Material Contingencies and any Other Events or Transactions that are Material to an Understanding of the Current Interim Period.**

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

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

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

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

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

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 28, 2015 Decision and October 5, 2016 Resolution have



become final and executory on November 28, 2016 and were recorded in the Books of Entries of Judgments.

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

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

**b. Others**

Except as already discussed in the Management's Discussion and Analysis of Financial Conditions and Results of Operations as well as in the schedules and disclosures set forth in this Selected Notes to Interim Consolidated Financial Statements, there are no other material contingencies and any other events or transactions that are material to an understanding of the current interim period.