



SyCip Gorres Velayo & Co.
Unit 1003 & 1004, Insular Life
Cebu Business Centre
Mindanao Avenue corner
Biliran Road
Cebu Business Park
Cebu City
6000 Cebu, Philippines

Tel: (032) 266 2947 to 49
Fax: (032) 266 2313
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of SPC Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for Supreme Court decisions on the purchase of Naga Power Plant Complex (NPPC)

As discussed in Notes 3 and 31 to the consolidated financial statements, in September 2014, the Parent Company purchased the 153.1 MW NPPC from Power Sector Assets and Liabilities Management Corporation (PSALM) pursuant to the Asset Purchase Agreement (APA) executed on September 25, 2014. However, on September 28, 2015, the Supreme Court (SC) rendered a decision declaring the APA, as well as the Land Lease Agreement executed as an ancillary contract to the APA covering the land where the purchased assets are located, as null and void. The Parent Company filed several Motions for Reconsideration in 2015 and 2016, which were denied by the SC, and on October 5, 2016, the SC reinstated the notice of award of the winning bid of the other party. On November 28, 2016, the SC made an Entry of Judgment in the Books of Entries of Judgments, making the September 28, 2015 Decision and October 5, 2016 Resolution final and executory.

However, since the SC decisions did not specifically rule how the nullified transaction will be treated and settled between the Parent Company and PSALM, management, in consultation with external legal counsels, exercised its due judgment on how these decisions will be implemented. Thus, the Parent Company derecognized as of December 31, 2015, the NPPC from property, plant and equipment and the prepaid rent, and recognized a noncurrent receivable from PSALM of ₱1.143 billion, which is equivalent to the purchase price of the NPPC and land lease rental paid by the Parent Company to PSALM in 2014. In addition, the Parent Company continued to operate the NPPC pending turnover to PSALM and settlement of possible claims and counterclaims between the Parent Company and PSALM. The income from operation of the NPPC in 2017 (net of directly related costs and expenses), which was assessed by management as a necessary consequence of operating the same as the best way to preserve it in preparation for the eventual turn-over to PSALM, was recognized as part of "Other income" in the 2017 consolidated statement of comprehensive income as discussed in Note 3 to the consolidated financial statements. Any adjustments arising from the final settlement will be taken up in the consolidated financial statements as these are determined.

This matter is significant to our audit because the assessment of the potential outcome of, and accounting for, the SC decisions require the application of judgment and the use of assumptions by management.

Audit response

We obtained from and discussed with management and the Parent Company's external legal counsel the status of the legal proceeding and the related decisions or rulings rendered by the court. We obtained the external counsel's legal opinion on how the SC decision will be implemented and how the nullified transaction will be settled between the Parent Company and PSALM. Together with our internal specialist, we reviewed management's judgment and assumptions by considering the relevant laws, rulings and jurisprudence. We reviewed the Group's accounting for the SC decisions based on the judgments made by management and external legal counsel. Further, we reviewed the Parent Company's disclosure regarding the legal proceeding, the judgments made by management and the manner of accounting.



Revenue recognition from distribution of power services

The Group's revenue from the distribution of power services arises from its service contracts to a large number of customers consisting of commercial, residential, government institutions and other customers located within the Group's franchise area. Revenues from distribution of power amounted to ₱914.3 million, representing 39% of the total revenue in 2017. This matter is significant to our audit because the revenue recognized depends on the completeness of the electric consumption captured based on meter readings over the franchise area, as obtained on various meter reading dates; the propriety of the rates, computed and applied based on the Energy Regulatory Commission (ERC)-approved formulae, which vary depending on the types of customers; and the reliability of the information technology (IT) systems involved in processing the billing transaction. Disclosures related to this matter are provided in Notes 2 and 24 to the consolidated financial statements.

Audit response

We obtained an understanding of the revenue process, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We also evaluated the design of the relevant controls over these processes and tested them. We also performed a test recalculation of billed amounts using the ERC-approved rates and formulae, and compared them with the amounts reflected in the billing statements.

Accounting for the investments in significant associates

The Group owns 40% of KEPCO SPC Power Corporation (KSPC) and Mactan Electric Company, Inc. (MECO). As discussed in Note 10 to the consolidated financial statements, the Group's investments in these associates are accounted for under the equity method. As of December 31, 2017, the investments in these associates amounted to ₱6.2 billion (representing 57% of the Group's consolidated total assets), and the Group's equity in net earnings from these associates for the year then ended amounted to ₱1.1 billion (representing 68% of the Group's consolidated net income). The accounting for these investments is significant to our audit because of the substantial amount of the Group's investments and equity in net earnings from these associates. Further, the Group's share in the net earnings of MECO is significantly affected by MECO's revenue recognition arising from its service contracts to various customers located within its franchise area. The recognition of such revenue depends on the completeness of the electric consumption captured based on meter readings conducted on various dates over the franchise area; the propriety of the rates, computed and applied based on the Energy Regulatory Commission (ERC)-approved formulae, which vary depending on the types of customers; and the reliability of the IT systems involved in processing the billing transaction. MECO is audited by other auditors.



Audit response

We obtained an understanding of the Group's process in recognizing the equity in net earnings of associates, including the understanding of its business transactions. We obtained the financial information of KSPC and MECO and recomputed the Group's equity in net earnings for the year ended December 31, 2017. In addition, our audit procedures included, among others, coordinating and instructing the statutory auditors of KSPC and MECO to perform an audit on the relevant financial information of KSPC and MECO for the purpose of the Group's consolidated financial statements. During the year, we discussed the risk assessment, audit strategy of the statutory auditors, as well as any significant developments in KSPC and MECO.

In addition to reviewing the relevant working papers of the statutory auditor of MECO, we also obtained an understanding of the revenue recognition process of MECO, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We evaluated the design of the relevant controls over these processes and tested them. We performed a test recalculation of billed amounts using the ERC-approved rates and formulae, and compared them with the amounts reflected in the billing statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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

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



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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jhoanna Feliza C. Go.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go

Partner

CPA Certificate No. 0114122

SEC Accreditation No. 1414-AR-1 (Group A),
March 2, 2017, valid until March 1, 2020

Tax Identification No. 219-674-288

BIR Accreditation No. 08-001998-103-2017,

January 31, 2017, valid until January 30, 2020

PTR No. 6621266, January 9, 2018, Makati City

April 3, 2018



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and Subsidiaries as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated April 3, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Jhoanna Feliza C. Go
Partner
CPA Certificate No. 0114122
SEC Accreditation No. 1414-AR-1 (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 219-674-288
BIR Accreditation No. 08-001988-103-2017,
January 31, 2017, valid until January 30, 2020
PTR No. 6621266, January 9, 2018, Makati City

April 3, 2018



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱1,445,250,136	₱1,749,497,644
Trade and other receivables (Note 6)	457,907,251	334,709,086
Due from related parties (Note 5)	1,845,907	1,581,466
Due from National Power Corporation (NPC)/Power Sector Assets and Liabilities Management Corporation (PSALM) (Note 7)	1,175,128	1,175,128
Materials and supplies (Note 8)	605,212,040	271,196,687
Prepayments and other current assets (Notes 9 and 30)	167,670,855	75,228,064
Total Current Assets	2,679,061,317	2,433,388,075
Noncurrent Assets		
Investments in associates (Note 10)	6,181,806,538	6,072,994,481
Property, plant and equipment (Note 11)	778,345,602	675,003,399
Deferred income tax assets - net (Note 26)	32,495,775	35,977,243
Other noncurrent assets (Notes 12, 13 and 31)	1,200,379,776	1,207,822,315
Total Noncurrent Assets	8,193,027,691	7,991,797,438
TOTAL ASSETS	₱10,872,089,008	₱10,425,185,513
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 14)	₱712,737,725	₱338,818,430
Due to related parties (Note 5)	563,995	689,956
Income tax payable	48,630,922	34,795,153
Due to NPC/PSALM (Note 7)	511,650,588	303,442,871
Current portion of long-term debt (Note 15)	-	144,444,447
Dividends payable (Note 19)	-	22,028,175
Total Current Liabilities	1,273,583,230	844,219,032
Noncurrent Liabilities		
Customers' deposits (Note 16)	117,045,681	100,840,179
Asset retirement obligation (Note 17)	97,198,403	112,303,852
Pension liability (Note 18)	20,107,378	11,338,691
Due to PSALM (Notes 7 and 31)	-	8,713,104
Long-term debt - net of current portion (Note 15)	-	431,784,068
Total Noncurrent Liabilities	234,351,462	664,979,894
Total Liabilities	1,507,934,692	1,509,198,926

(Forward)



	December 31	
	2017	2016
Equity Attributable to Equity Holders of the Parent		
Capital stock - ₱1 par value (Note 19)		
Authorized - 2,000,000,000 shares		
Issued - 1,569,491,900 shares	₱1,569,491,900	₱1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings (Note 19):		
Appropriated for future expansion projects	1,350,000,000	1,250,000,000
Unappropriated	6,338,490,394	5,992,466,229
Other comprehensive income:		
Remeasurement of employee benefits	1,567,084	99,615
Net unrealized valuation losses on available- for-sale investment	(350,000)	(350,000)
Share in remeasurement of employee benefits of associates	(83,388)	194,814
Treasury stock at cost - 72,940,097 shares	(131,008,174)	(131,008,174)
Equity attributable to equity holders of the Parent	9,214,918,568	8,767,705,136
Equity attributable to Non-controlling Interests (Note 19)	149,235,748	148,281,451
Total Equity	9,364,154,316	8,915,986,587
TOTAL LIABILITIES AND EQUITY	₱10,872,089,008	₱10,425,185,513

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Operating fees (Notes 24 and 31)	₱2,350,121,191	₱2,920,729,250	₱2,751,923,624
COST OF SERVICES			
Plant operations (Notes 20 and 31)	(1,735,571,233)	(1,976,931,823)	(2,034,814,359)
GROSS MARGIN	614,549,958	943,797,427	717,109,265
GENERAL AND ADMINISTRATIVE EXPENSES (Note 21)	(188,783,786)	(227,989,791)	(270,061,619)
OTHER INCOME (CHARGES)			
Equity in net earnings of associates (Note 10)	1,137,429,320	1,175,524,975	1,144,801,407
Service income (Note 5)	100,006,366	54,549,214	14,546,366
Interest expense (Notes 15, 16 and 17)	(25,389,266)	(32,734,405)	(42,827,551)
Interest income (Note 4)	21,170,288	25,624,126	12,487,729
Gain from changes in asset retirement obligation (Note 17)	21,111,756	-	36,228,417
VAT income (Note 2)	-	1,757,796	-
Others - net (Notes 31 and 32)	151,758,299	29,832,512	56,111,614
	1,406,086,763	1,254,554,218	1,221,347,982
INCOME BEFORE INCOME TAX	1,831,852,935	1,970,361,854	1,668,395,628
PROVISION FOR INCOME TAX (Note 26)	157,728,524	182,963,520	156,065,907
NET INCOME	1,674,124,411	1,787,398,334	1,512,329,721
OTHER COMPREHENSIVE INCOME (LOSS)			
Share in rereasurement of employee benefits of associates, net of tax	(278,202)	747,080	(552,266)
Remeasurement of employee benefits (Note 18)	5,435,318	-	(2,595,379)
Income tax effect	(1,906,458)	-	778,614
	3,250,658	747,080	(2,369,031)
TOTAL COMPREHENSIVE INCOME	₱1,677,375,069	₱1,788,145,414	₱1,509,960,690
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent	₱1,643,265,605	₱1,733,661,950	₱1,476,042,128
Non-controlling interests	30,858,806	53,736,384	36,287,593
	₱1,674,124,411	₱1,787,398,334	₱1,512,329,721
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent	₱1,644,454,872	₱1,734,409,030	₱1,474,514,985
Non-controlling interests	32,920,197	53,736,384	35,445,705
	₱1,677,375,069	₱1,788,145,414	₱1,509,960,690
EARNINGS PER SHARE (Note 28)			
Basic/Diluted, for income for the year attributable to equity holders of the Parent	₱1.10	₱1.16	₱0.99

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 and 2015

Equity Attributable to Equity Holders of the Parent

	Share in										Total
	Capital Stock (Note 19)	Additional Paid-in Capital	Treasury Stock at Cost	Remeasurement of Employee Benefits (Note 18)	Remeasurement of Employee Benefits of Associates (Note 10)	Retained Earnings (Note 19)	Net Unrealized Valuation Losses on AFS Investment	Non-controlling interest	Total	Total	
Balances at January 1, 2015, as previously reported	P1,569,491,900	P86,810,752	(P131,008,174)	P1,074,492	P-	P3,839,421,474	(P350,000)	P480,593,208	P6,215,440,444	P6,696,033,652	-
Adjustment (Note 19)	-	-	-	-	-	371,022,816	-	(371,022,816)	-	-	-
Balances at January 1, 2015, as adjusted	1,569,491,900	86,810,752	(131,008,174)	1,074,492	-	4,210,444,290	(350,000)	109,570,392	6,586,463,260	6,696,033,652	-
Total comprehensive income	-	-	-	(974,877)	(552,266)	1,476,042,128	-	35,445,705	1,474,514,985	1,509,960,690	-
Cash dividends (Note 19)	-	-	-	-	-	(149,655,187)	-	(15,441,432)	(149,655,187)	(165,096,619)	-
Appropriation (Note 18)	-	-	-	-	-	(400,000,000)	-	-	-	-	-
Balances at December 31, 2015	1,569,491,900	86,810,752	(131,008,174)	99,615	(552,266)	5,136,831,231	(350,000)	129,574,665	7,911,323,058	8,040,897,723	-
Total comprehensive income	-	-	-	-	747,080	1,733,661,950	-	53,736,384	1,734,409,030	1,788,145,414	-
Appropriation (Note 19)	-	-	-	-	-	(850,000,000)	-	-	-	-	-
Reversal of appropriation (Note 19)	-	-	-	-	-	850,000,000	-	-	-	-	-
Cash dividends (Note 19)	-	-	-	-	-	(878,026,952)	-	(35,029,598)	(878,026,952)	(913,056,550)	-
Balances at December 31, 2016	1,569,491,900	86,810,752	(131,008,174)	99,615	194,814	5,992,466,229	(350,000)	148,281,451	8,767,705,136	8,915,986,587	-
Total comprehensive income	-	-	-	1,467,469	(278,202)	1,643,265,605	-	32,920,197	1,644,454,872	1,677,375,069	-
Appropriation (Note 19)	-	-	-	-	-	(500,000,000)	-	-	-	-	-
Reversal of appropriation (Note 19)	-	-	-	-	-	400,000,000	-	-	-	-	-
Cash dividends (Note 19)	-	-	-	-	-	(1,197,241,440)	-	(31,965,900)	(1,197,241,440)	(1,229,207,340)	-
Balances at December 31, 2017	P1,569,491,900	P86,810,752	(P131,008,174)	P1,567,084	(P83,388)	P6,338,490,394	(P350,000)	P149,235,748	P9,214,918,568	P9,364,154,316	-

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,831,852,935	₱1,970,361,854	₱1,668,395,628
Adjustments to reconcile income before income tax to net cash flows:			
Equity in net earnings of associates (Note 10)	(1,137,429,320)	(1,175,524,975)	(1,144,801,407)
Depreciation and amortization (Note 23)	79,683,184	80,384,113	150,514,455
Interest expense (Notes 15, 16 and 17)	25,389,266	32,734,405	42,827,551
Interest income (Note 4)	(21,170,288)	(25,624,126)	(12,487,729)
Net changes in pension liability	14,204,005	1,357,039	812,005
Gain from changes in asset retirement obligation (Note 17)	(21,111,756)	-	(36,228,417)
Others - net (Notes 31 and 32)	(2,160,537)	3,631,513	(30,718,022)
Operating income before working capital changes	769,257,489	887,319,823	638,314,064
Decrease (increase) in:			
Trade and other receivables	(118,805,528)	199,949,084	(141,966,354)
Due from related parties	(264,441)	(174,655)	11,054,046
Due from National Power Corporation/ Power Sector Assets and Liabilities Management Corporation	-	914,264	1,793,538
Materials and supplies	(334,015,353)	13,884,166	129,833,300
Prepayments and other current assets	(83,159,676)	(42,522,126)	10,553,365
Increase (decrease) in:			
Trade and other payables	373,919,295	(46,379,194)	74,501,543
Due to National Power Corporation/ Power Sector Assets and Liabilities Management Corporation	199,494,613	144,730,655	(35,070,232)
Due to related parties	(125,961)	626,686	(7,449,243)
Customers' deposits	16,205,502	9,968,620	9,856,512
Net cash generated from operations	822,505,940	1,168,317,323	691,420,539
Income taxes paid	(143,523,908)	(184,772,412)	(150,902,862)
Interest paid	(22,161,906)	(27,285,764)	(32,027,548)
Interest received	21,105,861	25,543,927	12,519,456
Net cash flows from operating activities	677,925,987	981,803,074	521,009,585

(Forward)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment (Note 11)	(₱190,946,208)	(₱318,343,855)	(₱159,806,247)
Proceeds from disposal of property, plant and equipment	267,857	-	-
Cash dividends received (Note 9)	1,028,339,061	213,359,876	704,186,563
Additional investments in associates (Note 9)	-	(79,999,870)	-
Decrease (increase) in other noncurrent assets	6,077,814	3,428,315	(61,797,293)
Net cash flows from (used in) investing activities	843,738,524	(181,555,534)	482,583,023
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid (Note 19)	(1,251,235,515)	(891,029,665)	(168,955,414)
Payments of:			
Long-term debt	(577,777,778)	(103,911,053)	(30,640,607)
Bank loans (Note 15)	-	-	(180,000,000)
Net cash flows used in financing activities	(1,829,013,293)	(994,940,718)	(379,596,021)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(307,348,782)	(194,693,178)	623,996,587
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,101,274	3,730,885	697,850
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,749,497,644	1,940,459,937	1,315,765,500
CASH AND CASH EQUIVALENTS AT END OF YEAR	₱1,445,250,136	₱1,749,497,644	₱1,940,459,937

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

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

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

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

On April 2, 2002, the Parent Company's common shares were listed in the Philippine Stock Exchange (PSE) (see Note 19).

In 2014, the Parent Company participated in the bidding for the acquisition of NPPC (see Note 31).

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

The 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%



SPC Island Power Corporation (SIPC). SIPC, a wholly owned subsidiary, was incorporated and registered with the SEC on June 26, 2001. It operates the 146.5 MW Panay Diesel Power Plant (PDPP) (located in Dingle, Iloilo) and the 22 MW Bohol Diesel Power Plant (BDPP) (located in Tagbilaran City, Bohol) which were acquired on March 25, 2009 through the assignment of the Parent Company's rights and obligations to SIPC. It also operates the Olango Diesel Power Plant (ODPP) (located in the Island of Olango, Lapu-Lapu City) which supplies all the generated electricity to Mactan Electric Company, Inc. (MECO), an associate.

Cebu Naga Power Corporation (CNPC). CNPC was incorporated on August 12, 2015 to undertake the development, ownership, construction, operation and management of the new 2x150 MW CFBC coal-fired power plant to be built in the province of Cebu. As of December 31, 2017, preparations for the construction of the new power plant were temporarily put off (see Note 31).

SPC Malaya Power Corporation (SMPC). SMPC was incorporated in the Republic of the Philippines and registered with the SEC on September 22, 2011. SMPC participates in the annual bidding for the Operation and Maintenance Service Contract (OMSC) of the 650 MW Malaya Thermal Power Plant located in Pililla, Rizal (see Note 25).

Bohol Light Company, Inc. (BLCI). BLCI was incorporated on July 21, 2000 to engage in the business of supply and distribution of electricity, subject to applicable laws, rules and regulations. On July 10, 2003, the National Electrification Commission (NEC) granted BLCI's franchise to operate electric, light and power services for a period of 25 years retroactive from October 20, 2000 to October 19, 2025 in the area presently comprised by Tagbilaran City, Bohol.

SPC Electric Company, Inc. (SECI) and SPC Light Company, Inc. (SLCI). SECI and SLCI were incorporated on October 17, 2002 and January 15, 2003, respectively, primarily to design, construct, install, commission, rehabilitate, maintain, manage, operate and invest in power generation/distribution plants and related facilities. The Parent Company has the power to govern the financial and operating policies of SECI by virtue of an agreement, making it eligible for consolidation in accordance with PFRS 10.

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

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group") were authorized for issue by the Board of Directors (BOD) of the Parent Company on April 3, 2018.

2. Summary of Significant Accounting Policies

Basis of Preparation

The Group's consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) investments which have been measured at fair value, and are presented in Philippine Peso, the functional currency of the companies in the Group. All amounts are rounded to the nearest Peso except as otherwise indicated.

Statement of Compliance

The Group's consolidated financial statements are presented in accordance with the Philippine Financial Reporting Standards (PFRSs).



Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company. Control is established when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

All intercompany balances transactions, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and is presented in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2017. Unless otherwise indicated, the adoption did not have any significant impact on the consolidated financial statements of the Group.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014–2016 Cycle)

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Adoption of these amendments did not have any impact to the Group.

- Amendments to PAS 7, *Statement of Cash Flows*, Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).



The Group has provided the required information in Note 32 to the financial statements. As allowed under the transition provisions of the standard, the Parent Company did not present comparative information for the year ended December 31, 2016.

- Amendments to PAS 12, *Income Taxes*, Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Group applied the amendments retrospectively. However, their application has no effect on the consolidated financial statements as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

New Standards and Interpretation Issued and Effective after December 31, 2017

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

Effective January 1, 2018

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

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

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

These amendments will not be applicable to the Group since it has no share-based payment arrangements.

- PFRS 9, *Financial Instruments*

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



The Group plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

The Group has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and is in the process of developing impairment methodologies to support the calculation of expected credit losses for qualified credit exposures.

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

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

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

- PFRS 15, *Revenue from Contracts with Customers*

PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Parent Company plans to adopt the new standard on the required effective date using the full retrospective method.

The Group is currently assessing the impact of adopting this standard.

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

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



or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The Group is currently assessing the impact of adopting these amendments.

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

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

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

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

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

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

Effective Beginning on or After January 1, 2019

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

The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal company that is classified) as held for sale.

The amendments are not expected to have any impact on the Group's consolidated financial statements.



- PFRS 16, *Leases*

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

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

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

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

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

The Group is currently assessing the impact of adopting this standard.

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

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

The Group is currently assessing the impact of adopting these amendments.

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

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



The interpretation specifically addresses the following:

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

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

The Group is currently assessing the impact of adopting this interpretation.

Deferred Effectivity

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

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

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

These amendments are not expected to have any significant impact on the Group's consolidated financial statements.

Cash and Cash Equivalents

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

Financial Instruments - Initial Recognition and Subsequent Measurement

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

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



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

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

As of December 31, 2017 and 2016, the Group has no financial assets and financial liabilities at FVPL and HTM investments.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL. This accounting policy relates to the Group's cash and cash equivalents, trade and other receivables, due from NPC/PSALM and due from related parties and noncurrent receivable included as part of "other noncurrent assets" in the consolidated statement of financial position (see Notes 4, 5, 6, 7 and 12).

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

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

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

As of December 31, 2017 and 2016, included under this category is the Group's investment in proprietary golf shares presented under "Other noncurrent assets" in the consolidated statement of financial position (see Note 12).



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

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

This accounting policy applies primarily to the Group's trade and other payables, dividends payable, due to NPC/PSALM, long-term debt, customers' deposits and due to related parties that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable) (see Notes 5, 7, 14, 15, 16 and 19).

Determination of Fair Value. The fair value for financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid price at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using: (i) recent arm's-length market transactions; (ii) reference to the current market value of another instrument, which is substantially the same; (iii) discounted cash flow analysis; and (iv) option pricing models.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which observable market prices exist, and other relevant valuation models.

"Day 1" Profit or Loss. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated statement of comprehensive income unless it qualifies for recognition as some type of asset. In cases where use is made of data which are not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" profit or loss amount.

Offsetting Financial Instruments

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



Impairment of Financial Assets

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

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

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

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

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



Derecognition of Financial Assets and Liabilities

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

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

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

Materials and Supplies

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

Value-Added Tax (VAT)

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

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

Investments in Associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, an investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates and the Parent Company are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.



Property, Plant and Equipment

Property, plant and equipment, except land held by a subsidiary, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any allowance for impairment losses. Land held by a subsidiary is stated at cost less any accumulated impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when the recognition criteria are met. Cost also includes asset retirement obligation specifically for property, plant and equipment installed/constructed on the leased properties.

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

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

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

Category	No. of Years
Distribution lines, poles and fixtures	25
Power transformers, switches and devices	15-25
Plant machinery and equipment	1-15
Motor vehicles	2-12
Structures	3-25
Furniture and office equipment	1-12

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

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

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



Other Noncurrent Assets

Franchise. Included as part of "Other noncurrent assets" in the consolidated statement of financial position, franchise is stated initially at cost. After initial recognition, franchise is valued at cost less accumulated amortization and any allowance for impairment losses. Costs incurred to acquire the franchise to operate the Bohol Provincial Electric System are amortized over 25 years, which is equivalent to the franchise period granted to BLCI and assessed for impairment whenever there is an indication that the franchise may be impaired. The amortization period and the amortization method for the franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on the franchise is recognized under "General and administrative expenses" in the consolidated statement of comprehensive income.

Goodwill in a business combination is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill is tested for impairment annually, or when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Asset Retirement Obligation (ARO)

The Group has a contractual obligation under the Land Lease Agreement (LLA) (see Notes 17 and 30) with PSALM (the Lessor) pursuant to the business acquisition of the LBGTs in 2010 by the Parent Company and the Panay and Bohol Diesel Power Plants in 2009 by SIPC, to dismantle and remove all movable and immovable improvements which have been directed to be removed by the Lessor, to clean and free the leased premises from all environmental waste, hazardous substances and hazardous materials including those resulting from any dismantling, to repair any damage caused to the leased premises and to restore the leased premises to the condition it was found at the acquisition date to the full satisfaction of the lessor, subject to ordinary wear and tear, within 180 days from the termination of the lease agreement or expiration of the lease term.



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

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

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

Impairment of Nonfinancial Assets Except Goodwill

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

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods



to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

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

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

Treasury Stock. Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Operating Fees

- Revenue consists of: (i) fees received for ancillary services provided by the Parent Company and SIPC (see Note 25), (ii) fees received for electricity generated and sold by SIPC and the Parent Company to the Wholesale Electricity Spot Market (see Note 25); and (iii) energy fees received by SIPC for sale of electricity under various contracts with distribution utilities (see Note 25).
- Revenue of BLCI from the distribution of power services is recognized upon supply of power to the customers.
- Revenue of SIPC and the Parent Company is recognized upon actual delivery of energy and/or ancillary services.

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

Other Income. Other income is recognized as earned. This account in 2017 consists mainly of incidental income derived from operating and preserving the NPPC after November 28, 2016 (see Notes 3 and 31) and service income not directly related to generation and distribution of electricity. The account also includes VAT income, gains from disposal of excess inventories.



Cost and Expense Recognition

Costs and expenses are recognized in the consolidated statement of comprehensive income when incurred.

Borrowing Costs

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

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

Leases

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

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

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

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

Pension Expense

The Group has a defined benefit pension plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit method.

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

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.



Defined benefit costs comprise the following:

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

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

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

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

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

Income Tax

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

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Related Party Transactions

Transactions with related parties are accounted for based on the nature and substance of the agreement, and financial effects are included in the appropriate asset, liability, income and expense accounts.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.



Foreign-Currency-Denominated Transactions

The consolidated financial statements are presented in Philippine Peso, the functional currency of the companies in the Group. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange ruling at the reporting date. All differences are directly charged against or credited to current operations.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Earnings Per Share

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares outstanding, after retroactive adjustment for any stock dividend and stock splits declared during the year.

Diluted earnings per common share is calculated by dividing the net income for the year attributable to the ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year plus the weighted average number of ordinary shares that would be issued for any outstanding common stock equivalents.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group is organized into three major business segments. Such business segments are the bases upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 27 to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events that provide additional information about the Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.



3. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements, prepared in compliance with PFRS, require the Group to make judgments and estimates that affect amounts reported in the Group's consolidated financial statements and related notes. In preparing these consolidated financial statements, the Group made its best judgments and estimates of certain amounts, giving due consideration to materiality. The Group believes that the following represent a summary of these significant accounting judgments and estimates and related impact and associated risks in the Group's consolidated financial statements.

Judgments

Determining the Classification and Valuation of Assets and Liabilities and Measurement of Revenues, Costs and Expenses Related to the Acquisition of the 153.1 MW Naga Power Plant Complex (NPPC). The legal developments as discussed in Note 31 required the Group to exercise judgment relating to the classification and valuation of assets and liabilities, and measurement of revenues, costs and expenses in relation to the NPPC acquisition. Since the Supreme Court (SC) decisions did not specifically rule how the nullified transaction will be treated and settled between the Parent Company and PSALM, management, in consultation with external legal counsels, exercised its due judgment on how these decisions will be implemented. The Group assessed that it is appropriate to recognize a receivable as of December 31, 2017 and 2016 and exercised judgments regarding the amount of claim to be recognized and the expected timing of when that claim will be collected. Thus, the Parent Company derecognized in 2015, the NPPC from property, plant and equipment and the prepaid rent, and recognized a noncurrent receivable from PSALM of ₱1.143 billion, which is equivalent to the purchase price of the NPPC and land lease rental paid by the Parent Company to PSALM in 2014.

After the Entry of Judgment on November 28, 2016, the date when the SC decisions became final and executory, the Parent Company in exercising its legal right of retention, continued operating the NPPC as the best way to preserve it pending turnover of the NPPC and settlement of possible claims and counterclaims between the Parent Company and PSALM. The Group assessed that the income from operation of NPPC is a necessary consequence of its operation of NPPC as the best way to preserve it in preparation for the eventual turn-over to PSALM. The income from the operation of the NPPC (net of directly related costs and expenses) amounted to ₱121.5 million in 2017 and was recognized as part of "Other income" in the 2017 consolidated statement of comprehensive income. The income in 2016 from operation of NPPC after November 28, 2016 was not material. Any adjustments arising from the final settlement will be taken up in the consolidated financial statements as these are determined. In addition, prior to November 28, 2016, revenues recognized in 2016 and 2015 amounted to ₱390.2 million and ₱243.6 million, respectively; while expenses recognized amounted to ₱372.9 million and ₱210.6 million, respectively.

Assessment of Control Over SECI. Control is presumed to exist when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that the Group has the ability to control the operating and financial activities of SECI by virtue of an agreement. The other stockholder (an individual stockholder owning 60% of the outstanding capital stock of SECI and also a major stockholder of the Parent Company) delegates and entrusts all the decisions in the operational and finance functions of SECI to the Parent Company who owns 40% of the outstanding capital stock of SECI.



Determining Non-Controlling Interest (NCI) that is Material to the Group. The Group assesses whether an NCI is material by considering factors such as the carrying amount of the NCI relative to the net equity of the Group, the profit or loss or other comprehensive income (OCI) of the subsidiary attributable to the NCI, the assets and liabilities of the related subsidiary, or the amount of dividends paid by the subsidiary to the NCI, and the proportion that these amounts bear to the Group's financial position or results of operations. The Group also considers the nature of activities of the subsidiary and its relative importance or risk compared to other operations of the Group. Based on management's assessment, it has determined that the NCI in BLCI is material to the Group. Information about this subsidiary with material NCI is disclosed in Note 19.

Legal Contingencies. The Group is currently involved in various legal proceedings. The estimate of probable costs for the resolution of possible claims is developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results of litigation. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2017 and 2016.

Estimates and Assumptions

Estimating Allowance for Impairment Losses. The Group's maintains allowance for impairment losses at a level that management considers adequate to provide for potential uncollectability of receivables. The Group evaluates specific accounts where the Group has information that certain customers or third parties are unable to meet its financial obligations. Also included in the assessment are the due from NPC/PSALM, due from related parties and noncurrent receivable (included under "Other noncurrent assets"). Factors, such as the Group's length of relationship with the customers or other parties and the customers' or other parties' current credit status, are considered to ascertain the amount of reserves that will be recorded in the trade and other receivables, due from NPC/PSALM, due from related parties and noncurrent receivable (included under "Other noncurrent assets") in the consolidated statements of financial position. These reserves are re-evaluated and adjusted as additional information is received.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective assessment of allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Allowance for doubtful accounts amounted to ₱23.0 million and ₱16.0 million as of December 31, 2017 and 2016, respectively (see Note 6). These receivables, net of allowance for doubtful accounts, amounted to ₱1,604.2 million and ₱1,480.7 million as of December 31, 2017 and 2016, respectively (see Notes 5, 6, 7 and 12).

Estimating Allowance for Materials and Supplies Obsolescence and Impairment. The Group provides allowance for obsolescence and impairment related to materials and supplies whenever the value of these inventories becomes lower than cost due to damage, physical deterioration or obsolescence. The amounts and timing of recorded expenses for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for obsolescence and impairment would increase recorded expenses and decrease current assets.



As of December 31, 2017 and 2016, allowance for obsolescence and impairment amounted to ₱85.5 million (see Note 8). The carrying value of the materials and supplies, net of allowance for obsolescence, amounted to ₱605.2 million and ₱271.2 million as of December 31, 2017 and 2016, respectively (see Note 8). In 2016, reversal of allowance for obsolescence amounted to ₱9.3 million, and provision for obsolescence for inventories presented as property, plant and equipment amounted to ₱5.7 million (see Note 11).

Estimating Useful Lives of Property, Plant and Equipment. The Group estimates the useful lives of property, plant and equipment, except land held by a subsidiary and construction in progress, based on the period over which the assets are expected to be available for use or lease term, whichever is shorter. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. However, it is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recording expenses for any period would be affected by changes in these factors and circumstances.

The Group recognized depreciation expense amounting to ₱78.3 million, ₱78.8 million and ₱121.0 million in 2017, 2016 and 2015, respectively (see Note 23). As of December 31, 2017 and 2016, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱341.6 million and ₱392.6 million, respectively (see Note 11).

Estimating Impairment of Property, Plant and Equipment. Property, plant and equipment are reviewed and tested whenever there is an indication of impairment and are reassessed at least each reporting date. Factors such as significant underperformance of an asset relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets, or significant negative industry or economic trends are considered by the Group in assessing whether there is an indication that an asset's carrying amount may exceed its recoverable amount.

The Group recognized impairment loss amounting to ₱5.7 million in 2016 and nil in 2017 and 2015. As of December 31, 2017 and 2016, the aggregate net book values of property, plant and equipment amounted to ₱778.3 million and ₱675.0 million, respectively (see Note 11).

Estimating Impairment of Nonfinancial Assets other than Property, Plant and Equipment. The Group assesses whether there are any indicators of impairment at each reporting date. These nonfinancial assets (prepayments and other current assets, investments in associates, and other noncurrent assets, excluding noncurrent receivable from PSALM) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverable amount of investments in associates are based on fair value less cost to sell. Fair value less cost to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate. For the other nonfinancial assets, the recoverable amounts are assessed if there are changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in those assets.



Based on management's assessment, there are no indicators of impairment on these nonfinancial assets. Thus, no impairment loss was recognized in 2017, 2016 and 2015. The carrying amounts of these nonfinancial assets as of December 31 are as follows (see Notes 10, 12 and 13):

	2017	2016
Investments in associates	₱6,181,806,538	6,072,994,481
Prepayments and other current assets	167,670,855	₱75,228,064
Other noncurrent assets (excluding noncurrent receivable from PSALM and AFS)	55,839,776	63,282,315

Estimating Asset Retirement Obligation (ARO). The Group has a contractual obligation under the Land Lease Agreement (LLA) with PSALM to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term (see Notes 17 and 30). These estimated costs of dismantlement and restoration assume third party estimates. The Group projected the estimate using inflation rates ranging from 2.54% to 3.83% in 2017 and 2016, respectively, and discount rates ranging from 3.89% to 5.70% in 2017 and 2016, respectively.

The amount and timing of recorded expenses for any period would differ if different assumptions are used. An increase in computed ARO would increase the recorded asset, depreciation and increase noncurrent liabilities.

As of December 31, 2017 and 2016, the ARO has a carrying value of ₱97.2 million and ₱112.3 million, respectively (see Note 17). Reversal of ARO amounted to ₱21.1 million in 2017 and nil in 2016 and 2015.

Information relating to the Group's ARO is disclosed in Note 17 of the consolidated financial statements.

Estimating Realizability of Deferred Income Tax Assets. The Group reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Group will utilize all or part of the deferred income tax assets. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Group. The Parent Company and SIPC elected to avail of the Optional Standard Deduction (OSD) starting 2010 and plan to avail of such in certain number of years thereafter. BLCI likewise started to avail of OSD starting 2016. Thus, the deferred income tax assets were recognized on this basis. The Group has deferred income tax assets amounting to ₱32.5 million and ₱36.0 million as of December 31, 2017 and 2016, respectively (see Note 26).

Estimating Impairment of Goodwill. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. In estimating the value in use, the Group estimated annual growth at 4% to 7% in energy sold and 5% to 7% escalation of operating expenses for the first five years. The Group assumed a zero growth rate beyond five years. The interest rate used to discount the net cash flows from operations is the weighted average cost of capital (WACC) of 14.97% for BLCI. Carrying amount of goodwill related to the investment in BLCI amounted to ₱32.5 million as of December 31, 2017 and 2016 (see Note 13).



Determining Fair Value of Financial Assets and Financial Liabilities. PFRSs require that certain financial assets and liabilities be carried at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income and consolidated statement of changes in equity.

Fair value of financial assets as of December 31, 2017 and 2016 amounted to ₱3,049.4 million and ₱3,230.2 million, respectively (see Note 29). Fair value of financial liabilities as of December 31, 2017 and 2016 amounted to ₱1,251.9 million and ₱1,304.4 million, respectively (see Note 29).

4. Cash and Cash Equivalents

This account consists of:

	2017	2016
Cash on hand and in banks	₱1,125,882,545	₱725,651,023
Short-term investments	319,367,591	1,023,846,621
	₱1,445,250,136	₱1,749,497,644

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates. Total interest income amounted to ₱21.2 million, ₱25.6 million and ₱12.5 million in 2017, 2016 and 2015, respectively.

5. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence. The Group, in the normal course of business, has significant transactions with related parties which principally consist of the following:

Associates/Stockholders

- Rendering of management and other services by the Parent Company to MECO amounting to ₱100.0 million, ₱54.5 million and ₱14.5 million 2017, 2016 and 2015, respectively, are recorded as "Service income" in the consolidated statements of comprehensive income.
- Management, operation and maintenance services rendered by SIPC on ODPP arising from the assignment of rights and obligations by the Parent Company to SIPC under the "Operations, Maintenance and Services Agreement" with MECO until 2026. Revenue recorded under "Operating fees" amounted to ₱51.7, ₱33.4 million and ₱34.7 million in 2017, 2016 and 2015, respectively. Outstanding receivables from MECO on these transactions amounted to ₱4.7 million and ₱4.0 million as of December 31, 2017 and 2016, respectively, and are included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 6).



- Purchase of power by BLCI from KEPCO SPC Power Corporation (KSPC) under the Power Sales Contract between BLCI and KSPC amounting to ₱274.9 million, ₱263.7 million and ₱244.1 million in 2017, 2016 and 2015, respectively (see Note 25). Outstanding amount due to KSPC on this transaction amounted to ₱45.9 million and ₱43.8 million as of December 31, 2017 and 2016, respectively and is included as part of “Trade and other payables” in the consolidated statements of financial position (see Note 14).
- Extension of short-term, noninterest-bearing advances by the Parent Company to KSPC for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-Fired Power Plant in Naga, Cebu. Outstanding amount due from KSPC amounted to ₱0.7 million as of December 31, 2017 and 2016.
- Dividends received from KSPC amounting to ₱968.3 million, ₱133.4 million and ₱624.2 million in 2017, 2016 and 2015, respectively; and from MECO amounting to ₱60.0 million in 2017 and ₱80.0 million in 2016 and 2015, respectively (see Note 10).

Affiliates Under Common Ownership

- Sale of electricity to Bohol Water Utilities, Inc. (BWUI) at the same rates charged to BLCI’s consumers amounted to ₱18.4 million, ₱17.4 million and ₱15.8 million in 2017, 2016 and 2015, respectively. Outstanding receivable from BWUI related to this transaction amounting to ₱1.7 million and ₱1.3 million as of December 31, 2017 and 2016, respectively, is included as part of “Trade and other receivables” in the consolidated statements of financial position (see Note 6).

The results of these transactions are presented in the appropriate accounts in the consolidated financial statements. The amounts due from/due to related parties, trade and other receivables, and trade and other payables follow:

Category	Amount/Volume	2017		
		Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱51,716,786	₱4,743,031	Noninterest-bearing 60-day;	Unsecured, No impairment
Management services rendered to: MECO	100,006,366	-	Noninterest-bearing	Unsecured
Purchase of power from: KSPC	274,902,375	(45,911,977)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to (from): KSPC	-	719,579	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	968,339,126	-	Due and demandable	Unsecured, No impairment
MECO	59,999,933	-	Due and demandable	Unsecured, No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	18,410,999	1,660,524	10 days from receipt	Unsecured, No impairment

(Forward)



2017				
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Lease of office space from:				
SPEC	₱3,192,902	(₱553,201)	30-day; Noninterest-bearing	Unsecured
SPDC	671,177	(111,863)	30-day; Noninterest-bearing	Unsecured
BWUI	303,704	(24,296)	10% escalation every two years	Unsecured
Collection charges:				
BWUI	230,056	20,015	₱1.53 per receipt	Unsecured, No impairment
Advances to (from):				
BWUI	671,441	559,625	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	434,027	(66,951)	60-day; Noninterest-bearing	Unsecured
	82,861	82,861	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	66,391	66,391	60-day; Noninterest-bearing	Unsecured, No impairment
SII	50,949	50,949	60-day; Noninterest-bearing	Unsecured, No impairment
SPI	46,170	46,170	60-day; Noninterest-bearing	Unsecured, No impairment
SIPC Water Resources, Inc. (SWRI)	11,738	158,164	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	11,238	63,504	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	3,649	3,649	60-day; Noninterest-bearing	Unsecured, No impairment
Kepco Philippines Corp.	-	(497,043)	60-day; Noninterest-bearing	Unsecured, No impairment
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees	5,231,290	10,336,824	60-day; Noninterest-bearing	Unsecured, No impairment

2016				
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱33,350,752	₱3,977,042	Noninterest-bearing 60-day;	Unsecured, No impairment
Management services rendered to:				
MECO	54,549,213	-	Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	263,682,950	(43,813,790)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to (from):				
KSPC	-	719,579	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	133,360,000	-	Due and demandable	Unsecured, No impairment
MECO	79,999,877	-	Due and demandable	Unsecured, No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	17,387,826	1,333,415	10 days from receipt	Unsecured, No impairment

(Forward)

