

COVER SHEET

A S 0 9 4 0 0 2 3 6 5
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. Jaime M. Balisacan

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 2 8
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 March 31, 2018
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 [REDACTED] (SEC Use Only)
- 7th Floor, Cebu Holdings Center, Cebu Business Park, Cebu City 6000
(Manila Office: 7th 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
Outstanding and Amount of Debt
Outstanding |
|---|---|
| <u>Common Shares (as of March 31, 2018)</u> | <u>1,496,551,803 shares</u> |
| <u>Total Debt (as of March 31, 2018)</u> | <u>₱1,301,655,754</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 – March 31, 2018 (unaudited) and December 31, 2017 (audited).
- b. Consolidated Statements of Comprehensive Income – Three Months Ended March 31, 2018 and 2017 (unaudited).
- c. Consolidated Statements of Changes in Stockholders’ Equity – Three Months Ended March 31, 2018 and 2017 (unaudited).
- d. Consolidated Statements of Cash Flows – Three Months ended March 31, 2018 and 2017 (unaudited).
- e. 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 March 31, 2018 and 2017

The Group’s total comprehensive income slowed to P495.1 million in the first quarter of 2018, from P534.0 million in the same period last year. The 7.3% slowdown was attributed mainly to: (i) the scheduled major maintenance of a 100-MW power plant of the Group, (ii) lower margins in the electricity supply business brought about by the combined effect of lower market price and temporary under-recovery of pass-through costs of fuel and purchased power due to timing difference, (iii) certain operating costs pending application for recovery under true-up mechanisms promulgated by the Energy Regulatory Commission, and (iv) the full impact of the expiration on February 20, 2017 of the income tax holiday previously granted to a major associate.

The total comprehensive income in the first quarter of 2018 translates to a lower earnings per share of P0.33 compared to P0.35 in the same period last year.

Total equity share in the earnings of associates accounted for 65.5% of the Group's total comprehensive income in the first quarter of 2018. Power generation and power distribution contributed 32.9% and 1.6%, respectively.

Operations during the first quarter of the current year continued to be challenged by, among others, low market prices under a competitive supply environment. Despite these challenges, however, the Group is determined to execute investment and operating strategies and expect earnings growth to follow. For one, the anticipated commercial operation of the 32-MW Power Barge 104 should already yield additional income to the Group within the second half of the year.

While revenues from power generation and distribution slightly rose 2.5% to P560.1 million in the first quarter of 2018, cost of services climbed by a faster 16.2% to P404.6 million. The faster increase in cost of services, which include all direct operating costs and expenses, came on the back of higher costs of fuel and purchased power. A portion of these pass-through costs (costs of fuel and purchased power) will be recovered only in April 2018 due to timing difference. As a result, gross margin dropped by 21.6% to P155.6 million in the first quarter of 2018, from P198.3 million in the same period last year.

Consolidated administrative and general expenses went down by 26.0% to P31.3 million in January – March 2018 from P42.2 million in the same period last year due mainly to lower expenses for personnel (personnel reduction) and insurance.

Equity share from the earnings of the investee companies in the first quarter of 2018 decreased by 18.1% to P324.4 million, from P396.0 million in the same period last year, due mainly to: (i) the scheduled major maintenance of a 100-MW power plant of the Group, (ii) lower margins in the electricity supply business, (iii) certain operating costs pending application for recovery under true-up mechanisms promulgated by the Energy Regulatory Commission, and (iv) the full impact of the expiration on February 20, 2017 of the income tax holiday previously granted to a major associate.

Interest expense decreased by 82.1% to P1.3 million from P7.4 million due to the full prepayment of long term debt of the Parent Company on October 28, 2017.

Other income (service income), generated separately from power generation and distribution, was doubled to P36.4 million in the first quarter of 2018 from P18.2 million in the same period last year due to more projects rendered to customers.

Other income (others) were higher at P43.9 million in the first quarter of 2018 from P5.4 million only in the same period of 2017 due mainly to incidental income derived from operating and preserving the NPPC and proceeds from disposal of excess/obsolete inventories, used oil and scraps.

Financial Condition

March 31, 2018 Vs. December 31, 2017

Total consolidated assets of the Group expanded further by 2.7% (equivalent to P288.8 million) to P11,160.9 million as at end-March 2018 from the last audited balance of P10,872.1 million as at end-December 2017. The increase was attributed mainly to the

continued growth in the carrying value of investments as well as replenishment of fuel and other inventories as at end-March 2018.

The growth in total assets was coupled by 13.7% reduction in total liabilities (equivalent to P206.3 million) to P1,301.7 million as at end-March 2018 from P1,507.9 million as at end-December 2017. The decrease was due mainly to payment of trade and other payables outstanding as of December 31, 2017.

Total stockholders' equity rose by 5.3% to P9,859.2 million as at end-March 2018 from P9,364.2 million as at end-December 2017 due to the additional comprehensive income earned in the first quarter of 2018. Book value per share grew to P6.59 as at end-March 2018 compared to P6.26 as at end-December 2017.

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

Please see the section below for Cash Flows showing the major sources and applications of cash and cash equivalents.

Trade and other receivables decreased by 10.1% to P411.5 million as at end-March 2018 from P457.9 million as at end-December 2017 due mainly to collection of prior year's receivables as well as lower billings in March 2018 compared to the billings made in December 2017.

Materials and supplies inventory increased by 5.8% to P640.0 million as at end-March 2018 from P605.2 million at the beginning of the year. The increase was traced to the build up of inventories for fuel and maintenance spare parts in anticipation of higher demands for the summer months.

Investment in associates grew by another 5.2% to P6,506.2 million as at end-March 2018 from P6,181.8 million as at end-December 2017. The increase reflected fresh equity share in the net earnings of KSPC and MECO amounting to P301.4 million and P23.0 million, respectively, in the first quarter of 2018.

Property, plant and equipment slightly increased to P780.7 million from P778.3 million due to new additions amounting to P22.0 million less depreciation amounting to P19.7 million in the first quarter of 2018.

Other noncurrent assets remained steady at P1,200.1 million as at end-March 2018. The balance of this account is inclusive of P1,143.2 million that was paid by the Parent Company to PSALM for the acquisition of the 153.1 MW NPPC (see Note 12 of the interim consolidated financial statements).

Trade and other payables decreased by 35.4% to P460.7 million as at end-March 2018 from P712.7 million as at end-December 2017 due mainly to fuel purchases in November and December 2017 which were paid only in January 2018.

Income tax payable increased by 88.1% to P91.5 million from P48.6 million. The increase was due to provision for additional income tax in the first quarter of 2018 for payment in May 2018. The income tax payable for the fourth quarter of 2017 remained outstanding as of March 31, 2018 pending actual remittance to the BIR on April 15, 2018.

Unappropriated retained earnings increased by 7.8% to ₱6,829.8 million as at end-March 2018 from ₱6,338.5 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 quarter ended March 31, 2018.

Cash Flows

The Group continued to support its liquidity only from internally generated cash flows.

Cash and cash equivalents decreased by ₱22.5 million to ₱1,422.7 million as at end-March 2018 from the end-December 2017 level of ₱1,445.3 million. In the first quarter of 2018, net cash flows used for operating and investing activities exceeded net cash flows generated from operating cash income before working capital changes.

Major sources of cash and cash equivalents in the first quarter of 2018 and 2017 were from operating cash income before working capital changes amounting to ₱230.3 million and ₱208.0 million, respectively.

The major applications of funds in the first quarter of 2018 were: (i) payment of trade and other payables outstanding as of December 31, 2017 amounting to ₱252.1 million, and (ii) new additions to property, plant and equipment amounting to ₱22.0 million.

Key Performance Indicators

The following financial indicators are used, among others, to evaluate the performance of the Group as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017:

Key Performance Indicators	2018	2017
A. For Three Months Ended March 31, 2018 and 2017:		
Earnings Per Share	0.33	0.35
Share In Net Earnings of Associates	P324,370,108	P395,976,643
Return on Equity	5.15%	5.81%
Return on Assets	4.49%	4.97%
Cash Flows:		
Net operating cash income before working capital changes	P230,291,414	P207,976,892
Net cash flows generated from (used in) operating activities	(P2,325,017)	P226,870,526
Net cash flows used in investing activities	(P22,107,996)	(P53,791,693)
Net cash flows used in financing activities	-	(P18,768,693)
B. As of March 31, 2018 and December 31, 2017:		
Balance of cash and cash equivalents at end of period	P1,422,713,148	P1,904,21,234
Current ratio	2.48	2.10
Debt ratio	0.12	0.14
Debt-to-equity ratio	0.13	0.16
Solvency ratio (annualized)	1.58	1.17

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 Group with unconsolidated entities or other persons created during the reporting period.

Material Commitments for Capital Expenditures

As of March 31, 2018, 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:


MARY ANN G. DAUGDAUG
Accountant


JAIME M. BALISACAN
SVP – Finance and Administration

Date: April 25, 2018

Date: April 25, 2018

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Philippine Pesos)

Amounts in Philippine Pesos)	March 31, 2018 (Unaudited)	Dec. 31, 2017 (Audited)	Incr. / (Decr.)	
			Amount	Percent
ASSETS				
Current Assets				
Cash and cash equivalents	1,422,713,148	1,445,250,136	(22,536,988)	-1.6%
Trade and other receivables - net	411,451,287	457,907,251	(46,455,964)	-10.1%
Due from related parties	1,997,335	1,845,907	151,428	8.2%
Due from NPC/PSALM	1,175,128	1,175,128	0	0.0%
Material and supplies	640,023,010	605,212,040	34,810,970	5.8%
Prepayments and other current assets	163,813,494	167,670,855	(3,857,361)	-2.3%
Total Current Assets	2,641,173,402	2,679,061,317	(37,887,915)	-1.4%
Noncurrent Assets				
Investment in associates	6,506,176,645	6,181,806,538	324,370,107	5.2%
Property, plant and equipment - net	780,707,796	778,345,602	2,362,194	0.3%
Deferred income tax assets	32,787,267	32,495,775	291,492	0.9%
Other noncurrent assets - net	1,200,058,214	1,200,379,776	(321,562)	0.0%
Total Noncurrent Assets	8,519,729,922	8,193,027,691	326,702,231	4.0%
TOTAL ASSETS	11,160,903,324	10,872,089,008	288,814,316	2.7%
LIABILITIES & STOCKHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables	460,667,263	712,737,725	(252,070,462)	-35.4%
Due to related parties	66,801	563,995	(497,194)	-88.2%
Income tax payable	91,473,012	48,630,922	42,842,090	88.1%
Due to NPC/PSALM	511,650,588	511,650,588	0	0.0%
Total current liabilities	1,063,857,664	1,273,583,230	(209,725,566)	-16.5%
Noncurrent Liabilities				
Customers' deposits	119,337,115	117,045,681	2,291,434	2.0%
Asset retirement obligation	98,480,967	97,198,403	1,282,564	1.3%
Pension liability	19,980,008	20,107,378	(127,370)	-0.6%
Total noncurrent liabilities	237,798,090	234,351,462	3,446,628	1.5%
Total Liabilities	1,301,655,754	1,507,934,692	(206,278,938)	-13.7%

(Forward)


SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Philippine Pesos)

	<u>March 31, 2018</u>	<u>Dec. 31, 2017</u>	<u>Incr. / (Decr.)</u>	
	<u>(Unaudited)</u>	<u>(Audited)</u>	<u>Amount</u>	<u>Percent</u>
Stockholders' Equity				
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	6,829,837,732	6,338,490,394	491,347,338	7.8%
Appropriated	1,350,000,000	1,350,000,000	0	0.0%
Other comprehensive income:				
Remeasurement of employee benefits	1,567,084	1,567,084	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	(83,388)	(83,388)	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	9,706,265,906	9,214,918,568	491,347,338	5.3%
Equity attributable to Non-controlling interests	152,981,664	149,235,748	3,745,916	2.5%
Total Stockholders' Equity	9,859,247,570	9,364,154,316	495,093,254	5.3%
TOTAL LIABILITIES and EQUITY	<u>11,160,903,324</u>	<u>10,872,089,008</u>	<u>288,814,316</u>	<u>2.7%</u>

See accompanying Notes to Consolidated Financial Statements.


Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Three Months Ended March 31		Increase / (Decrease)	
	2018 (Unaudited)	2017 (Unaudited)	Amount	Percent
REVENUE	560,140,531	546,619,187	13,521,344	2.5%
COST OF SERVICES				
Plant operations	404,564,063	348,296,097	56,267,966	16.2%
GROSS MARGIN	155,576,468	198,323,090	(42,746,622)	-21.6%
GENERAL AND ADM. EXPENSES	(31,260,788)	(42,239,746)	10,978,958	-26.0%
OTHER INCOME (CHARGES):				
Equity in net earnings of associates	324,370,108	395,976,643	(71,606,535)	-18.1%
Interest Income	3,140,081	3,917,398	(777,317)	-19.8%
Interest Expense	(1,329,941)	(7,438,385)	6,108,444	-82.1%
Service Income	36,365,805	18,183,306	18,182,499	100.0%
Foreign exchange gains - net	7,649,174	1,682,350	5,966,824	354.7%
Others - net	43,916,784	5,377,686	38,539,098	716.6%
INCOME BEFORE INCOME TAX	538,427,691	573,782,342	(35,354,651)	-6.2%
PROVISION FOR/(BENEFIT FROM) INCOME TAX				
Current	43,625,929	40,197,968	3,427,961	8.5%
Deferred	(291,492)	(386,809)	95,317	-24.6%
	43,334,437	39,811,159	3,523,278	8.8%
NET INCOME	495,093,254	533,971,183	(38,877,929)	-7.3%
OTHER COMPREHENSIVE INCOME	0	0	0	0.0%
TOTAL COMPREHENSIVE INCOME	495,093,254	533,971,183	(38,877,929)	-7.3%
ATTRIBUTABLE TO:				
Equity holders of the Parent	491,347,338	528,637,158	(37,289,820)	-7.1%
Non-controlling interests	3,745,916	5,334,025	(1,588,109)	-29.8%
	495,093,254	533,971,183	(38,877,929)	-7.3%
EARNINGS PER SHARE (Note 3):				
Basic/diluted, for income for the period attributable to equity holders of the Parent	0.33	0.35	(0.02)	-7.1%

See accompanying Notes to Consolidated Financial Statements.



Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THREE MONTHS ENDED MARCH 31, 2018 AND 2017

	Equity Attributable to Equity Holders of the Parent										
	Capital Stock	Additional Paid-In Capital	Treasury Stock at Cost	Remeasurement of Employee	Share of Associates	Retained Earnings		Net Unrealized	Total	Non-controlling	Total
						Appropriated	Unappropriated				
Balances at January 1, 2018	P1,569,491,900	P86,810,752	(P131,008,174)	P1,567,084	(P83,388)	P1,350,000,000	P6,338,490,394	(P350,000)	P9,214,918,568	P149,235,748	P9,364,154,316
Total comprehensive income	-	-	-	-	-	-	491,347,338	-	491,347,338	3,745,916	495,093,254
Cash dividends	-	-	-	-	-	-	-	-	-	-	-
Appropriation	-	-	-	-	-	-	-	-	-	-	-
Balances at March 31, 2018	P1,569,491,900	P86,810,752	(P131,008,174)	P1,567,084	(P83,388)	P1,350,000,000	P6,829,837,732	(P350,000)	P9,706,265,906	P152,981,664	P9,859,247,570
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	P8,915,986,587
Total comprehensive income	-	-	-	-	-	-	528,637,158	-	528,637,158	5,334,025	533,971,183
Cash dividends	-	-	-	-	-	-	-	-	-	-	-
Appropriation	-	-	-	-	-	-	-	-	-	-	-
Balances at March 31, 2017	P1,569,491,900	P86,810,752	(P131,008,174)	P99,615	P194,814	P1,250,000,000	P6,150,080,571	(P350,000)	P8,925,319,478	P524,638,292	P9,449,957,769

See accompanying Notes to Consolidated Financial Statements.

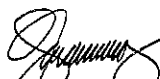

Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months ended March 31	
	2018	2017
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	538,427,691	573,782,342
Adjustments for:		
Equity in net losses (earnings) of associates	(324,370,108)	(395,976,643)
Depreciation and amortizations	20,067,365	20,129,359
Interest expense	1,329,941	7,438,385
Interest income	(3,140,081)	(3,917,398)
Others -net	(2,023,394)	6,520,847
Operating income before working capital changes	230,291,414	207,976,892
Decrease (increase) in:		
Trade and other receivables	46,643,446	7,096,810
Due from related parties	(151,428)	(234,260)
Prepayments and other current assets	3,857,361	(11,048,829)
Materials and supplies	(34,810,970)	(40,223,632)
Increase (decrease) in:		
Trade and other payables	(252,070,462)	(5,043,644)
Due to NPC/PSALM	0	64,766,872
Due to related parties	(497,194)	(690,178)
Customers' deposits	2,291,434	7,667,939
Net cash generated from operations	(4,446,399)	230,267,970
Income tax paid	(783,839)	(1,475,012)
Interest paid	(170,433)	(5,839,830)
Interest received	3,075,654	3,917,398
Net cash flows from operating activities	(2,325,017)	226,870,526
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to plant, property and equipment	(22,041,496)	(53,594,907)
Decrease (increase) in:		
Other noncurrent assets	(66,500)	(196,786)
Net cash provided by (used in) investing activities	(22,107,996)	(53,791,693)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	0	(18,768,693)
Net cash provided by (used in) financing activities	0	(18,768,693)
NET EFFECT OF EXCHANGE RATE CHANGES	1,896,025	483,450
NET INCREASE IN CASH AND CASH EQUIVALENTS	(22,536,988)	154,793,590
CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD	1,445,250,136	1,749,497,644
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,422,713,148	1,904,291,234

See accompanying Notes to Financial Statements.


Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

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%

The consolidated interim financial statements of the Group were authorized for issue by the Parent Company's Board of Directors (BOD) on April 25, 2018.

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 2017.

3. Earnings Per Share

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

	Three Months Ended March 31	
	2018	2017
Net income attributable to equity holders of the parent	₱491,347,338	₱528,637,158
Weighted average number of common shares issued and outstanding	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	₱0.33	₱0.35

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

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

There are no dilutive potential common stocks issued as of March 31, 2018.

4. Seasonal Aspects

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

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.

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 first quarter of 2018.

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

There are no issuances, repurchases and repayments of debt and equity securities during the three months ended March 31, 2018.

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 three months ended March 31, 2018 and 2017.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of March 31, 2018 and 2017:

March 31, 2018							
	Before Eliminations			Total	Adjustments and		After Eliminations/ Consolidated
	Generation	Distribution	Others		Eliminations		
Revenue	₱325,797,758	₱234,342,773	₱-	₱560,140,531	₱-		₱560,140,531
Income before income tax	202,955,404	11,102,179	-	214,057,583	324,370,108		538,427,691
Net income	162,639,598	8,083,548	-	170,723,146	324,370,108		495,093,254
Total assets	7,268,859,178	486,382,191	114,519,457	7,869,760,826	3,291,142,498		11,160,903,324
Property, plant and equipment	626,313,260	154,394,536	-	780,707,796	-		780,707,796
Total liabilities	1,037,059,920	266,602,720	110,509	1,303,773,149	(2,117,395)		1,301,655,754
Depreciation and amortization	15,184,325	4,883,040	-	20,067,365	-		20,067,365

March 31, 2017							
	Before Eliminations			Total	Adjustments and		After Eliminations/ Consolidated
	Generation	Distribution	Others		Eliminations		
Revenue	₱324,719,203	₱221,899,984	₱-	₱546,619,187	₱-		₱546,619,187
Income before income tax	162,677,495	15,128,204	-	177,805,699	395,976,643		573,782,342
Net income	126,483,912	11,510,628	-	137,994,540	395,976,643		533,971,183
Total assets	7,224,634,903	447,235,176	125,107,862	7,796,977,941	3,257,436,855		11,054,414,796
Property, plant and equipment	559,579,411	149,287,755	-	708,867,166	-		708,867,166
Total liabilities	1,358,561,596	244,385,105	127,841	1,603,074,542	1,382,486		1,604,457,028
Depreciation and amortization	15,461,616	4,667,743	-	20,129,359	-		20,129,359

Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	Three Mos. Ended March 31	
	2018	2017
Segment net income	₱170,723,146	₱137,994,540
Equity in net earnings of associates	324,370,108	395,976,643
Dividend income	-	-
Group net income	₱495,093,254	₱533,971,183

Reconciliation of Total Assets

	Mar. 31, 2018	Dec. 31, 2017
Segment assets	₱7,869,760,826	₱7,904,282,717
Inter-segment receivables	(5,488,353)	(4,454,453)
Investments in associates and subsidiaries	3,264,108,835	2,939,738,728
Goodwill	32,522,016	32,522,016
Group assets	₱11,160,903,324	₱10,872,089,008

Reconciliation of Total Liabilities

	Mar. 31, 2018	Dec. 31, 2017
Segment liabilities	₱1,303,773,149	₱1,509,018,186
Inter-segment payables	(2,117,395)	(1,083,494)
Group liabilities	₱1,301,655,754	₱1,507,934,692

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.

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.

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.

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 March 31, 2018 and December 31, 2017 based on contractual undiscounted payments:

March 31, 2018						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	P1,422,713,148	P1,422,713,148	P-	P-	P-	P-
Trade and other receivables:						
NPC	1,497,011	-	-	-	-	1,497,011
Receivable from customers	358,312,289	247,470,257	25,204,532	18,543,576	21,070,580	46,023,344
Others	51,641,987	19,190,991	783,187	724,499	8,059,742	22,883,568
	411,451,287	266,661,248	25,987,719	19,268,075	29,130,322	70,403,923
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128
Due from related parties	1,997,335	49,902	121,013	6,277	80,880	1,739,263
	1,837,336,898	1,689,424,298	26,108,732	19,274,352	29,211,202	73,318,314
AFS:						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	1,838,636,898	1,690,724,298	26,108,732	19,274,352	29,211,202	73,318,314
Financial Liabilities						
Trade and other payables:						
Trade	288,447,399	150,433,008	34,198,641	339,702	41,762,967	61,713,081
Accrued expenses	33,729,260	20,106,597	572,499	647,355	1,482,165	10,920,644
Nontrade	46,329,885	15,372,184	-	-	2,725,701	28,232,000
	368,506,544	185,911,789	34,771,140	987,057	45,970,833	100,865,725
Due to NPC/PSALM	511,650,588	-	-	-	-	511,650,588
Due to related parties	66,801	22,425	22,134	22,242	-	-
Customers' deposits	119,337,115	-	-	-	-	119,337,115
	999,561,048	185,934,214	34,793,274	1,009,299	45,970,833	731,853,428
Net Financial Assets (Liabilities)	P839,075,850	P1,504,790,084	(P8,684,542)	P18,265,053	(P16,759,631)	(P658,535,114)

December 31, 2017						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	P1,445,250,136	P1,445,250,136	P-	P-	P-	P-
Trade and other receivables:						
NPC	1,497,011	-	-	-	-	1,497,011
Receivable from customers	405,974,878	302,960,726	31,407,755	15,428,333	29,007,423	27,170,641
Others	50,435,362	19,376,748	2,023,952	1,496,866	507,258	27,030,538
	457,907,251	322,337,474	33,431,707	16,925,199	29,514,681	55,698,190
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128
Due from related parties	1,845,907	106,643	17,300	473,708	33,110	1,215,146
	1,906,178,422	1,767,694,253	33,449,007	17,398,907	29,547,791	58,088,464
AFS:						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	1,907,478,422	1,768,994,253	33,449,007	17,398,907	29,547,791	58,088,464
Financial Liabilities						
Trade and other payables:						
Trade	526,206,010	411,579,834	96,048,060	1,645,788	562,052	16,370,276
Accrued expenses	47,443,412	36,408,744	528,934	198,859	234,753	10,072,122
Nontrade	48,971,352	17,995,469	1,181,994	316,821	431,909	29,045,159
	622,620,774	465,984,047	97,758,988	2,161,468	1,228,714	55,487,557
Due to NPC/PSALM	511,650,588	-	-	-	-	511,650,588
Due to related parties	563,995	22,259	44,693	-	-	497,043
Customers' deposits	117,045,681	-	-	-	-	117,045,681
	1,251,881,038	466,006,306	97,803,681	2,161,468	1,228,714	684,680,869
Net Financial Assets (Liabilities)	P655,597,384	P1,302,987,947	(P64,354,674)	P15,237,439	P28,319,077	(P626,592,405)

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 ₱52.160 and ₱49.930 on March 31, 2018 and December 31, 2017, 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
2018	+1	(₱1,559,790)
	-1	1,559,790
2017	+1	(₱1,753,725)
	-1	1,753,725

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	
	Mar. 31, 2018	Dec. 31, 2017	Mar. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	US\$2,995,395	US\$3,517,368	₱156,239,810	₱175,622,193
Trade and other payables:				
Trade	(5,000)	(5,000)	(260,800)	(249,650)
Long-term debt	—	—	—	—
Net foreign-currency-denominated monetary assets	US\$2,990,395	US\$3,512,368	₱155,979,010	₱175,372,543

Credit Risk

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

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

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

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

The Group's maximum exposure equals to the carrying amount of the aforementioned instruments, excluding cash on hand, and is offset by the PDIC insurance coverage and customers' deposits. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for

credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

March 31, 2018			
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	P1,422,395,050	(P3,631,763)	1,418,763,287
Trade and other receivables	411,451,287	(93,593,956)	317,857,331
Due from related parties	1,997,335	—	1,997,335
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
	2,980,258,800	(97,225,719)	2,883,033,081
AFS financial asset	1,300,000	—	1,300,000
	P2,981,558,800	(P97,225,719)	P2,884,333,081

December 31, 2017			
	Maximum exposure	Offset	Exposure to credit risk
Loans and receivables:			
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	(P8,167,421)	P1,436,755,255
Trade and other receivables	457,907,251	(75,707,947)	382,199,304
Due from related parties	1,845,907	—	1,845,907
Due from NPC/PSALM	1,175,128	—	1,175,128
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	1,143,240,000
	3,049,090,962	(83,875,368)	2,965,215,594
AFS financial asset	1,300,000	—	1,300,000
	P3,050,390,962	(P83,875,368)	P2,966,515,594

As of March 31, 2018 and December 31, 2017, the Group's significant concentration of credit risk pertains to its trade and other receivables and due from NPC/PSALM amounting to P1,555.9 million and P1,602.3 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 March 31, 2018 and December 31, 2017:

March 31, 2018							
	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)	P1,422,395,050	P1,422,395,050	P—	P—	P—	P—	P—
Trade and other receivables:							
NPC/PSALM	1,497,011	—	—	—	—	1,497,011	—
Receivable from customers	381,280,678	247,470,257	25,204,532	18,543,576	21,070,580	46,023,344	22,968,389
Others	51,641,987	19,190,991	783,187	724,499	8,059,742	22,883,568	—
	434,419,676	266,661,248	25,987,719	19,268,075	29,130,322	70,403,923	22,968,389
Due from NPC/PSALM	1,175,128	—	—	—	—	1,175,128	—
Due from related parties	1,997,335	49,902	121,013	6,277	80,880	1,739,263	—
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	—	—	—	—	1,143,240,000	—
	3,003,227,189	1,689,106,200	26,108,732	19,274,352	29,211,202	1,216,558,314	22,968,389
AFS Financial Asset							
Quoted equity security	1,300,000	1,300,000	—	—	—	—	—
	P3,004,527,189	P1,690,406,200	P26,108,732	P19,274,352	P29,211,202	P1,216,558,314	P22,968,389

December 31, 2017							
	Total	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired
			1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days	
Loans and Receivables							
Cash and cash equivalents (excluding cash on hand)	P1,444,922,676	P1,444,922,676	P-	P-	P-	P-	P-
Trade and other receivables:							
NPC/PSALM	1,497,011	-	-	-	-	1,497,011	-
Receivable from customers	428,905,375	302,960,725	31,407,754	15,428,333	29,007,424	27,170,642	22,930,497
Others	50,435,362	19,376,748	2,023,953	1,496,865	507,258	27,030,538	-
	480,837,748	322,337,473	33,431,707	16,925,198	29,514,682	55,698,191	22,930,497
Due from NPC/PSALM	1,175,128	-	-	-	-	1,175,128	-
Due from related parties	1,845,907	106,644	17,300	473,709	33,109	1,215,145	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	-	1,143,240,000	-
	3,072,021,459	1,767,366,793	33,449,007	17,398,907	29,547,791	1,201,328,464	22,930,497
AFS Financial Asset							
Quoted equity security	1,300,000	1,300,000	-	-	-	-	-
	P3,073,321,459	P1,768,666,793	P33,449,007	P17,398,907	P29,547,791	P1,201,328,464	P22,930,497

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 March 31, 2018 and December 31, 2017:

March 31, 2018						
	Total	Neither Past Due nor Impaired			Past Due	Individually Impaired
		High Grade	Standard	Substandard		
Loans and Receivables						
Cash and cash equivalents (excluding cash on hand)	P1,422,395,050	P1,422,395,050	P-	P-	P-	P-
Trade and other receivables:						
NPC/PSALM	1,497,011	-	-	-	1,497,011	-
Receivable from customers	381,280,678	149,330,454	94,717,837	3,421,966	110,842,032	22,968,389
Others	51,641,987	18,845,814	345,177	-	32,450,996	-
	434,419,676	168,176,268	95,063,014	3,421,966	144,790,039	22,968,389
Due from NPC/PSALM	1,175,128	-	-	-	1,175,128	-
Due from related parties	1,997,335	26,307	23,595	-	1,947,433	-
Noncurrent receivable (included in "Other noncurrent assets")	1,143,240,000	-	-	-	1,143,240,000	-
	3,003,227,189	1,590,597,625	95,086,609	3,421,966	1,291,152,600	22,968,389
AFS Financial Asset						
Quoted equity security	1,300,000	1,300,000	-	-	-	-
	P3,004,527,189	P1,591,897,625	P95,086,609	P3,421,966	P1,291,152,600	P22,968,389

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

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), and/or collectible from government institution.
- *Receivable from Customers of BLCI*: Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.
- *Due from Related Parties*: These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.
- *Other Receivables*: Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

Fair Value of Financial Assets and 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 March 31, 2018 and December 31, 2017, the carrying value of the noncurrent receivable approximates its fair value.

As of March 31, 2018 and December 31, 2017, the carrying values of the Group's financial instruments, except for the long-term debt, approximate fair values due to their relatively short-term maturity.

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 March 31, 2018 and December 31, 2017.

The Group considers its equity as capital and is not subject to any externally imposed capital requirements. As of March 31, 2018 and December 31, 2017, the Group's equity amounted to ₱9,859.2 million and ₱9,364.2 million, respectively.

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 the Parent Company shares in the use, upkeep and maintenance of the Co-Use Facilities within the Complex, thus, showing that the Parent Company's interest extends to the whole of the Complex.

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

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

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

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

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

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

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

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.