

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

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**COMPANY NAME**

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A	R	I	E	S																						

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

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Form Type

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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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**COMPANY INFORMATION**

Company's Email Address	Company's Telephone Number	Mobile Number
<u>vivant@vivant.com.ph</u>	(032) 234-2256	N/A
No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
1,434	June 16	December 31

**CONTACT PERSON INFORMATION**

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Atty. Joan A. Giduquio-Baron	jbaron@jpgarcialaw.com	(032) 232-0253	0917-5356692

**CONTACT PERSON'S ADDRESS**

15 <sup>th</sup> Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road, Cebu Business Park, Cebu City
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**NOTE 1 :** In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

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





## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **VIVANT CORPORATION AND SUBSIDIARIES** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

DENNIS N.A. GARCIA

Chairman of the Board/Chief Executive Officer

  
MINUEL CARMELA N. FRANCO

Chief Financial Officer

Signed this \_\_\_\_\_ day of MAR 27 2018, 2018.

**SUBSCRIBED AND SWORN TO BEFORE ME**, a Notary Public for and in the City of Cebu, this 28<sup>TH</sup> day of March 2018. Affiants personally appeared **DENNIS N.A. GARCIA** with his Philippine Passport with No. EC0044262 issued on January 20, 2014 at DFA Cebu and **MINUEL CARMELA N. FRANCO** exhibited to me her Philippine Passport with No. P2168178A which will expire on March 5, 2022 issued at DFA Cebu as competent proof of their identities.

Witness my hand and notarial seal.

Doc. No. 1387 ;  
Page No. 78 ;  
Book No. XIII ;  
Series of 2018.



*Joan A. Giduquio-Baron*  
**ATTY. JOAN A. GIDUQUIO-BARON**  
NOTARIAL COMMISSION NO. 049-17  
NOTARY PUBLIC  
UNTIL DECEMBER 31, 2019  
SUITS 1501-1502 AYALA LIFE-FCU CENTER  
CEBU BUSINESS PARK, CEBU CITY  
ROLL NO. 41829  
PTR NO. 1434687 - CEBU CITY - 060000000  
REP NO. AR000748 - CEBU CITY - 060000000



Building a better  
working world

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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  
Vivant Corporation

### Opinion

We have audited the consolidated financial statements of Vivant 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 the 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 the Investment in Visayan Electric Company, Inc.***

The Group owns 34.81% of Visayan Electric Company, Inc. (VECO), an associate engaged in power distribution services, as at December 31, 2017 and accounts for the investment under the equity method. The application of the equity method of accounting to the Group's investment in VECO is significant to our audit because VECO accounted for 16% of the consolidated total assets and contributed 51% to the consolidated net income of the Group as at and for the year ended December 31, 2017. VECO's net income is significantly driven by the electricity revenue which depends on the electric consumption captured, the rates applied across different customer groups and the systems involved in the billing process. The electric consumption captured is based on the meter readings taken on various dates for the different groups of customers (i.e., industrial, commercial, and residential customers) within the franchise area of operation.

The disclosures relating to the investment in VECO are included in Note 10 to the consolidated financial statements.

***Audit Response***

We obtained the relevant financial information of VECO and recomputed the Group's share in the net income of VECO for the year ended December 31, 2017. We also evaluated the design and tested the controls over VECO's billing and revenue recognition process. This includes the capture and accumulation of meter data in the billing system as well as a calculation of the billed amounts, and uploading of the billed amounts from the billing system to the financial reporting system. We also performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, and compared them with the rates masterfile used in billing.

***Valuation of Investment Properties at Fair Value***

The Group accounts for its investment properties using the fair value model. Investment properties consist of land and buildings and improvements and represent 3.2% of the consolidated assets as at December 31, 2017. The determination of the fair values of these properties involves significant management judgment and estimation. The valuation requires the assistance of appraisers whose calculations depend on certain assumptions, such as sales and listing of comparable properties registered within the vicinity and adjustments to sales price based on internal and external factors.

The disclosures relating to investment properties are included in Note 12 to the consolidated financial statements.



### *Audit Response*

We evaluated the competence, capabilities and qualifications of the external appraiser by considering their qualifications, experience and reporting responsibilities. We involved our internal specialist in the review of the methodology and assumptions used in the valuation of the investment properties. We assessed the methodology adopted by referencing common valuation models and reviewed the relevant information supporting the sales and listings of comparable properties. We also inquired from the appraiser the basis of adjustments made to the sales price.

### **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 PFRSs, 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.



## **Auditor's 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Leovina Mae V. Chu.

SYCIP GORRES VELAYO & CO.

*Leovina Mae V. Chu*

Leovina Mae V. Chu

Partner

CPA Certificate No. 99910

SEC Accreditation No. 1199-AR-1 (Group A),

June 22, 2015, valid until June 21, 2018

Tax Identification No. 209-316-911

BIR Accreditation No. 08-001998-96-2018,

February 2, 2018, valid until February 1, 2021

PTR No. 6621343, January 9, 2018, Makati City

March 27, 2018





**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2017	2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	P4,635,082,495	P4,437,776,262
Trade and other receivables (Note 7)	532,943,339	404,070,919
Advances to associates and stockholders (Note 16)	83,736,329	59,445,542
Inventories - at cost (Note 8)	122,863,321	96,845,759
Prepayments and other current assets (Note 9)	913,386,427	926,979,573
<b>Total Current Assets</b>	<b>6,288,011,911</b>	<b>5,925,118,055</b>
<b>Noncurrent Assets</b>		
Investments in and advances to associates and joint ventures (Note 10)	8,385,408,898	7,446,422,945
Property, plant and equipment (Note 11)	528,096,174	634,186,208
Investment properties (Note 12)	502,711,090	514,801,557
Deferred income tax assets - net (Note 20)	15,974,331	14,369,016
Pension asset (Note 19)	—	2,874,791
Other noncurrent assets (Note 13)	33,335,299	24,182,258
<b>Total Noncurrent Assets</b>	<b>9,465,525,792</b>	<b>8,636,836,775</b>
<b>TOTAL ASSETS</b>	<b>P15,753,537,703</b>	<b>P14,561,954,830</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Trade and other payables (Note 14)	P1,350,518,998	P1,267,102,534
Advances from related parties (Note 16)	72,406,345	111,676,791
Income tax payable	10,083,687	453,865
Current portion of long-term notes payable (Note 15)	25,616,946	25,812,744
Short-term notes payable (Note 15)	—	103,500,000
<b>Total Current Liabilities</b>	<b>1,458,625,976</b>	<b>1,508,545,934</b>
<b>Noncurrent Liabilities</b>		
Long-term notes payable - net of current portion (Note 15)	2,870,154,989	2,895,771,935
Pension liability (Note 19)	31,825,980	20,717,401
Deferred income tax liabilities (Note 20)	107,174,550	109,574,367
<b>Total Noncurrent Liabilities</b>	<b>3,009,155,519</b>	<b>3,026,063,703</b>
<b>Total Liabilities</b>	<b>4,467,781,495</b>	<b>4,534,609,637</b>

**Equity Attributable to Equity Holders of the Parent**

Capital stock - P1 par value (Note 21)		
Authorized - 2,000,000,000 shares		
Issued - 1,023,456,698 shares	1,023,456,698	1,023,456,698
Additional paid-in capital	8,339,452	8,339,452
Other components of equity:		
Share in revaluation increment of an associate (Note 10)	1,472,399,497	1,207,387,400
Remeasurement gain on employee benefits (Note 19)	51,576	4,652,158

(Forward)



	December 31	
	2017	2016
Share in rereasurement losses on employee benefits of associates and a joint venture (Note 10)	(₱74,564,481)	(₱58,895,444)
Unrealized valuation loss on available-for-sale (AFS) investments	(5,291)	(5,291)
Equity reserve	(43,845)	-
Retained earnings (Notes 10 and 21):		
Appropriated for business expansion	3,422,808,228	2,778,783,261
Unappropriated	4,850,457,874	4,493,321,226
<b>Equity Attributable to Equity Holders of the Parent</b>	<b>10,702,899,708</b>	<b>9,457,039,460</b>
<b>Equity Attributable to Non-controlling Interests (Note 21)</b>	<b>582,856,500</b>	<b>570,305,733</b>
<b>Total Equity</b>	<b>11,285,756,208</b>	<b>10,027,345,193</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱15,753,537,703</b>	<b>₱14,561,954,830</b>

*See accompanying Notes to Consolidated Financial Statements.*



**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2017	2016	2015
<b>REVENUE</b>			
Sale of power (Note 23)	P2,620,388,465	P2,365,257,193	P2,797,425,370
Equity in net earnings of associates and joint ventures (Note 10)	1,290,172,769	1,288,333,002	1,009,709,570
Management fees (Note 16)	151,921,967	157,242,224	149,044,346
Interest income (Note 6)	72,537,322	59,249,869	59,747,515
	<b>4,135,020,523</b>	<b>3,870,082,288</b>	<b>4,015,926,801</b>
<b>GENERATION COSTS</b> (Notes 17 and 23)	<b>2,187,471,307</b>	<b>1,792,937,494</b>	<b>2,292,370,990</b>
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (Note 18)	157,851,176	134,616,326	127,327,809
Professional fees (Notes 16 and 23)	72,216,680	53,886,293	55,774,694
Taxes and licenses	50,650,520	28,671,551	42,571,432
Travel	32,058,796	24,514,349	21,360,359
Management fees (Note 16)	24,789,731	25,565,790	45,312,413
Depreciation and amortization (Notes 11 and 13)	19,718,279	20,837,177	18,667,737
Rent and association dues	11,212,411	7,809,735	5,514,472
Representation	7,754,481	5,392,548	6,261,621
Communication and utilities	7,039,981	5,777,843	4,560,920
Security and janitorial	688,385	566,548	833,276
Other operating expenses (Note 17)	58,846,193	71,518,167	47,452,075
	<b>442,826,633</b>	<b>379,156,327</b>	<b>375,636,808</b>
<b>INCOME FROM OPERATIONS</b>	<b>1,504,722,583</b>	<b>1,697,988,467</b>	<b>1,347,919,003</b>
<b>OTHER INCOME (CHARGES)</b>			
Finance costs (Note 15)	(176,224,968)	(177,545,814)	(172,833,443)
Insurance claims (Note 7)	87,129,498	-	-
Gain on fair value measurement of investment properties (Note 12)	72,501,133	-	240,730,557
Gain on disposal of a subsidiary (Note 1)	12,068,717	-	-
Foreign exchange gains - net (losses)	(1,249,454)	1,541,433	(302,360)
Other income - net (Notes 12 and 16)	21,439,195	38,573,788	5,164,859
	<b>15,664,121</b>	<b>(137,430,593)</b>	<b>72,759,613</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,520,386,704</b>	<b>1,560,557,874</b>	<b>1,420,678,616</b>
<b>PROVISION FOR INCOME TAX</b> (Note 20)	<b>94,877,898</b>	<b>131,975,187</b>	<b>170,716,071</b>
<b>NET INCOME</b>	<b>1,425,508,806</b>	<b>1,428,582,687</b>	<b>1,249,962,545</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Item that will be reclassified to profit or loss:			
Unrealized valuation loss on AFS investments	-	(385,500)	(124,600)
Items that will not be reclassified to profit or loss:			
Share in revaluation increment of an associate, net of tax (Note 10)	<b>291,996,394</b>	-	-

(Forward)



	Years Ended December 31		
	2017	2016	2015
Remeasurement gain (loss) on employee benefits (Note 19)	(P7,642,270)	P3,041,578	P7,738,786
Income tax effect	1,942,528	(418,665)	(2,296,210)
	(5,699,742)	2,622,913	5,442,576
Share in the remeasurement gains (losses) on employee benefits of associates, net of tax (Note 10)	(15,669,037)	277,480	8,332,187
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>270,627,615</b>	<b>2,514,893</b>	<b>13,650,163</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P1,696,136,421</b>	<b>P1,431,097,580</b>	<b>P1,263,612,708</b>
<b>NET INCOME</b>			
Attributable to:			
Equity holders of the parent	P1,259,926,428	P1,293,430,993	P1,052,735,864
Non controlling interests	165,582,378	135,151,694	197,226,681
	P1,425,508,806	P1,428,582,687	P1,249,962,545
<b>TOTAL COMPREHENSIVE INCOME</b>			
Attributable to:			
Equity holders of the parent	P1,531,685,794	P1,294,538,940	P1,066,364,976
Non-controlling interests	164,450,627	136,558,640	197,247,732
	P1,696,136,421	P1,431,097,580	P1,263,612,708
<b>EARNINGS PER SHARE</b>			
Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22)	P1.231	P1.264	P1.029

See accompanying Notes to Consolidated Financial Statements.

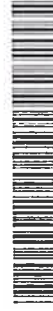


**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

Equity Attributable to Equity Holders of the Parent

	Share in										Total Equity
	Capital Stock (Note 21)	Additional Paid-in Capital	Share in Revaluation Increment of an Associate	Remeasurement Gain (Loss) on Employee Benefits	Remeasurement Gain (Loss) on Employee Benefits of Associates and a Joint Venture	Unrealized Valuation Gain (Loss) on AFS Investments	Retained Earnings (Note 21)	Total	Equity Attributable to Non-Controlling Interests (Note 21)	Total Equity	
Balances at January 1, 2017	P1,023,456,698	P8,339,452	P1,207,387,400	P4,652,158	(P58,895,444)	P-	P2,778,783,261	P4,493,321,226	P9,457,039,460	P570,305,733	P10,027,345,193
Total comprehensive income (loss)	-	-	291,996,394	(4,567,991)	(15,669,037)	-	1,250,000,000	1,250,000,000	1,531,685,794	164,450,627	1,696,136,421
Appropriation for business expansion	-	-	-	-	-	-	(605,975,033)	605,975,033	-	-	-
Reversal of appropriation for business expansion	-	-	-	-	-	-	-	-	-	-	-
Additional investments of non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	(26,984,297)	(32,591)	-	-	-	26,984,297	-	-	-
(Note 10)	-	-	-	-	-	-	-	-	-	-	-
Purchase of 1590's NCI and deconsolidation of VAHC	-	-	-	(32,591)	-	(43,845)	-	(285,749,110)	(76,436)	(13,893,860)	(13,970,296)
Cash dividends	-	-	-	-	-	(P43,845)	-	-	(285,749,110)	(141,900,000)	(427,649,110)
Balances at December 31, 2017	P1,023,456,698	P8,339,452	P1,472,399,497	P51,576	(P74,564,481)	(P43,845)	P3,422,808,228	P4,850,457,874	P10,702,899,708	P582,856,500	P11,285,756,208
Balances at January 1, 2016	P1,023,456,698	P8,339,452	P1,234,371,697	P3,625,317	(P59,172,924)	P-	P2,493,584,261	P3,726,045,896	P8,430,441,480	P507,623,093	P8,938,064,573
Total comprehensive income (loss)	-	-	-	1,026,841	277,480	-	(196,374)	1,293,430,993	1,294,538,940	136,538,640	1,431,097,580
Appropriation for business expansion	-	-	-	-	-	-	690,500,000	(690,500,000)	-	-	-
Reversal of appropriation for business expansion	-	-	-	-	-	-	(405,301,000)	405,301,000	-	-	-
Additional investments of non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	(26,984,297)	-	-	-	-	26,984,297	-	-	-
(Note 10)	-	-	-	-	-	-	-	(267,940,960)	(267,940,960)	(86,086,000)	(354,026,960)
Cash dividends	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2016	P1,023,456,698	P8,339,452	P1,207,387,400	P4,652,158	(P58,895,444)	P-	P2,778,783,261	P4,493,321,226	P9,457,039,460	P570,305,733	P10,027,345,193
Balances at January 1, 2015	P1,023,456,698	P8,339,452	P1,261,492,837	(P1,735,079)	(P67,505,111)	P-	P2,810,784,261	P2,596,929,852	P7,632,017,464	P358,610,361	P7,990,627,825
Total comprehensive income (loss)	-	-	-	5,360,396	8,332,187	-	(63,471)	1,052,735,864	1,066,364,976	197,247,732	1,263,612,708
Appropriation for business expansion	-	-	-	-	-	-	534,000,000	(534,000,000)	-	-	-
Reversal of appropriation for business expansion	-	-	-	-	-	-	(851,200,000)	851,200,000	-	-	-
Conversion of deposits for future stock subscription and additional investments of non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	-	-
Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate	-	-	(27,121,140)	-	-	-	-	27,121,140	-	-	-
(Note 10)	-	-	-	-	-	-	-	(267,940,960)	(267,940,960)	(59,125,000)	(327,065,960)
Cash dividends	-	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2015	P1,023,456,698	P8,339,452	P1,234,371,697	P3,625,317	(P59,172,924)	P-	P2,493,584,261	P3,726,045,896	P8,430,441,480	P507,623,093	P8,938,064,573

See accompanying Notes to Consolidated Financial Statements.



**VIVANT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2017	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	P1,520,386,704	P1,560,557,874	P1,420,678,616
Adjustments for:			
Equity in net earnings of associates and joint ventures (Note 10)	(1,290,172,769)	(1,288,333,002)	(1,009,709,570)
Finance costs	176,224,968	177,545,814	172,833,443
Depreciation and amortization (Notes 11 and 13)	106,515,695	108,249,891	52,255,128
Interest income (Note 6)	(72,537,322)	(59,249,869)	(59,747,515)
Gain on fair value remeasurement of investment properties (Note 12)	(72,501,133)	-	(240,730,557)
Gain on disposal of a subsidiary (Note 1)	(12,068,717)	-	-
Pension expense (Note 19)	8,838,915	8,838,434	10,802,650
Loss (gain) on disposal of property and equipment	5,045,198	24,623,822	(892,010)
Unrealized foreign exchange losses (gains)	1,249,454	(2,501,097)	(2,868,471)
Operating income before working capital changes	370,980,993	529,731,867	342,621,714
Decrease (increase) in:			
Trade and other receivables	(135,642,345)	(93,592,673)	(69,504,409)
Prepayments and other current assets	13,573,919	(223,116,310)	(277,657,089)
Inventories	(26,017,562)	(7,749,820)	17,735,790
Increase (decrease) in trade and other payables	90,429,279	(218,084,752)	302,170,265
Cash generated from (used in) operations	313,324,284	(12,811,688)	315,366,271
Interest paid	(172,300,087)	(176,758,688)	(172,958,893)
Income taxes paid	(87,310,681)	(124,073,920)	(130,571,660)
Contributions to the retirement fund	(2,497,815)	(2,724,889)	(11,502,247)
Net cash flows from (used in) operating activities	51,215,701	(316,369,185)	333,471
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Increase in investments and advances to associates and joint ventures (Note 10)	(558,842,078)	(558,071,005)	(1,436,488,703)
Dividends received from associates and joint ventures (Note 10)	1,178,759,551	1,392,332,133	1,013,754,256
Additions to property, plant and equipment (Note 11)	(27,853,213)	(48,543,697)	(313,549,045)
Decrease (increase) in:			
Other noncurrent assets	(9,994,912)	15,118,638	(18,743,166)
Intangible assets (Note 13)	-	(1,645,533)	(930,837)
Interest received	69,700,628	59,591,550	58,049,267
Net cash outflow from disposal of a subsidiary (Note 1)	(688,002)	-	-
Proceeds from:			
Sale of investment properties (Note 12)	53,960,000	-	-
Disposal of property and equipment	53,855,824	210,729,493	954,869
Redemption of an equity interest in an associate (Note 10)	-	-	151,200,000
Net cash flows from (used in) investing activities	758,897,798	1,069,511,579	(545,753,359)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid (Note 21)	(427,288,549)	(412,048,495)	(267,073,599)
Proceeds from availment of notes payable - net of transaction costs (Note 15)	-	207,000,000	143,000,000

(Forward)



	<b>Years Ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Payments of loans (Note 15)	<b>(₱133,500,000)</b>	(₱166,500,000)	(₱140,000,000)
Increase (decrease) in advances from related parties	<b>(54,663,263)</b>	(26,814,535)	4,490,191
Additional investments and deposits for future stock subscriptions of non-controlling interests of a subsidiary (Note 21)	<b>3,894,000</b>	12,210,000	10,890,000
<b>Net cash flows used in financing activities</b>	<b>(611,557,812)</b>	(386,153,030)	(248,693,408)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>198,555,687</b>	366,989,364	(794,113,296)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(1,249,454)</b>	2,501,097	2,868,471
<b>TOTAL CASH AT BEGINNING OF YEAR</b>			
Cash and cash equivalents (Note 6)	<b>4,437,776,262</b>	4,068,285,801	4,859,530,626
Restricted cash (Notes 9 and 13)	<b>650,000</b>	775,000	775,000
	<b>4,438,426,262</b>	4,069,060,801	4,860,305,626
<b>TOTAL CASH AT END OF YEAR</b>			
Cash and cash equivalents (Note 6)	<b>4,635,082,495</b>	4,437,776,262	4,068,285,801
Restricted cash (Note 13)	<b>650,000</b>	650,000	775,000
	<b>₱4,635,732,495</b>	₱4,438,426,262	₱4,069,060,801

*See accompanying Notes to Consolidated Financial Statements.*



# VIVANT CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Corporate Information

Vivant Corporation (the “Parent Company” or “Vivant”) was incorporated under the laws of the Republic of the Philippines and registered with the Securities and Exchange Commission (SEC) on May 28, 1990. The Parent Company is listed in the Philippine Stock Exchange using the symbol VVT.

The Parent Company’s primary purpose is to invest in and manage the general business of any other corporation or corporations except management of fund securities portfolios and other similar assets of a managed entity.

The Parent Company is owned by Mai-I Resources Corporation (MRC) and JEG Development Corporation (JDC) with a combined ownership of 75.86%. MRC and JDC are entities incorporated and domiciled in the Philippines.

The Parent Company and its Subsidiaries (collectively referred to as the Group) are engaged in various business activities, through its subsidiaries and affiliates, namely electric power generation (both renewable and non-renewable energy), electric power distribution, retail electricity supply and real estate.

The principal office address of the Parent Company is located at Unit 907-908, Ayala Life-FGU Center, Mindanao Ave. Cor. Biliran Rd, Cebu Business Park, Bgy. Luz, Cebu City.

The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries, associates and joint ventures, all incorporated in the Philippines, as of December 31, 2017 and 2016:

	2017		2016	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
<b>Subsidiaries</b>				
Hijos De F. Escaño (HDFE)	50.94	—	50.94	—
Southern Grove Properties and Development Corp. (SGPDC) <sup>(o)</sup>	100.00	—	100.00	—
Vivant Energy Corporation (VEC)	100.00	—	100.00	—
Vivant Integrated Generation Corporation (VIGC)	—	100.00 <sup>(a)</sup>	—	100.00 <sup>(a)</sup>
Vivant Geo Power Corp. (VGPC)	—	100.00 <sup>(b) (g)</sup>	—	100.00 <sup>(b) (g)</sup>
Vivant Isla, Inc. (VII)	—	100.00 <sup>(a) (h)</sup>	—	100.00 <sup>(a) (h)</sup>
Vivant Renewable Energy Corporation (VREC) <sup>(f)</sup>	—	100.00 <sup>(a)</sup>	—	100.00 <sup>(a)</sup>
Coreenergy Inc. (Core)	—	100.00 <sup>(a)</sup>	—	100.00 <sup>(a)</sup>
Vivant Integrated Diesel Corporation (VIDC)	—	100.00 <sup>(a) (i)</sup>	—	—
Vivant Enercore Integrated Inc. (VEII)	—	100.00 <sup>(a) (m)</sup>	—	100.00 <sup>(a) (m)</sup>
Vivant Powercore Active Inc. (VPAL)	—	100.00 <sup>(a) (n)</sup>	—	100.00 <sup>(a) (n)</sup>
Vivant Realty Ventures Corporation (VRVC)	—	100.00 <sup>(r) (s)</sup>	—	—
Southern Powercore Holding Corp. (SPHC)	—	100.00 <sup>(b) (t)</sup>	—	—
Amberdust Holding Corporation (AHC)	—	100.00 <sup>(b) (u)</sup>	—	—
Vivant-Malogo Hydropower, Inc. (VMHI)	—	67.00 <sup>(a)</sup>	—	67.00 <sup>(a)</sup>
1590 Energy Corp. (1590 EC)	—	55.20 <sup>(a)</sup>	—	52.70 <sup>(a)</sup>
Vics-Amlan Holdings Corp. (Vics-Amlan)	—	—	—	60.00 <sup>(a)</sup>

(Forward)





	2017		2016	
	Percentage of Ownership			
	Direct	Indirect	Direct	Indirect
<b>Associates</b>				
Visayan Electric Company, Inc. (VECO)	34.81 <sup>(e)</sup>	—	34.81 <sup>(e)</sup>	—
Prism Energy, Inc. (PEI)	40.00	—	40.00	—
Abovant Holdings, Inc. (AHI)	—	40.00 <sup>(c)</sup>	—	40.00 <sup>(c)</sup>
Cebu Private Power Corporation (CPPC)	—	40.00 <sup>(n)</sup>	—	40.00 <sup>(n)</sup>
Minergy Power Corporation (MPC)	—	40.00 <sup>(c)</sup>	—	40.00 <sup>(c)</sup>
Amlan Hydroelectric Power Corporation (AHPC)	—	—	—	30.00 <sup>(d)</sup>
Therma Visayas, Inc. (TVI)	—	20.00 <sup>(c)</sup>	—	20.00 <sup>(c)</sup>
Lunar Power Core Inc. (LPCI)	—	42.50 <sup>(c)(l)</sup>	—	42.50 <sup>(c)(l)</sup>
Global Luzon Energy Development Corporation (GLEDC)	—	42.50 <sup>(c)(p)</sup>	—	42.50 <sup>(c)(p)</sup>
Sabang Renewable Energy Corporation (SREC)	—	30.00 <sup>(b)(q)</sup>	—	—
Culna Renewable Energy Corp. (CREC)	—	35.00 <sup>(b)(v)</sup>	—	—
<b>Joint Ventures</b>				
Calamian Islands Power Corp. (CIPC)	—	50.00 <sup>(a)</sup>	—	50.00 <sup>(a)</sup>
Vivant Sta. Clara Northern Renewables Generation Corporation (VSNRGC)	—	47.64 <sup>(b)(i)</sup>	—	47.64 <sup>(b)(i)</sup>
Delta P, Inc. (Delta P)	—	50.00 <sup>(a)(k)</sup>	—	50.00 <sup>(a)(k)</sup>

a. Indirect ownership through VEC

b. Indirect ownership through VREC

c. Indirect ownership through VICC

d. Indirect ownership through Vics-Amlan

e. Indirect ownership through HDFE until December 31, 2013

f. Incorporated on January 8, 2010. Changed its corporate name from Vics-Bakun Holdings Corporation (Vics-Bakun) to VREC on October 2, 2015.

g. Incorporated on April 23, 2014

h. Incorporated on July 11, 2014

i. Incorporated on August 7, 2015

j. Increased to 47.64% effective November 6, 2015

k. Increased to 50% effective May 28, 2015

l. Incorporated on June 10, 2016

m. Incorporated on May 26, 2016

n. Incorporated on June 13, 2016

o. Incorporated on December 8, 2004. Changed its corporate name from VC Ventures Net, Inc. (VNI) to SGPDC on January 6, 2016.

p. Incorporated on January 31, 2013. Ownership interest in GLEDC is through LPCI.

q. Incorporated on September 27, 2013

r. Indirect ownership through SGPDC

s. Incorporated May 19, 2017

t. Incorporated April 20, 2017

u. Incorporated August 16, 2017

v. Incorporated April 12, 2017

**Subsidiaries.** Except for 1590 EC, VEC, VMHI, Core, VII, VGPC and VIDC, all subsidiaries are also operating as holding and investing companies, which are primarily engaged in power generation and distribution. 1590 EC is operating a diesel power plant, while VMHI is in its pre-operating stage of building a hydro power plant in Silay, Negros Occidental. Core is operating as a retail electricity supplier. VEC is administering 17 mega-watt (MW) of geothermal power and operates as a holding and investing company at the same time.

The following sets out a brief information of the Parent Company's subsidiaries and associates:

#### HDFE

HDFE was incorporated on December 24, 1926, which registration was renewed for another 50 years effective November 26, 1974. The primary purpose of HDFE is to invest in, hold, own, purchase, acquire, lease, contract, operate, improve, develop, grant, sell, exchange, or otherwise dispose of real and personal properties of every kind and description including shares of stocks, bonds and other securities or evidence of indebtedness of any other corporation, association, firm, or entity, domestic or foreign, where necessary or appropriate, and to process and exercise in respect thereof of all the rights, powers and privileges of ownership, including all voting powers of any stock so owned, without acting as, or engaging in, the business of an investment company, or dealer or broker in securities.



#### SGPDC

SGPDC was incorporated on December 8, 2004 with a primary purpose to invest in, purchase, or otherwise acquire and own, hold, develop, use, sell, lease, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description for whatever purpose the same may have been organized. It has also direct equity shareholdings in VRVC, a real estate company.

On March 5, 2015, during the Special Stockholders' Meeting and Special Board Meeting, the stockholders and BOD approved that one of the SGPDC's secondary purposes is to conduct and transact any and all lawful business, and to do or cause to be done any one or more of the acts and things set forth as its purposes, within or without the Philippines, and in any and all foreign countries, and to do everything necessary, desirable or incidental to the accomplishment of the purposes or the exercise of any one or more of the powers of the Company under the Corporation Code of the Philippines, or which shall at any time appear conducive to or expedient for its protection or benefit. These amendments made in the SGPDC's Articles of Incorporation (AOI) were approved by the SEC on October 8, 2015.

On January 6, 2016, the SEC approved the amendment to its AOI changing its name from VC Ventures Net, Inc. to Southern Grove Properties and Development Corp. and its primary purpose to engage in real estate business, to hold, construct, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of all kinds of real property or to act as real estate broker for such fees as may be legal and proper.

#### VEC

VEC was incorporated on January 25, 2005 and its primary purpose is to establish, maintain and operate power plants of any kind and such other sources that may be a viable source of electric light, heat and power system and to sell to the general public, electricity as the corporation may determine.

VEC currently exists as a holding company with direct equity shareholdings in CPPC, Delta P, 1590 EC, CIPC, VMHI, TVI, VII, VIDC, and VSNRGC, entities engaged in the power generation business and Core, an entity engaged in the retail electricity supply. VEC also has direct equity shareholdings on holding entities namely VIGC, Vics-Amlan (until its disposal on December 29, 2017), VREC, VEII and VPAI.

In November 2013, VEC participated in the public bidding process conducted by PSALM for the selection and appointment of the IPP Administrator for the Strips of Energy of the Unified Leyte Geothermal Power Plants (ULGPP) located at Tongonan, Leyte. On January 29, 2014, PSALM has declared and selected VEC as the Winning Bidder for Seventeen (17) Strips of Energy of the ULGPP. This allowed VEC to sell seventeen (17) MW of geothermal power from ULGPP beginning January 1, 2015 (see Note 23g).

#### VIGC

VIGC was incorporated on November 5, 2008 with the primary purpose of holding investments in power generation companies. It has direct equity shareholdings in MPC, TVI and LPCI, entities engaged in the power generation business and AHI, a holding entity.



VGPC

VGPC was incorporated on April 23, 2014. Its primary purpose is to establish, maintain, own, and operate geothermal, thermal, hydroelectric, solar, wind, coal, diesel power plants and such other sources that may be viable source of electric light, heat and power system and to sell and/or trade electricity for light, heat and power purposes within cities, municipalities and provinces of the Philippines as the corporation may determine and enter into business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2017, VGPC is still in the pre-operating stage.

VII

VII was incorporated on July 11, 2014. Its primary purpose is to engage in business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, constructing, holding and selling power generation facilities and related facilities, or any other business activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. As of December 31, 2017, VII is still in the pre-operating stage.

VREC

VREC, the holding entity of VSNRGC, was incorporated on January 8, 2010 with the primary purpose of holding investments in power generation companies. On October 2, 2015, the SEC approved its application for change in corporate name from Vics Bakun Holdings Corporation to VREC. It also has direct equity shareholdings in VGPC, SPHC, and AHC, all are holding entities.

Core

Core was incorporated on December 14, 2012. Its primary purpose is to buy, source and obtain electricity from generating companies or from the wholesale electricity spot market to sell, broker, market or aggregate electricity to the end users in contestable market and enter into any necessary access or interconnection arrangements or other necessary contracts with the National Transmission Corporation or National Grid Corporation of the Philippines, distribution utilities and other entities in the electric power industry. As of December 31, 2017, Core already started its commercial operations as a retail electricity supplier.

VIDC

VIDC was incorporated on August 7, 2015. Its primary purpose is to establish, maintain, acquire, own, hold, and operate diesel powered generating facilities. As of December 31, 2017, VIDC is still in the pre-operating stage.

VEII

VEII was incorporated on May 26, 2016. Its primary purpose is to engage in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources that may be a viable source of electric light, heat and power system. As of December 31, 2017, VEII is still in the pre-operating stage.

VPAI

VPAI was incorporated on June 13, 2016. Its primary purpose is to engage in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources that may be a viable source of electric light, heat and power system. As of December 31, 2017, VPAI is still in the pre-operating stage.



VRVC

VRVC was incorporated on May 19, 2017. Its primary purpose is to engage in the real estate business. As of December 31, 2017, VRVC is still in the pre-operating stage.

SPHC

SPHC was incorporated on April 20, 2017. Its primary purpose is to engage in the business of holding investments in power generation companies. As of December 31, 2017, SPHC has not yet started its commercial operations.

AHC

AHC was incorporated on August 16, 2017. Its primary purpose is to engage in the business of a holding company. As of December 31, 2017, AHC has not yet started its commercial operations.

VMHI

VMHI was incorporated on June 8, 2012. Its primary purpose is to engage in the business of owning, acquiring, operating, generating, collecting and distributing electricity.

VMHI is in its starting phase or pre-operational stage as a power generating entity that will implement a greenfield power plant project, involving the construction and operation of a series of run-of-river hydropower facility in Barangay Capitan Ramon in Silay City, Negros Occidental. VMHI will implement the project in phases, where Phase 1 will involve the construction and operation of a six (6) megawatt power plant facility along the Malogo river. The project has concluded its detailed engineering design. A tender process is underway for the construction to coincide with the project timetable, but subject to adjustments that may be brought about by regulations from the grid system operator.

1590 EC

1590 EC was incorporated and started operations on July 30, 2010. It is primarily engaged in power generation and operates a 225 MW diesel-fired power plant in Bauang, La Union. 1590 EC is also partly-owned by Gigawatt Power, Inc. (GPI), Eco Utilities Ventures Holdings Company, Inc. and ICS, among others.

On December 29, 2017, the Group purchased shares held by ICS in 1590 EC, representing 2.5% ownership interest in the latter, in exchange for a total cash consideration of ₱13.9 million. The purchase increased the Group's ownership interest in 1590 EC from 52.7% to 55.2%, and resulted to an increase in the Group's liability by ₱13.9 million and decrease in the equity attributable to the Parent Company by ₱76,435.

The amount payable on the purchase is included under "Trade payables" under Trade and other current payables (see Note 14).

Vics-Amlan

Vics-Amlan, the holding entity of AHPC, was incorporated on August 26, 2009 with the primary purpose of holding investments in power generation companies.

In December 2017, the Group sold to ICS Renewables Holdings, Inc. (ICS) its entire shareholdings in Vics-Amlan, representing 60% common ownership. The total consideration on the sale consists of cash amounting to ₱0.6 million. At the time of disposal, Vics-Amlan's had current assets of ₱15.5 million, including cash of ₱0.7 million, its remaining investment in AHPC of ₱3.0 million, and current liabilities of ₱30.0 million, including advances from AHPC of ₱8.9 million. The difference between Vics-Amlan's net liability of ₱11.4 million and the sale's



consideration was recognized in the 2017 consolidated statement of comprehensive income as a “Gain on disposal of a subsidiary”.

The amount receivable from ICS is included under “Others” as part of Trade and other receivables (see Note 7). The “Net cash outflow from disposal of a subsidiary” reported under “Cash Flows from Investing Activities” in the 2017 statement of cash flows pertains to the cash in Vics-Amlan that was disposed.

As of December 31, 2017 and 2016, investment in Vics-Amlan amounted to nil and ₱0.5 million, respectively.

*Associates.* VECO, PEI, AHI, CPPC, MPC, AHPC, TVI, LPCI, GLEDC, SREC, and CREC qualify as associates of the Group.

#### VECO

VECO was incorporated on February 22, 1961 and whose corporate term was extended for another 50 years from after the expiration on February 23, 2012. VECO is a power distribution entity, the primary activities of which are to establish, maintain and operate electric light, heat and power systems and to sell to the general public electricity for light, heat and power purposes.

VECO serves the electrical power needs of four cities (Cebu, Mandaue, Talisay and Naga) and four municipalities (Minglanilla, San Fernando, Consolacion and Lilo-an) of the greater part of Metro Cebu by virtue of legislative franchise grants.

#### PEI

PEI was incorporated on March 24, 2009 as a retail electricity supplier. On April 26, 2017, PEI began its operations providing qualified contestable customers the opportunity to select a contract structure that will meet their generation supply requirement.

#### AHI

AHI was incorporated on November 28, 2007 primarily to manage entities and to provide management, investment and technical advice for enterprises engaged in electricity generation and/or distribution.

AHI and Global Formosa Power Holdings, Inc., a joint venture between Global Business Power Corp. (Global Power) and Formosa Heavy Industries (Global Formosa), signed a shareholders’ agreement to develop, construct and own Cebu Energy Development Corporation (CEDC) 246 MW coal-fired power plant in Toledo City, Cebu. AHI has a 44% direct ownership interest in CEDC.

#### CPPC

CPPC was incorporated on July 13, 1994 and its primary purpose is to build, construct or own power generation plants and related facilities. It operates a 70 MW bunker “C” diesel-fired power generating plant.

#### MPC

MPC (formerly Minergy Coal Corporation) was registered with SEC on February 18, 2013, primarily to design, construct, erect, assemble, commission and operate power-generating plants and related facilities for the generation and supply of power utilizing any fuel or energy source.



In the first quarter of 2014, MPC began construction of a 3x55 MW coal-fired power plant in Balingasag, Misamis Oriental. In September 2017, MPC already started its operations.

#### AHPC

AHPC was incorporated on October 21, 2008 with the primary purpose to manufacture, acquire, develop, own and operate alternative fuels. Currently, AHPC is operating a 0.8 MW hydroelectric power plant in Amlan, Negros Oriental, which was purchased by AHPC from the Power Sector Assets and Liabilities Management (PSALM).

AHPC completed the installation and started dry commissioning of the new units of the electromechanical equipment in October 2015 and connected to the grid on December 19, 2015. On January 8, 2016, installation and commissioning of the units were completed.

In December 2017, the Group sold its entire shareholdings in Vics-Amlan (AHPC's parent company). As a result, AHPC ceased to be an associate of the Group as of December 31, 2017.

#### TVI

TVI was registered with SEC on October 15, 1997, primarily to acquire by purchase, lease, contract, concession, or otherwise any and all real estate, land, land patents, opinions, grants, concessions, franchises, water and other rights, privileges, easements, estates, interests and mineral properties of every kind and description.

In May 2014, TVI signed an Engineering, Procurement and Construction (EPC) contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc. to construct its Coal Fired Thermal Power Plant. TVI issued the full Notice to Proceed (NTP) in March 2015 to ensure guaranteed completion date by the last quarter of 2017. The Power Plant is expected to operate in 2018.

#### LPCI

LPCI was registered with SEC on June 10, 2016 and is primarily engaged in the business of exploring, developing and utilizing renewable energy resources, and establishing, acquiring, maintaining, commissioning, owning and operating geothermal, thermal, hydroelectric, solar, wind, coal, diesel plants and such other sources. As of December 31, 2017, LPCI has not yet started its commercial operations.

#### GLEDC

GLEDC, a wholly owned subsidiary of LPCI, was registered with SEC on January 31, 2013. It is primarily engaged in the general business of generating power derived from coal, fossil fuel, geothermal, nuclear, natural gas, hydroelectric, and other viable sources of power, for lighting and power purposes and whole selling the electric power to electric cooperatives, distribution utilities, and industrial customers. As of December 31, 2017, GLEDC has not started its commercial operations.

#### SREC

SREC, an associate through VREC, was registered on September 27, 2013 primarily to engage in the business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, and constructing conventional renewable energy and/or hybrid power generation, distribution and related facilities, and distributing and selling power, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in the furtherance of or otherwise relating to such purpose. As of December 31, 2017, SREC has not yet started its commercial operations.



CREC

CREC, an associate through VREC, was registered on April 12, 2017 primarily to engage in the business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, and constructing conventional renewable energy and/or hybrid power generation, distribution and related facilities, and distributing and selling power, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in the furtherance of or otherwise relating to such purpose. As of December 31, 2017, CREC has not yet started its commercial operations.

*Joint Ventures.* CIPC, Delta P and VSNRGC qualify as joint ventures of the Group.

CIPC

CIPC was incorporated on October 19, 2010 primarily to engage in the business of owning, acquiring, commissioning, operating and selling power generation facilities and related facilities, or any other business or activity that now or hereafter may be necessary, incidental, proper, advisable or convenient in furtherance of or otherwise relating to such purpose. Currently, CIPC operates an 8 MW bunker and 0.75 MW diesel-fired power generation plants in the municipalities of Coron and Ruananga, respectively.

VSNRGC

VSNRGC was organized on July 9, 2009 primarily to engage in the general business of power generation and sale of electric power to National Power Corporation (NAPOCOR), private electric cooperatives and other entities.

In December 2009, PSALM awarded VSNRGC to be the IPP administrator of the contracted capacities of Bakun and Benguet power plants. VSNRGC formally became the IPP administrator in February 2010 upon signing of the related documents and payment of the related consideration. In the latter part of the same year, PSALM exercised the right to divide and segregate the contracted capacities of the Bakun and Benguet power plants. By virtue of the segregation done by PSALM, VSNRGC assumed the responsibility of selling only the Bakun power plant's contracted capacity and started its commercial operations as an IPP administrator in 2010. The Bakun power plant has an installed capacity of 70 MW and is located in Alilem, Ilocos Sur.

On May 16, 2017, VSNRGC filed a Petition for Corporate Rehabilitation before the Regional Trial Court of Cebu City (Branch 11). On May 26, 2017, the Court issued a Commencement/Stay Order in favor VSNRGC. As of the date of this report, the Court still has to decide on whether or not to allow the rehabilitation and approve a rehabilitation plan for the Corporation. As of December 31, 2017 and 2016, the Group's investment in VSNRGC is nil.

Delta P

Delta P was registered with SEC on September 20, 2002 primarily to operate and maintain a 16 MW heavy fuel oil-fired generating power station in Puerto Princesa, Palawan. On May 28, 2015, GPI agreed to sell to VEC 6,310,352 common shares representing 15% of Delta P's total issued and outstanding capital stock, bringing the Group's ownership in Delta P to 50% (see Note 10).

*Authorization to Issue the Consolidated Financial Statements*

The consolidated financial statements of the Group as of and for the years ended December 31, 2017, 2016 and 2015 were approved and authorized for issuance by the Board of Directors (BOD) on March 27, 2018.



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## 2. Basis of Preparation, Statement of Compliance and Basis of Consolidation

### Basis of Preparation

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

### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The consolidated financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Profit or loss and each component of Other Comprehensive Income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.





#### Accounting for Loss of Control

When the Group loses control of a subsidiary, it derecognizes the assets and liabilities of the former subsidiary, including any non-controlling interests in the former subsidiary at the date control is lost, and components of other comprehensive income attributable to them. The Group also recognizes any investment retained in the former subsidiary at its fair value when control is lost. The Group subsequently accounts for any retained interests and for any amount owed by or to the former subsidiary in accordance with other relevant PFRSs. The fair value shall be regarded as the fair value on initial recognition of a financial asset or the cost on initial recognition of an investment in an associate or joint venture. The Group recognizes a gain or loss associated with the loss of control attributable to the former controlling interest.

The Group accounts for all amounts previously recognized in other comprehensive income in relation to former subsidiaries on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

#### Transactions with Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals to non-controlling interest is also recognized directly in equity.

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### 3. **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretation which were applied starting January 1, 2017.

- 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 on the Group's financial position and results of operations.

- 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 25 to the financial statements. As allowed under the transition provisions of the standard, the Group 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.

Application of the amendments has no effect on the Group's financial position and performance 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

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on the financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *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.

The Group has assessed that the adoption of these amendments will not have any impact on the 2018 financial statements as it has no share-based payment transactions.

- 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 has no activities that are predominantly connected with insurance or issue insurance contracts.

- 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 is still assessing the potential impact of adopting PFRS 9 in 2018.

- 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 or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method.

The Group is currently assessing the impact of adopting this standard in 2018.

Considering that the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

- 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 the amendments to PAS 28.

- 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.

The Group is currently assessing the impact of adopting the amendments to PAS 40.

- 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.

The interpretation is not expected to have any impact on the consolidated financial statements.

*Effective January 1, 2019*

- Amendments to PFRS 9, Prepayment Features with Negative Compensation

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

The amendments are not expected to have any impact on the 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 PFRS 16 and plans to adopt the new standard on the required effective date, once adopted locally.

- 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.

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

- 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
- 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 postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed 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 do not have any significant impact to the consolidated financial statements.

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#### **4. Summary of Significant Accounting Policies**

##### Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit-or-loss (FVPL).

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument and derecognizes a financial asset (or part of a financial asset) when it no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed to an independent third party.



Financial instruments are classified as liability 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. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits. Financial instruments are offset when there is a legally enforceable right to offset and intention to settle either on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale securities (AFS). The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

- *Financial Assets at FVPL.* Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the consolidated statements of comprehensive income.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited. Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2017 and 2016, no financial assets have been designated as FVPL.

- *Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Classified as loans and receivables are the Group's cash and cash equivalents, trade and other receivables and advances to associates and stockholders.

- *HTM Investments.* Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Group has the positive intention and ability to hold it to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be HTM, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction



costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2017 and 2016, the Group has no HTM investments.

- *AFS Financial Assets.* AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income. The Group has available for sale financial assets of ₱3.8 million as of December 31, 2017 and 2016, and is presented as part of “Other noncurrent assets” account in the consolidated statements of financial position.
- *Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any directly attributable transaction costs.

Included under this category are the Group’s trade and other payables, notes payable and advances from related parties.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal 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.

#### Fair Value Measurement

The Group measures financial instruments, such as, cash on hand and in banks, short-term placements, trade and other receivables, trade and other payables, notes payable and non-financial assets such as investment properties and AFS investments, at fair value at each reporting date.

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

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

The principal or the most advantageous market must be accessible to by the Group.





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

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

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

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

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

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

The Group's management determines the policies and procedures for both recurring fair value measurement, such as cash on hand and in banks, short-term investments, trade and other receivables, advances to associates and stockholders, AFS investments, trade and other payables, advances from related parties, notes payable and investment properties.

External valuers are involved for valuation of significant assets, such as investment properties. Involvement of external valuers is decided upon annually by the management after discussion with and approval by the Group's audit committee. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every 3–6 years. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the changes in the fair value of each asset with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Group's external valuers present the valuation results to the audit committee. This includes a discussion of the major assumptions used in the valuations.



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

#### 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 when:

- 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 (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

*Impairment of Financial Assets.* The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

- *Assets Carried at Amortized Cost.* If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the consolidated statement of comprehensive income.



The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. 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.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

- *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 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 in the consolidated statement of comprehensive income; 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.

#### Cash and Cash Equivalents

Cash includes 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 up to three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

#### Investments in Associates and Interests in Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.



The Group's investments in its associates and interests in joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

For an associate that is engaged in the power distribution business, the Group accounts for its distribution utility assets under the revaluation model. Thus, the Group's share of the results of operations of the associate and change in the other comprehensive income recognized in the consolidated financial statements reflects the changes in the fair value of the distribution utility assets.

The consolidated financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of comprehensive income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the inventory to its present location and condition is determined primarily on the basis of the weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

#### Prepayments and Other Current Assets

Prepayments and other current assets are recognized and carried at cost, less any impairment in value. These are recognized as assets when it is probable that any future economic benefit associated with the item will flow to or from the entity and the item has a cost or value that can be



measured with reliability. An asset is not recognized in the consolidated statement of financial position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the entity beyond the current accounting period. Instead such a transaction results in the recognition of an expense in the consolidated statement of comprehensive income.

Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization, and impairment losses, if any.

Initially, an item of property, plant and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred. Land is measured at cost less any impairment losses. For land transferred from investment properties carried at fair value, the land's deemed cost is its fair value at the date of change in use.

Depreciation and amortization is computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are amortized using the straight-line method over the estimated useful life of the improvements or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

	Number of Years
Plant machineries and equipment	5-10
Condominium units, building and improvements	5-40
Transportation equipment	5
Office furniture, fixtures and equipment	2-10
Tools and other assets	3-5
Leasehold and land improvements	3-10

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that such useful lives and depreciation and amortization method are consistent with the expected pattern of economic benefits from those assets.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect to those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the related accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.



### Investment Properties

Investment properties, which pertain to land and buildings, are properties held by the Group either to earn rentals or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost. Subsequently, investment properties are measured at fair value with any change therein recognized in profit or loss following the fair value model.

The fair value of the Group's investment properties measured using the fair value model is based on the valuation carried out by independent appraisers. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices of similar properties.

Any gain or loss resulting from either a change in the fair value or the sale of investment properties is recognized in profit or loss in the year of change or derecognition.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by the end of owner occupation or the start of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by start of owner-occupation or of development with a view to sell.

### Impairment of Nonfinancial Assets

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 (CGU) 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations, including impairment of inventories, 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 Group estimates the asset's or CGU's recoverable amount.

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. Such reversal is recognized in the consolidated statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to



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

### Equity

*Capital Stock.* Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscription agreement and is measured 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 to the issuance of new shares.

*Retained Earnings.* Retained earnings represent the 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 will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received as receivables, excluding discounts, rebates, and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of Power.* Revenue from sale of power is recognized when delivery of power generated or purchased by the Group to the spot market or customers is completed, and is based on actual power delivered at prices prevailing in the spot market or agreed prices in power supply agreements.

*Management Fees.* Revenue from management fees, arising from services involving consultancy, management, technical, and services covered by Service Level Agreements (SLAs), are recognized when the related services are rendered based on the terms of the management and service contracts.

*Interest Income.* Revenue is recognized as interest accrues taking into account the effective yield on the assets.

*Income from Insurance Claims.* Income from insurance claims and the related asset are recognized when the realization of income is virtually certain, and disclosed only where an inflow of economic benefits is probable. Claims are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements of the period in which the change occurs.

*Other Income.* Other income includes rental income and gain on disposal of property and equipment. These are generally recognized when earned. Rental income is recognized on a straight-line basis over the term of the lease while gain on disposal of property, plant and equipment is recognized as the difference between the proceeds received upon disposal and the book value of the property, plant and equipment disposed.



### Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized in the consolidated statements of comprehensive income when incurred.

### 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. Related parties may be individuals or corporate entities.

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.

The expense relating to any provision is presented in the consolidated statement of comprehensive income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

### Pension Benefits

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 (if any), 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 or asset
- Remeasurements of net defined benefit liability or asset

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 or asset 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 or asset is recognized as expense or income in the consolidated statement of comprehensive income.

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

Plan assets are assets that are held by a long-term employee benefit fund. 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 Taxes

*Current Income Tax.* Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted 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, associates and interests in joint ventures, 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, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses 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, associates and interests in joint ventures, deferred 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 asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year 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 of the reporting date. Income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

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

*Value-Added Tax (VAT).* Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date of whether the fulfilment of the arrangements is dependent on the use of specific asset or assets or 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 fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

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

*Group as a Lessee.* Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.



#### Foreign Currency Transactions

Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at reporting date. Exchange gains and losses arising from foreign currency transactions and translations of foreign-currency-denominated monetary assets and liabilities are credited or charged to current operations.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They 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 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 date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

#### Earnings Per Share

Basic earnings per common share is calculated by dividing net income for the year attributable to the common stockholders of the Group by the weighted average number of common shares issued and outstanding during the year, after retroactive adjustments for any stocks dividend declared.

Diluted earnings per share is calculated by dividing the net income for the year attributable to the common stockholders of the Group by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents.

As at December 31, 2017 and 2016, the Group does not have dilutive common stock equivalents.

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## **5. Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the consolidated financial statements in compliance with PFRSs requires the Group to make judgments, estimates and assumptions that affect the amounts reported in the 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. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The Group believes that the following represent a summary of these significant accounting judgments and estimates and the related impact and associated risks in the consolidated financial statements.

#### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.



*Determining Fair Value of Long-term Notes Payable.* The Group has long-term notes payable for which fair value is required to be disclosed. Determining the fair value requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., interest rates), the amount of changes in fair values would differ if the Group utilized a different valuation methodology. Any change in fair value of the long-term notes payable would affect the fair value of the long-term notes payable disclosed in the consolidated financial statements.

Where the fair value of long-term notes payable disclosed in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of consolidated financial statements.

As of December 31, 2017 and 2016, the fair values of the Group's long-term notes payable amounted to ₱3,011.1 million and ₱3,050.7 million, respectively (see Note 24).

*Determining Fair Value of Investment Properties.* The Group carries its investment properties at fair value, with changes in fair value being recognized in the consolidated statements of comprehensive income. While the Group has opted to rely on independent appraisers to determine the fair value of its investment properties, such fair value was determined based on recent prices of similar properties with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices. The amounts and timing of recorded changes in fair value for any period would differ if the Group made different judgments and estimates or utilized different basis in determining fair value.

The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 24.

Any gain or loss from a change in the fair value of each investment property is included in the consolidated statement of comprehensive income in the year in which the change arises.

As of December 31, 2017 and 2016, the carrying value of the Group's investment properties amounted to ₱502.7 million and ₱514.8 million, respectively (see Note 12).

*Determination of Control or Significant Influence Over an Investee Company.* 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 by virtue of its ownership in its subsidiaries as of December 31, 2017 and 2016, the Group has the ability to exercise control and significant influence over these investees (see Note 1).



*Determining Joint Arrangements.* Judgment is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements are those relating to the operating and capital decisions of the arrangement, such as the considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgment is also required to classify a joint arrangement. Classifying the arrangement requires the Group to assess its rights and obligations arising from the arrangement. Specifically, it considers (a) the structure of the joint arrangement - whether it is structured through a separate vehicle and, (b) when the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from the legal form of the separate vehicle, the terms of the contractual arrangement and other facts and circumstances (when relevant).

This assessment often requires significant judgment, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting. The Group has joint arrangements pertaining to its interests in VSNRGC, CIPC and Delta P which are structured through separate vehicles, being a company structure. This structure, and the terms of the contractual arrangement indicate that the Group has rights to the net assets of the arrangement. The final conclusion was that the Group's investments in VSNRGC, CIPC and Delta P are joint ventures.

*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 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 1590 EC is material to the Group. Information about this subsidiary with material NCI are disclosed in Notes 1 and 10.

*Determining Operating Lease Commitments - Group as a Lessee.* 1590 EC entered into a Memorandum of Agreement (MOA) with the Provincial Government of La Union (PGLU) for the right to preserve, maintain and operate the Bauang Diesel Power Plant (BDPP), including the right to use and sell the power generated therefrom, and lease of office spaces. The Group has determined that it does not acquire all the significant risks and rewards from these properties and thus accounts for this MOA as an operating lease.

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Estimating Impairment of Trade and Other Receivables and Advances to Associates and Stockholders.* The Group maintains allowance for impairment losses at a level that management considers adequate to provide for potential uncollectibility of receivables. A review of the factors that affect the collectibility of the accounts including age and status of the receivables is made by management on a continuing basis to identify accounts to be provided with allowance. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively.



The amount and timing of recorded expenses for any period would differ if the Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment losses will increase the Group's recorded expenses and decrease current assets.

As of December 31, 2017 and 2016, trade and other receivables amounted to ₱532.9 million and ₱404.1 million, respectively (see Note 7), and advances to associates and stockholders amounted to ₱83.7 million and ₱59.4 million, respectively (see Note 16). Allowance for impairment losses recognized as of December 31, 2017 and 2016 amounted to ₱34.4 million. There was no provision for impairment losses recognized in 2017, 2016 and 2015.

*Estimating Useful Lives of Property, Plant and Equipment and Intangible Assets.* The Group reviews annually the estimated useful lives of property, plant and equipment and intangible assets and updates the estimates based on expected asset utilization, market demands and future technological developments consistent with the Group's pursuit of constant modernization of its machineries, equipment and software. However, it is possible that the factors mentioned above may change in the future which could change the estimated useful lives of the property, plant and equipment and intangible assets. The estimated useful lives are also updated if expectations differ from previous estimated due to physical wear and tear, technical obsolescence and legal or other limits on the use of the assets. A reduction in the estimated useful lives could result in a significant increase in depreciation and amortization of property, plant and equipment and intangible assets.

The carrying value of the property, plant and equipment amounted to ₱528.1 million and ₱634.2 million as of December 31, 2017 and 2016, respectively (see Note 11). The carrying value of intangible assets (relating to software costs under "Other noncurrent assets") amounted ₱0.3 million and ₱1.1 million as of December 31, 2017 and 2016, respectively (see Note 13).

*Estimating Impairment of Nonfinancial Assets.* Internal and external sources of information are reviewed at each reporting date to identify indications that the following assets may be impaired or an impairment loss previously recognized no longer exists or may be decreased:

- Property, plant and equipment
- Investment properties
- Intangible assets

PFRSs requires that an impairment review be performed when certain impairment indicators are present. Determining the recoverable amount, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, investment properties and intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.



Assets that are subject to impairment testing when impairment indicators are present (such as obsolescence, physical damage, significant changes to the manner in which the asset is used, worse than expected economic performance, a drop in revenues or other external indicators) are as follows:

	2017	2016
Property, plant and equipment (see Note 11)	<b>₱528,096,174</b>	₱634,186,208
Investment properties (see Note 12)	<b>502,711,090</b>	514,801,557
Intangible assets (see Note 13)	<b>286,020</b>	1,127,890

The Group did not recognize any impairment loss on its nonfinancial assets in 2017, 2016 and 2015.

*Estimating Realizability of Deferred Income Tax Assets.* 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 such deferred income tax assets to be utilized. 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.

Deferred income tax assets amounted to ₱25.1 million and ₱23.0 million as of December 31, 2017 and 2016, respectively (see Note 20). Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of ₱673.6 million and ₱535.0 million as of December 31, 2017 and 2016, respectively, and minimum corporate income tax (MCIT) of ₱2.5 million and ₱1.7 million as of December 31, 2017 and 2016, respectively (see Note 20).

*Estimating Legal Contingencies.* The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Management, in consultation with its legal counsel, believes that the likely outcome of these proceedings will not have a material adverse effect on the Group's financial position and operating results. Management also believes that the current provisions in the accounts are adequate to cover the possible claims that may arise under the current circumstances. Existing circumstances and assumptions about future developments related to these proceedings may still change. Such changes are reflected in the assumptions when they occur.

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## 6. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	<b>₱284,111,486</b>	₱196,306,387
Short-term investments	<b>4,350,971,009</b>	4,241,469,875
	<b>₱4,635,082,495</b>	₱4,437,776,262

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term investment rates.

Interest income earned from cash in banks and short-term investments amounted to ₱72.5 million, ₱59.2 million and ₱59.7 million in 2017, 2016 and 2015, respectively.



7. Trade and Other Receivables

	2017	2016
Trade receivables:		
Third parties	<b>₱165,022,934</b>	₱169,959,362
Related parties (see Notes 16 and 23)	<b>127,608,462</b>	78,488,103
Dividends receivable (see Notes 10 and 16)	<b>104,200,000</b>	99,572,000
Insurance claims receivable	<b>87,080,666</b>	19,947,117
Advances to shareholders of a joint venture	<b>17,792,000</b>	25,792,000
Accounts receivable (see Note 16)	<b>28,858,278</b>	23,481,186
Accrued interest (see Note 6)	<b>6,736,241</b>	3,886,969
Advances to officers and employees	<b>3,097,115</b>	4,959,370
Others	<b>27,005,689</b>	12,442,858
	<b>567,401,385</b>	438,528,965
Less allowance for impairment losses	<b>34,458,046</b>	34,458,046
	<b>₱532,943,339</b>	₱404,070,919

Trade receivables from third parties include receivables from Philippine Electricity Market Corporation (PEMC) through the Group's active participation in Wholesale Electricity Spot Market (WESM) which are on a 30-day term and earn interest of 2% plus the rate of the prevailing 91-day Treasury Bill published by the Bureau of Treasury per annum on the past due receivables.

Trade receivables from third parties also include a receivable from an electric cooperative since 2011, amounting to ₱34.5 million. The receivable has been fully impaired (see Note 24).

Insurance claims receivable pertains to 1590 EC's insurance claims for its power plant engines that were damaged in 2017 and 2016. Insurance claims receivable in 2017 amounting to ₱63.6 million were subsequently collected in February and March 2018, while the outstanding balance of ₱19.9 million as of December 31, 2016 was subsequently collected in September and October 2017.

Advances to shareholders of a joint venture pertain to the loans to the two other shareholders of VSNRGC for the purpose of funding their proportionate share in the equity infusion.

Other receivables as of December 31, 2017 is mainly composed of receivables from Vics-Amlan and AHPC amounting to ₱21.0 million and ₱0.8 million, respectively. As of December 31, 2017, Vics-Amlan and AHPC ceased to be related parties of the Group (see Note 1). Accordingly, receivables from these companies were reclassified from "Advances to associates and stockholders" to "Trade and other receivables". Other receivables as of December 31, 2016 pertain to receivables from debtors that are individually not significant.





**8. Inventories - at Cost**

	2017	2016
Spare parts	₱77,445,823	₱63,688,269
Heavy fuel oil	38,186,921	29,355,363
Lube oil	4,455,213	1,904,178
Light fuel oil	2,775,364	1,897,949
	<b>₱122,863,321</b>	<b>₱96,845,759</b>

The total cost of inventories recognized under “Generation costs” in the consolidated statements of comprehensive income amounted to ₱846.7 million, ₱348.0 million and ₱730.8 million in 2017, 2016 and 2015, respectively (see Note 17).

**9. Prepayments and Other Current Assets**

	2017	2016
Advances to suppliers and other parties	₱704,534,409	₱760,191,390
Creditable withholding taxes	135,586,280	97,000,681
Input VAT	39,660,979	42,373,976
Prepaid expenses	28,267,386	22,651,542
Others	5,337,373	4,761,984
	<b>₱913,386,427</b>	<b>₱926,979,573</b>

Advances to suppliers and other parties include advance payments to suppliers for purchases of goods and services for the succeeding year and to parties to comply with certain contractual obligations.

Creditable withholding taxes pertain to taxes withheld by the customers on income payments to the companies in the Group from sales of services that can be applied against the Group’s income tax liabilities.

Input VAT represents the VAT imposed by the Group’s suppliers of goods and services as required by Philippine taxation laws and regulations.

Prepaid expenses include payments for the Group’s health insurance coverage and for all risks of direct physical loss or damage, including boiler explosion and machinery break down.

“Others” include advance payments for purchases of office supplies and dues and subscriptions for use in operations and cash restricted for implementing environmental and community projects pursuant to the agreement entered with the Department of Environment and Natural Resources and PGLU.



## 10. Investments in and Advances to Associates and Joint Ventures

The Group's associates and joint ventures, which are all incorporated in the Philippines, and the corresponding equity ownership as of December 31 follow:

	Nature of Business	Percentage of Ownership		
		2017	2016	2015
<b>Associates:</b>				
VECO	Power distribution	<b>34.81</b>	34.81	34.81
LPCI	Power generation	<b>42.50</b>	42.50	—
CPPC	Power generation	<b>40.00</b>	40.00	40.00
PEI	Power generation	<b>40.00</b>	40.00	40.00
AHPC	Power generation	—	30.00	30.00
AHI	Holding company	<b>40.00</b>	40.00	40.00
MPC	Power generation	<b>40.00</b>	40.00	40.00
TVI	Power generation	<b>20.00</b>	20.00	20.00
GLEDC	Power generation	<b>42.50</b>	42.50	—
SREC	Power generation	<b>30.00</b>	30.00	—
UREC	Power generation	<b>35.00</b>	—	—
<b>Joint ventures:</b>				
VSNRGC	Power generation	<b>47.64</b>	47.64	47.64
CIPC	Power generation	<b>50.00</b>	50.00	50.00
Delta P	Power generation	<b>50.00</b>	50.00	50.00
		<b>2017</b>	<b>2016</b>	
<b>Acquisition cost:</b>				
At January 1		<b>₱5,758,516,616</b>	₱5,384,797,366	
Additions		<b>519,552,078</b>	372,156,750	
Disposal of an associate		<b>(13,062,500)</b>	—	
Deposits converted to equity		<b>120,500,000</b>	1,562,500	
At December 31		<b>6,385,506,194</b>	5,758,516,616	
<b>Deposit for future stock subscription:</b>				
At January 1		<b>190,042,976</b>	2,968,700	
Additions		<b>39,290,000</b>	188,636,776	
Disposal of an associate		<b>(1,406,200)</b>	—	
Deposits converted to equity		<b>(120,500,000)</b>	(1,562,500)	
At December 31		<b>107,426,776</b>	190,042,976	
<b>Accumulated share in net earnings:</b>				
At January 1		<b>349,371,397</b>	393,386,231	
Equity in net earnings of associates and joint ventures		<b>1,290,172,769</b>	1,288,333,002	
Cash dividends received and receivable		<b>(1,183,387,551)</b>	(1,359,332,133)	
Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment		<b>26,984,297</b>	26,984,297	
Accumulated losses in disposed investment in an associate		<b>11,500,000</b>	—	
At December 31		<b>494,640,912</b>	349,371,397	

(Forward)



	2017	2016
Accumulated share in other comprehensive income:		
Share in revaluation increment:		
At January 1	₱1,207,387,400	₱1,234,371,697
Share in revaluation increment recognized in other comprehensive income	291,996,394	-
Share in the amount transferred to equity representing depreciation on revaluation increment of an associate	(26,984,297)	(26,984,297)
At December 31	1,472,399,497	1,207,387,400
Share in remeasurement losses on employee benefits of associates and a joint venture:		
At January 1	58,895,444	59,172,924
Share in the remeasurement gains (losses) on employee benefits	15,669,037	(277,480)
At December 31	74,564,481	58,895,444
	1,397,835,016	1,148,491,956
	<b>₱8,385,408,898</b>	<b>₱7,446,422,945</b>

The Group has unrecognized share in losses from results of operations of its investments in an associate and a joint venture amounting to ₱257.5 million, ₱364.0 million and ₱107.5 million in 2017, 2016 and 2015, respectively. Total cumulative unrecognized losses amounted to ₱987.7 million, ₱735.8 million, ₱371.8 million as of December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱494.6 million and ₱349.4 million, respectively, are not available for distribution to the stockholders unless declared by the associates and joint ventures.

#### LPCI

In 2016, VEC assigned its shareholdings in LPCI to VIGC amounting to ₱62,500, consisting of 3,125 common shares at ₱1 per share and 59,375 preferred shares at ₱1 per share. VIGC also made additional investment of ₱0.2 million, consisting of 18,125 common shares at ₱1 per share and 178,125 preferred shares at ₱1 per share.

In 2016, LPCI made advances for future stock subscription to GLEDC amounting to ₱145.6 million. In the same year, VIGC also made advances for future stock subscription to LPCI amounting to ₱68.1 million.

In 2017, VIGC made additional advances for future stock subscription to LPCI amounting to ₱81.2 million. As of December 31, 2017, total investment in LPCI amounted to ₱42.1 million. The filing of LPCI's application for the increase of its authorized capital stock with the SEC is ongoing.



#### AHPC

In 2015, the Group made a deposit for future stock subscription to AHPC amounting to ₱3.0 million, pending the approval by the SEC of AHPC's application for increase in capital stock and issuance of shares. On October 6, 2016, the SEC approved AHPC's application for increase in capital stock and issuance of shares. In 2016, ₱742,200 worth of shares (₱74,200 common, ₱668,000 preferred) was converted already to equity.

In 2017, the Group sold to ICS its entire shareholdings in VAHC (AHPC's parent company). As a result, AHPC has ceased to be an associate of the Group as of December 31, 2017 (see Note 1).

#### AHI

In April 2015, AHI redeemed its 15,120,000 redeemable preferred shares at the redemption price of ₱10 per share or for a total amount of ₱151.2 million. There was no gain or loss on the redemption of shares. Total investment in AHI amounted to ₱976.8 million as of December 31, 2017 and 2016.

#### MPC

In 2015, VIGC acquired 6,732,500 common shares and 7,187,500 preferred shares of MPC, both with a par value of ₱100 per share, for a total consideration of ₱1.4 billion. In 2016, VIGC made additional investments in MPC consisting of 3,429,900 preferred shares at ₱100 per share or amounting to ₱343.0 million. As of December 31, 2017 and 2016, the Group's investment in MPC amounted to ₱2.8 billion.

#### TVI

Through an Accession Agreement entered among the shareholders of TVI, VEC acquired 235,339 non-voting preferred stocks of TVI with a par value of ₱611.0 per share and additional paid-in capital of ₱279.8 per share or for a total consideration of ₱209.6 million as of December 31, 2017 and 2016. In 2017, VEC made additional infusion to TVI amounting to ₱390.9 million consisting of 639,803 non-voting preferred shares with a par value of ₱611.0 per share. VEC's total investment in TVI amounted to ₱600.5 million and ₱209.6 million as of December 31, 2017 and 2016, respectively.

In 2017, VIGC made additional investments in TVI which consists of 433,386 common stock with a par value of ₱100 per share amounting to ₱43.3 million. VIGC's total investment in TVI consists of 651,843 and 218,457 common stock amounting to ₱65.2 million and ₱21.8 million as of December 31, 2017 and 2016, respectively.

#### SREC

In 2016, VREC purchased Delta P's subscription to 5,625 preferred shares and 1,875 common shares of SREC, at the par value of 1,000 per share, of which 1,575 preferred shares and 525 common shares have been paid amounting to ₱2.1 million. In addition, VREC's advances to SREC amounting to ₱3.0 million made in July 2015 were used to pay off the unpaid portion of the subscribed shares. As of December 31, 2017 and 2016, total investment in SREC amounted to ₱5.1 million.

#### CREC

In 2017, VREC subscribed to 6,561 preferred shares and 2,186 common shares of CREC, at the par value of ₱1,000 per share, of which 1,641 preferred shares and 547 common shares have been paid amounting to ₱2.2 million. The said amount is also the total investment in CREC as of December 31, 2017.



VSNRGC

In 2014, the deposits for future stock subscription by the Group to VSNRGC amounted to ₱271.5 million. These were converted to equity upon approval by the SEC of the application for increase in capital stock of the joint ventures on November 5, 2015. The excess of deposits for future stock subscription in VSNRGC amounting to ₱6.5 million was returned to the Group.

Delta P

On May 28, 2015, VEC acquired 6,310,352 common shares representing 15% of Delta P's total issued and outstanding capital stock for a total consideration of ₱48.0 million. The acquisition increased the Group's ownership in Delta P to 50% from 35%. The increase in ownership in Delta P allowed VEC to have joint control in Delta P, where it previously exercised only significant influence over the relevant activities of Delta P. In 2016, the Group made a deposit for future stock subscription to Delta P amounting to ₱120.5 million, pending the approval by the SEC of Delta P's application for increase in capital stock and issuance of shares. The SEC approved Delta P's application for increase in capital stock and issuance of shares on January 9, 2017. In 2017, the Group made an additional investment amounting to ₱34.8 million to support its ongoing expansion project. The additional investment did not increase the Group's ownership interest in Delta P.

Total investment in Delta P amounted to ₱184.9 million and ₱72.6 million as of December 31, 2017 and 2016, respectively.

The following are selected financial information of the material associates of the Group as of and for the years ended December 31, 2017, 2016 and 2015:

MPC

	2017	2016	2015
Total current assets	<b>₱5,253,556,771</b>	₱4,137,173,423	₱9,629,533,324
Total noncurrent assets	<b>19,550,172,005</b>	18,405,379,004	10,149,175,766
Total current liabilities	<b>3,062,725,290</b>	1,514,605,133	493,655,362
Total noncurrent liabilities	<b>14,606,943,308</b>	13,993,655,309	12,641,351,110
Total equity	<b>7,134,060,178</b>	7,034,291,985	6,643,702,618
Gross revenue	<b>442,119,956</b>	69,152,840	154,176,589
Operating profit	<b>330,065,445</b>	51,358,036	140,760,687
Net income	<b>249,768,193</b>	47,594,367	149,286,642
Total comprehensive income	<b>249,768,193</b>	47,594,367	149,286,642
Group's share in net income	<b>99,907,277</b>	19,037,747	59,714,657
Proportion of Group's ownership	<b>40.00%</b>	40.00%	40.00%
Carrying amount of investment	<b>2,873,627,280</b>	2,833,720,003	2,471,692,256
Dividends received from MPC	<b>60,000,000</b>	—	—



VECO

	2017	2016	2015
Total current assets	<b>₱3,011,070,128</b>	₱2,838,785,786	₱2,748,991,164
Total noncurrent assets	<b>15,294,983,259</b>	13,278,353,583	12,896,378,323
Total current liabilities	<b>5,525,417,060</b>	4,306,718,828	3,657,243,240
Total noncurrent liabilities	<b>5,247,912,930</b>	5,565,555,738	5,582,902,153
Total equity	<b>7,532,723,397</b>	6,244,864,803	6,405,224,094
Gross revenue	<b>21,106,780,542</b>	22,419,251,099	21,110,387,108
Operating profit	<b>2,560,731,237</b>	2,414,608,430	2,229,398,192
Net income	<b>2,083,884,256</b>	1,893,721,319	1,727,478,763
Other comprehensive income (loss)	<b>792,152,621</b>	(5,071,030)	(6,651,859)
Total comprehensive income	<b>2,876,036,877</b>	1,888,650,289	1,720,826,904
Group's share in net income	<b>725,400,110</b>	659,204,391	601,335,357
Proportion of Group's ownership	<b>34.81%</b>	34.81%	34.81%
Carrying amount of the investment	<b>2,612,957,901</b>	2,257,000,340	2,312,821,409
Dividends received from VECO	<b>645,190,876</b>	713,260,234	627,982,256

AHI

	2017	2016	2015
Total current assets	<b>₱795,592,070</b>	₱751,610,593	₱1,323,785,767
Total noncurrent assets	<b>3,019,191,652</b>	3,070,016,416	2,694,464,681
Total equity	<b>3,814,783,722</b>	3,821,610,678	4,018,176,089
Gross revenue	<b>742,400,726</b>	1,120,522,589	1,041,283,276
Operating profit	<b>742,279,413</b>	1,120,278,753	1,041,031,454
Net income	<b>742,251,648</b>	1,120,271,955	1,041,828,799
Other comprehensive income (loss)	<b>(1,078,604)</b>	3,162,634	17,421,581
Total comprehensive income	<b>741,173,044</b>	1,123,434,589	1,059,250,380
Group's share in net income	<b>296,900,659</b>	448,108,782	416,731,520
Proportion of Group's ownership	<b>40.00%</b>	40.00%	40.00%
Carrying amount of the investment	<b>1,526,079,117</b>	1,528,809,774	1,607,435,837
Dividends received from AHI	<b>299,199,875</b>	527,999,899	299,200,000

Individually Immaterial Associates and Joint Ventures

The carrying amounts of the Group's interest in all individually immaterial associates and joint ventures that are accounted for using the equity method as of and for the year ended December 31 follows:

	2017	2016	2015
Income from continuing operations	<b>₱229,876,533</b>	₱146,863,330	₱350,439,957
Net income (loss)	<b>167,964,723</b>	161,982,082	(68,071,964)
Other comprehensive income	<b>1,010,471</b>	755,652	3,679,067
Total comprehensive income (loss)	<b>168,725,194</b>	162,737,734	(64,392,897)
Aggregate carrying amounts	<b>1,372,744,600</b>	826,892,828	564,401,566



11. Property, Plant and Equipment

	2017							Total	
	Land	Plant Machinery and Equipment	Condominium Units, Building Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Tools and Other Assets	Leaschold and Land Improvements		Construction in Progress
<b>Cost</b>									
At January 1	₱-	₱648,898,491	₱45,977,395	₱43,060,037	₱37,505,325	₱8,368,111	₱18,239,350	₱32,588,780	₱334,637,489
Additions	-	-	-	10,140,349	8,693,189	1,385,366	348,429	7,285,880	27,853,213
Transfers from investment properties (see Notes 12 and 25)	30,631,600	-	-	-	-	-	-	-	30,631,600
Disposal (see Note 16)	-	(58,845,616)	-	(5,862,354)	(216,250)	-	-	-	(64,924,220)
At December 31	30,631,600	590,052,875	45,977,395	47,338,032	45,982,264	9,753,477	18,587,779	39,874,660	828,198,082
<b>Accumulated Depreciation and Amortization</b>									
At January 1	-	121,436,848	19,174,990	23,469,413	26,745,209	3,378,331	6,246,490	-	200,451,281
Depreciation	-	84,895,028	2,640,682	8,232,883	6,868,774	1,999,845	1,036,613	-	105,673,825
Disposal	-	-	-	(5,806,949)	(216,249)	-	-	-	(6,023,198)
At December 31	-	206,331,876	21,815,672	25,895,347	33,397,734	5,378,176	7,283,103	-	300,101,908
<b>Net Book Value</b>	₱30,631,600	₱383,720,999	₱24,161,723	₱21,442,685	₱12,584,530	₱4,375,301	₱11,304,676	₱39,874,660	₱528,096,174

	2016							Total	
	Land	Plant Machinery and Equipment	Condominium Units, Building Improvements	Transportation Equipment	Office Furniture, Fixtures and Equipment	Tools and Other Assets	Leaschold and Land Improvements		Construction in Progress
<b>Cost</b>									
At January 1	₱-	₱878,394,764	₱45,672,763	₱37,051,538	₱32,699,427	₱3,658,731	₱16,878,412	₱-	₱1,014,355,635
Additions	-	5,978,977	304,632	9,759,850	5,296,521	4,709,380	1,360,938	21,133,399	48,543,697
Reclassifications (see Note 13)	-	-	-	-	-	-	-	11,453,381	11,453,381
Disposal (see Note 16)	-	(235,475,250)	-	(3,751,351)	(490,623)	-	-	-	(239,717,224)
At December 31	-	648,898,491	45,977,395	43,060,037	37,505,325	8,368,111	18,239,350	32,588,780	834,637,489
<b>Accumulated Depreciation and Amortization</b>									
At January 1	-	35,589,565	16,227,789	18,659,987	20,473,716	1,479,182	5,428,236	-	97,858,475
Depreciation	-	85,847,283	2,947,201	7,492,733	6,753,622	1,899,149	818,254	-	105,758,242
Disposal	-	-	-	(2,683,307)	(482,129)	-	-	-	(3,165,436)
At December 31	-	121,436,848	19,174,990	23,469,413	26,745,209	3,378,331	6,246,490	-	200,451,281
<b>Net Book Value</b>	₱-	₱527,461,643	₱26,802,405	₱19,590,624	₱10,760,116	₱4,989,780	₱11,992,860	₱32,588,780	₱634,186,208



Construction in progress includes costs for the construction of a new office in 2017 for which the percentage of completion is at 97% as of December 31, 2017 and is expected to be completed in April 2018. The account also includes mobilization fee and engineering detailed design fees paid to a third party contractor for the construction of a subsidiary's run-of-river hydropower facility in Negros Occidental. The latter project's implementation is intended to approximately coincide with the government's 230 kV backbone project estimated to be completed in 2020.

Fully depreciated property and equipment costing ₱29.3 million and ₱15.7 million as of December 31, 2017 and 2016, respectively, are still being used by the Group.

Depreciation and amortization are recognized in the consolidated statements of comprehensive income as follows:

	2017	2016	2015
Generation costs (see Note 17)	<b>₱86,797,416</b>	₱87,412,714	₱33,587,391
Operating expenses	<b>18,876,409</b>	18,345,528	16,753,073
	<b>₱105,673,825</b>	₱105,758,242	₱50,340,464

## 12. Investment Properties

	2017		
	Land	Buildings	Total
At January 1	<b>₱511,423,557</b>	<b>₱3,378,000</b>	<b>₱514,801,557</b>
Net unrealized gain (loss) on fair value remeasurement	75,879,133	(3,378,000)	72,501,133
Disposals	(53,960,000)	–	(53,960,000)
Transfers to property, plant and equipment (see Notes 11 and 25)	(30,631,600)	–	(30,631,600)
At December 31	<b>₱502,711,090</b>	<b>₱–</b>	<b>₱502,711,090</b>

	2016		
	Land	Buildings	Total
At January 1 and December 31	<b>₱511,423,557</b>	<b>₱3,378,000</b>	<b>₱514,801,557</b>

Some of the Group's properties were leased out to outside parties to earn rental income, for a lease period of three years (see Note 16). Total rental income amounting to ₱1.0 million, ₱2.1 million ₱2.9 million in 2017, 2016 and 2015, respectively, were recorded as part of "Other income" in the consolidated statements of comprehensive income.





Net unrealized gain and loss on fair value remeasurement of investment properties, recognized under “Other income (charges)” in the consolidated statements of comprehensive income, amounted to ₱72.5 million, nil and ₱240.7 million in 2017, 2016 and 2015, respectively.

In 2017, HDFE sold some of its investment properties to VECO. In the same year, an appraisal was carried out on the Group’s investment properties resulting to a fair value change amounting to ₱72.5 million.

Real property taxes pertaining to the land amounting to ₱0.8 million in 2017, 2016, and 2015, are included under “Taxes and licenses” account in the consolidated statements of comprehensive income.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct, or develop investment properties.

Fair value hierarchy disclosures and description of the valuation techniques used and key inputs to valuation for investment properties have been provided in Note 24.

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### 13. Other Noncurrent Assets

	2017	2016
Input VAT	₱8,422,761	₱7,254,787
AFS investments	3,750,631	3,750,631
Advances to suppliers (see Note 11)	2,838,220	3,946,417
Software cost - net	286,020	1,127,890
Others - net of allowance for impairment loss of ₱46.1 million	18,037,667	8,102,533
	<b>₱33,335,299</b>	<b>₱24,182,258</b>

a. Advances to Suppliers

Advances to suppliers pertain to cash advances given to contractors and project partners that are to be used to finance the cost of project study, site development, plant rehabilitation, among others.

Advances amounting to ₱21.2 million have been written off in 2016 since management does not expect any economic benefits from pursuing the related projects (see Note 17).

In 2016, advances to contractors amounting to ₱11.5 million were reclassified to “Construction in progress” under “Property, plant and equipment” upon completion of Phase 1 of the construction of a run-of-river hydropower facility (see Note 11).



b. AFS Investments

This account is composed of investments in shares of stock of the following entities:

	2017	2016
<b>At Cost</b>		
Cebu Country Club, Inc. (CCCI)	₱3,400,000	₱3,400,000
Tower Club, Inc. (TCI)	300,000	300,000
INCA Plastic Philippines - net of allowance for impairment of ₱1.95 million	50,000	50,000
VC Exchange, Inc. - net of allowance for impairment of ₱5.0 million	-	-
	<b>3,750,000</b>	<b>3,750,000</b>
<b>At Fair Value</b>		
Philippine Long Distance Telephone Co.	600	600
Paper Industries Corp. of the Phils.	31	31
	<b>631</b>	<b>631</b>
	<b>₱3,750,631</b>	<b>₱3,750,631</b>

Except for the investments in CCCI and TCI, the above investments represent the investments in listed and non-listed equity securities that present opportunities for returns through dividend income and trading gains.

The fair values of the listed securities are based on quoted market prices. The non-listed equity securities are stated at cost which approximate the fair values based on published buying and selling prices of these shares.

c. Software Costs

Software costs pertain to a subsidiary's accounting software, Human Resources Information System, trading software and documents monitoring system. The movement of software costs is as follows:

	2017	2016
<b>Cost</b>		
At January 1	₱7,473,524	₱5,827,991
Additions	-	1,645,533
At December 31	<b>7,473,524</b>	<b>7,473,524</b>
<b>Accumulated Amortization</b>		
At January 1	6,345,634	3,853,985
Amortization for the year	841,870	2,491,649
At December 31	<b>7,187,504</b>	<b>6,345,634</b>
<b>Net Book Value</b>	<b>₱286,020</b>	<b>₱1,127,890</b>

d. Others

Others include receivable from RFM Corporation, the Group's previous owner, which has been fully provided with allowance for impairment losses as of December 31, 2017 and 2016. Also included in this account are deposits for future subscription of an entity that is yet to be incorporated and security deposits with various tenants and other parties in the conduct of the Group's operations.



#### 14. Trade and Other Payables

	2017	2016
Trade payables (see Note 23c)	<b>₱1,116,427,842</b>	₱1,051,211,182
Deferred output VAT	<b>119,259,763</b>	94,559,030
Output VAT	<b>59,531,435</b>	68,484,477
Accrued interest (see Note 15)	<b>25,450,401</b>	25,712,776
Accounts payable	<b>9,869,523</b>	8,214,133
Accrued expenses	<b>5,641,040</b>	1,831,215
Accrued taxes payable	<b>5,009,714</b>	10,366,912
Dividends payable	<b>4,819,251</b>	4,458,690
Others	<b>4,510,029</b>	2,264,119
	<b>₱1,350,518,998</b>	₱1,267,102,534

Trade payables significantly consist of liabilities for a subsidiary's purchases of inventories from its suppliers, and the Group's collections of revenue from sale of power in excess of the amounts determined by PEMC in the adjustment bills for the supply months of November and December 2013. On March 28, 2014, the Group filed a Motion for Reconsideration with the ERC. However, ERC issued a denial of the said motion on October 15, 2014 (see Note 23c).

Trade payables for purchases of inventories are noninterest-bearing and are normally settled on a 30 to 45-day term.

Deferred output VAT is related to the recognition of the Group's revenue from WESM and bilateral contracts, and its corresponding receivable. The deferred output VAT is eventually closed to output VAT upon collection of the related receivable.

Dividends payable consists of dividends to the non-controlling interests of the Group arising from dividend declaration made by 1590 EC and HDPE. Dividends declared relating to non-controlling interests amounted to ₱141.9 million, ₱86.1 million and ₱59.1 million in 2017, 2016 and 2015, respectively (see Note 21).

Accounts payable consist mainly of liabilities for payroll, professional fees and other expenses.

Accrued expenses mainly consist of accruals for legal fees, securities and transfer fees, benefits and other expenses.

#### 15. Notes Payable

##### a. Short-term notes payable

On September 19 and October 17, 2016, 1590 EC obtained loans from a local bank amounting to ₱55.0 million and ₱48.5 million, respectively. The loans which matured on March 17 and April 12, 2017, respectively, bear an interest of 2.75% per annum. The loans are unsecured.

On November 23, 2015, 1590 EC obtained a loan from a local bank amounting to ₱33.0 million. The loan was subjected to interest at 3.0% per annum and matured last May 20, 2016.



Interest expense recognized in the consolidated statements of comprehensive income on these loans in 2017, 2016 and 2015, amounted to ₱2.2 million, ₱2.6 million and ₱2.8 million in 2017, 2016 and 2015, respectively.

b. Long-term notes payable

	2017	2016
Fixed Rate Corporate Notes (FRCN):		
₱1.0 billion at 5.7271% interest per annum	₱970,000,000	₱980,000,000
₱2.0 billion at 5.4450% interest per annum	1,940,000,000	1,960,000,000
	<b>2,910,000,000</b>	2,940,000,000
Less unamortized debt issue costs	14,228,065	18,415,321
	<b>2,895,771,935</b>	2,921,584,679
Less current portion - net of unamortized debt issue costs of ₱4.4 million in 2017 and ₱4.2 million in 2016	25,616,946	25,812,744
	<b>₱2,870,154,989</b>	<b>₱2,895,771,935</b>

The Parent Company entered into a Notes Facility Agreement (Agreement) to issue ₱3.0 billion in Fixed Rate Corporate Notes (FRCN or the Notes) on January 29, 2014 to fund its equity investments in power generation projects, to include, but not limited to MPC and TVI. The FRCN was fully subscribed by a consortium of local banks and was issued in two tranches and has a maturity of seven (7) years from the drawdown date. The Notes are unsecured.

The first drawdown amounting to ₱1.0 billion was made on February 3, 2014. The second drawdown amounting to ₱2.0 billion was made on March 31, 2014. The Notes will mature on February 3, 2021 and are payable at 1% based on the principal amount of the notes in the first six (6) years and 94% at maturity. Interest is payable quarterly.

Repayments of outstanding principal amounts are scheduled as follows:

	2017	2016
Within one year	₱30,000,000	₱30,000,000
More than one year but not more than five years	2,880,000,000	2,910,000,000
	<b>₱2,910,000,000</b>	<b>₱2,940,000,000</b>

The Agreement requires that the Parent Company shall not permit its debt-to-equity ratio to exceed 2.5:1. The debt-to-equity ratio is based on the parent company debt and consolidated equity. In addition, the Agreement requires the current ratio to not fall below 1.25:1 and is based on the consolidated current assets and current liabilities. The Parent Company has complied with these ratio requirements as of December 31, 2017 and 2016.

Interest expense recognized in the consolidated statements of comprehensive income related to these notes payable amounted to ₱174.0 million, ₱175.0 million and ₱170.0 million in 2017, 2016 and 2015, respectively, and the related accrued interest expense as of December 31, 2017 and 2016 amounted to ₱25.5 million and ₱25.7 million, respectively (see Note 14).

Debt issue costs were incurred in connection with the financing arrangements. These costs are amortized, using the effective interest rate method, over the term of the related loans.



## 16. 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. Related parties may be individuals or corporate entities.

In the normal course of business, the Group enters into transactions with related parties principally consisting of the following:

Category	Volume	2017 Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Associates</b>					
Sale of power (see Note 16h):					
VECO	₱806,183,640	₱76,834,504	₱-	30 days; noninterest-bearing	Unsecured; no impairment
PEI	60,994,199	50,773,958	50	30 days; Noninterest-bearing	Unsecured; no impairment
Sale of investment properties (see Note 16k):					
VECO	53,960,800	-	-	30 days; Noninterest-bearing	Unsecured; no impairment
Management fees (see Note 16d):					
VECO	34,937,352	5,648,205	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CPPC	29,274,524	11,640,000	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d):					
CPPC	10,388,471	35,357	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
PEI	-	1,532,400	-	30-60 days; noninterest-bearing	Unsecured; no impairment
LPCI	708,588	708,588	-	30-60 days; noninterest-bearing	Unsecured; no impairment
GLEDC	126,378,219	76,458,485	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16g):					
VECO	645,190,876	-	-	noninterest-bearing	Unsecured; no impairment
AHI	299,199,875	-	-	noninterest-bearing	Unsecured; no impairment
CPPC	120,996,800	29,200,000	-	noninterest-bearing	Unsecured; no impairment
MPC	60,000,000	60,000,000	-	noninterest-bearing	Unsecured; no impairment
<b>Joint Ventures</b>					
Management fees (see Note 16d):					
NR	6,782,064	135,257	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P	8,761,752	1,416,483	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	3,600,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d):					
NR	1,809,995	67,308	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	126,770	51,117	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P	6,296,946	3,517,437	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
Delta P	1,848,968	611,149	-	noninterest-bearing	Unsecured; no impairment
CIPC	64,286	285,402	-	noninterest-bearing	Unsecured; no impairment
NR	2,689,640	739,011	-	noninterest-bearing	Unsecured; no impairment

(Forward)



2017					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivables	Payables		
Dividends (see Note 16g):					
CIPC	₱15,000,000	₱15,000,000	₱-	noninterest-bearing	Unsecured; no impairment
Delta P	43,000,000	-	-	noninterest-bearing	Unsecured
Advances from (see Note 16b):					
NR	127,345	-	72,044,180	payable on demand; noninterest-bearing	Unsecured
Delta P	326	-	326	payable on demand; noninterest-bearing	Unsecured
Sale of equipment (see Note 11):					
Delta P	57,500,000	-	-	noninterest-bearing	Unsecured
<b>Stockholders with Significant Influence</b>					
Management fees expense (see Note 16e)					
GPI	37,800,000	-	-	payable on demand; noninterest-bearing	Unsecured
JDC	6,135,893	-	-	30-60 days; noninterest-bearing	Unsecured
MRC	9,203,839	-	-	30-60 days; noninterest-bearing	Unsecured
<b>Stockholders with No Significant Influence</b>					
Advances to/from (see Note 16c):					
JGS	-	42,676	-	payable on demand; noninterest-bearing	Unsecured; no impairment
FGG	-	428,000	-	payable on demand; noninterest-bearing	Unsecured; no impairment

2016					
Category	Volume	Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Associates</b>					
Sale of power (see Note 16h):					
VECO	₱834,651,335	₱78,488,103	₱-	30 days; noninterest-bearing	Unsecured; no impairment
Management fees (see Note 16d):					
VECO	30,056,400	4,859,118	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CPPC	12,000,000	12,355,000	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d):					
CPPC	347,850	336,875	-	30-60 days; noninterest-bearing	Unsecured; no impairment
VECO	5,012,750	1,866,667	-	30-60 days; noninterest-bearing	Unsecured; no impairment
AHPC	106,242	176,354	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
AHPC	907,626	15,943,485	-	payable on demand; noninterest-bearing	Unsecured; no impairment
PEI	-	1,532,400	-	30-60 days; noninterest-bearing	Unsecured; no impairment
LPCI	470	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
GLEDC	39,289,553	39,289,553	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Operating lease (see Note 16f):					
VECO	4,437,229	791,306	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16g):					
VECO	713,260,234	-	-	noninterest-bearing	Unsecured; no impairment
AHI	527,999,899	-	-	noninterest-bearing	Unsecured; no impairment
CPPC	99,572,000	99,572,000	-	noninterest-bearing	Unsecured; no impairment

(Forward)



Category	Volume	2016 Outstanding Balance		Terms	Conditions
		Receivables	Payables		
<b>Joint Ventures</b>					
Management fees (see Note 16d):					
NR	P6,536,452	P87,646	P-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P	20,156,216	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	1,620,000	-	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Service income (see Note 16d):					
NR	1,597,359	41,662	-	30-60 days; noninterest-bearing	Unsecured; no impairment
CIPC	52,800	22,055	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Delta P	3,045,200	48,482	-	30-60 days; noninterest-bearing	Unsecured; no impairment
Advances to (see Note 16a):					
Delta P	2,482,445	827,594	-	noninterest-bearing	Unsecured; no impairment
CIPC	15,424	259,273	-	noninterest-bearing	Unsecured; no impairment
NR	2,569,500	758,811	-	noninterest-bearing	Unsecured; no impairment
Dividends (see Note 16g):					
CIPC	18,500,000	-	-	noninterest-bearing	Unsecured; no impairment
Advances from (see Note 16b):					
NR	-	-	71,961,700	payable on demand; noninterest-bearing	Unsecured
Note payable (see Note 16b):					
Delta P	-	-	30,663,576	payable on demand; noninterest-bearing	Unsecured
Sale of equipment (see Note 11):					
Delta P	235,475,250	184,693	-	noninterest-bearing	Unsecured; no impairment
<b>Stockholders with Significant Influence</b>					
Management fees expense (see Note 16e)					
GPI	37,800,000	-	-	payable on demand; noninterest-bearing	Unsecured
JDC	9,221,786	-	-	30-60 days; noninterest-bearing	Unsecured
MRC	13,832,679	-	-	30-60 days; noninterest-bearing	Unsecured
<b>Stockholders with No Significant Influence</b>					
Advances to/from (see Note 16c):					
JGS	-	42,676	-	payable on demand; noninterest-bearing	Unsecured; no impairment
JLR	-	-	8,897,840	payable on demand; noninterest-bearing	Unsecured

- a. Advances to related parties are noninterest-bearing cash advances to associates, joint ventures and stockholders. The outstanding advances, presented as "Advances to associates and stockholders" account in the consolidated statements of financial position, are noninterest-bearing and are due on demand.
- b. Advances from related parties are noninterest-bearing cash advances from the Group's joint ventures and stockholders.

VREC's loans from VSNRGC are payable on demand within 3 years from the date of loan. The said loans are payable together with the interest accrued based on the December 1, 2011 PDST-F rate of 4.1577% plus 0.50% for a term of three (3) years from the date of the loan. On December 14, 2015, the loan from VSNRGC was converted and reclassified from interest-bearing notes payable into noninterest-bearing advances which are payable on demand, effective December 1, 2014, the expiration date of the original loan.



In September 2014, VEC issued a noninterest-bearing promissory note, payable on demand, to Delta P.

- c. Advances to a “stockholder with no significant influence” pertains to the life insurance plan advanced by the Parent Company for a member of its BOD. Advances from a “stockholder with no significant influence” pertains to a cash advance from a shareholder of a subsidiary for working capital requirements.
- d. Management and service fees represent the compensation for the services rendered by the Group to and for the use of its facilities by the associates and joint ventures. These are governed by management consultancy and service-level contracts executed by the Group and its associates. These are recognized as “Management fees” presented as part of the Group’s revenue in the consolidated statements of comprehensive income.

Outstanding receivables for management fees and service fees presented as part of “Accounts receivable” under “Trade and other receivables” account in the consolidated statements of financial position as of December 31, 2017 and 2016 amounted to ₱14.0 million and ₱23.5 million, respectively (see Note 7).

- e. The Group also entered into consultancy and management service agreements with its stockholders to perform management consultancy services. Expenses incurred related to the consultancy and management service agreements are recognized as part of “Professional fees” under “Generation costs” (see Note 17) and “Operating expenses” in the consolidated statements of comprehensive income.
- f. The Parent Company also leased out an office space to VECO. The lease agreement has no lease term and can be terminated upon mutual agreement of parties and upon 30 days prior written notice.

On January 1, 2017, the Parent Company terminated its lease agreement with VECO. VECO previously leased an office space owned by the Parent Company utilized by VECO as their Customer Care Office. The monthly rental is nil in 2017, ₱0.4 million in 2016 and ₱0.3 million in 2015, subject to an annual increase of 10%. The Group recognized, as part of “Other income” account in the consolidated statements of comprehensive income, the amount of nil in 2017, ₱4.4 million in 2016 and ₱4.0 million in 2015 representing rent income earned from VECO.

- g. In 2016, CPPC declared dividends amounting to ₱99.6 million which was received in 2017 (see Note 7).

In 2017, CIPC, CPPC, AHI and MPC declared additional dividends amounting to ₱15.0 million, ₱121.0 million, ₱299.2 million, and ₱60.0 million, respectively. The outstanding amounts from these dividends declarations are currently lodged under “Dividends receivable” (see Note 7).

- h. The Group has an energy supply agreement with VECO (see Note 23g). The Group shall supply contract energy to VECO from the 17 MW of the contracted capacity of the Unified Leyte Geothermal Power Plant administered by the Group. Revenue from the ESA with VECO amounted to ₱807.6 million and ₱834.7 million in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the Group’s trade receivables from VECO for the sale of power amounted to ₱76.8 million and ₱78.5 million, respectively (see Note 7).





In 2017, the Group entered into a Power Supply Agreement (PSA) with PEI (see Note 23h). Under the PSA, the Group shall supply energy to PEI from the Bauang diesel power plant, administered by the Group. Revenue from PSA with PEI amounted to ₱61.0 million in 2017. As of December 31, 2017, the Group's trade receivables from PEI for the sale of power amounted to ₱50.8 million (see Note 7).

- i. In 2016, VIGC assigned to GLEDC its rights to the Contract to Sell with the owners of parcels of land for a coal project in Brgy. Luna, La Union. GLEDC agreed to reimburse the Company for all costs and expenses incurred for the project amounting to ₱39.3 million, which amount was subsequently paid on January 10, 2017.

On January 31, 2017, VIGC advanced to GLEDC the amount of ₱120.0 million as part of the down payment for the parcels of land. On June 2, 2017, VIGC collected ₱50.0 million from GLEDC as partial payment for the advances. On various dates in 2017, the Company incurred travel, consultancy and land survey expenses in relation to these parcels of land amounting to ₱6.5 million. VIGC recognized a receivable from GLEDC under "Advances to associates and stockholders" amounting to ₱76.5 million as of December 31, 2017.

- j. In 2016, the Group sold to Delta P certain property and equipment (see Note 10). Outstanding receivable arising from this transaction amounted to ₱0.2 million as of December 31, 2016.
- k. In 2017, HDFE sold investment properties to VECO amounting to ₱53.9 million.

The above transactions are generally settled through cash.

The retirement fund (the Fund) of the Parent Company and a subsidiary is in the form of a trust being maintained and managed by a trust and investment entity in the Philippines. The fund, which is invested mostly in fixed income securities, has a carrying amount and fair value of ₱34.4 million and ₱32.1 million as of December 31, 2017 and 2016, respectively (see Note 19). Other than the contributions to the Fund, the Group does not have any other transactions with the Fund in 2017 and 2016.

Compensation and Benefits of Key Management Personnel

The compensation of the Group's key management personnel by benefit type follows:

	2017	2016	2015
Short-term employee benefits	₱81,133,487	₱64,896,506	₱66,228,084
Post-employment pension benefits (see Note 19)	4,851,293	3,964,194	7,706,704
	<b>₱85,984,780</b>	<b>₱68,860,700</b>	<b>₱73,934,788</b>



## 17. Generation Costs and Other Operating Expenses

### Generation Costs

The Group's generation costs pertain to the costs incurred in the operation of the BDPP and 17 MW of geothermal power from ULGPP beginning January 1, 2017:

	2017	2016	2015
Purchased power (see Notes 23c and 23g)	<b>₱888,118,045</b>	₱937,236,875	₱1,072,539,060
Heavy fuel oil (see Notes 8 and 23b)	<b>680,654,465</b>	314,834,946	576,700,359
Rent (see Note 23c)	<b>166,367,686</b>	161,522,025	156,817,500
Materials and supplies (see Note 8)	<b>123,250,984</b>	6,982,993	108,831,134
Depreciation (see Note 11)	<b>86,797,416</b>	87,412,714	33,587,391
Salaries, wages and employee benefits (see Note 18)	<b>56,487,184</b>	53,414,742	46,997,457
Insurance	<b>29,038,389</b>	24,522,116	28,218,713
Professional fees (see Note 16e)	<b>28,385,000</b>	28,718,707	28,350,000
Lubricating oil (see Note 8)	<b>26,354,148</b>	15,167,289	29,822,110
Supply and metering charges	<b>22,687,577</b>	26,481,857	3,835,803
Contractual and outside services	<b>22,439,298</b>	80,399,590	99,716,894
Light fuel oil (see Note 8)	<b>16,416,871</b>	11,032,325	15,407,776
Royalty fees (see Note 23c)	<b>14,623,386</b>	15,816,036	15,695,063
Repairs and maintenance	<b>14,252,055</b>	20,828,591	60,249,828
Market fees (see Notes 23c and 23f)	<b>2,781,941</b>	2,395,880	4,352,798
Taxes and licenses	<b>1,217,285</b>	436,242	3,321,867
Light and power	<b>1,146,048</b>	1,504,463	1,700,256
Transportation	<b>660,222</b>	701,132	841,726
Others	<b>5,793,307</b>	3,528,971	5,385,255
	<b>₱2,187,471,307</b>	₱1,792,937,494	₱2,292,370,990

### Other Operating Expenses

	2017	2016	2015
Stand-by letter of credit	<b>₱9,855,418</b>	₱11,055,353	₱12,710,011
Outside services	<b>8,905,085</b>	5,348,326	3,437,441
Marketing expenses	<b>7,399,504</b>	1,200,000	—
Directors' per diem (see Note 18)	<b>6,621,650</b>	4,014,968	3,749,245
Office supplies	<b>5,729,590</b>	5,544,422	5,886,977
Repairs and maintenance	<b>3,296,682</b>	3,537,743	3,602,583
Corporate social responsibility	<b>3,280,772</b>	2,352,179	3,115,981
Regulatory expenses	<b>2,446,335</b>	2,104,086	2,861,470
Stockholders' meeting expenses	<b>817,847</b>	744,503	618,479
Project costs written off (see Note 13)	—	21,172,701	—
Others	<b>10,493,310</b>	14,443,886	11,469,888
	<b>₱58,846,193</b>	₱71,518,167	₱47,452,075

Regulatory expenses represent payments of various charges imposed by the PSE and SEC.

Others include sponsorships and contributions, brokerage fees, insurance expenses, medical and health expenses, outing expenses, and bank charges, among others.



## 18. Personnel Expenses

	2017	2016	2015
Salaries, wages and employee benefits	₱205,499,445	₱179,192,634	₱163,522,616
Directors' compensation and benefits	6,621,650	4,014,968	3,749,245
Pension expense (see Note 19)	8,838,915	8,838,434	10,802,650
	<b>₱220,960,010</b>	<b>₱192,046,036</b>	<b>₱178,074,511</b>

## 19. Retirement Plans

The Group has a funded, noncontributory, defined benefit pension plan covering all regular, permanent employees of the Parent Company and 1590 EC. Both plans provide lump sum benefits upon a member's normal retirement. The benefits are based on the member's final monthly salary and length of service with the Group.

The Fund for the Group's employees is administered by a trust and investment entity in the Philippines under the supervision of a trustee. The trustee is responsible for the investment strategy of the plan.

The existing regulatory framework, Republic Act 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

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

The components of the pension expense recognized under "Generation costs" and "Operating expenses" in the consolidated statements of comprehensive income follow:

	2017	2016	2015
Current service cost	₱7,939,720	₱8,111,854	₱10,245,500
Net interest cost	899,195	726,580	810,211
Past service cost	—	—	(253,061)
Pension expense	<b>₱8,838,915</b>	<b>₱8,838,434</b>	<b>₱10,802,650</b>

Remeasurement effects recognized in the consolidated statements of comprehensive income follow:

	2017	2016	2015
Actuarial loss (gain) on defined benefit plan	₱6,097,031	(₱3,290,367)	(₱8,250,895)
Return on assets excluding amount included in net interest cost	1,545,239	248,789	512,109
	<b>₱7,642,270</b>	<b>(₱3,041,578)</b>	<b>(₱7,738,786)</b>



The pension liability pertaining to the Parent Company's funded retirement plan as of December 31, 2017 and 2016, follows:

	2017	2016
Present value of defined benefit obligation	<b>₱45,956,101</b>	₱35,329,225
Fair value of plan assets	<b>(14,198,052)</b>	(14,611,824)
<b>Pension liability</b>	<b>₱31,758,049</b>	₱20,717,401

The pension liability (asset) pertaining to 1590 EC's funded retirement plan as of December 31, 2017 and 2016, follows:

	2017	2016
Present value of defined benefit obligation	<b>₱20,306,854</b>	₱14,588,890
Fair value of plan assets	<b>(20,238,923)</b>	(17,463,681)
<b>Pension liability (asset)</b>	<b>₱67,931</b>	(₱2,874,791)

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

	2017	2016
At January 1	<b>₱49,918,115</b>	₱43,368,899
Current service cost	<b>7,939,720</b>	8,111,854
Interest cost on defined benefit obligation	<b>2,308,089</b>	2,008,966
Actuarial loss (gain) due to:		
Experience adjustments	<b>4,210,177</b>	(46,682)
Changes in demographic assumptions	<b>991,134</b>	(1,759,766)
Changes in financial assumptions	<b>895,720</b>	(1,483,919)
Benefits paid	<b>—</b>	(281,237)
<b>At December 31</b>	<b>₱66,262,955</b>	₱49,918,115

Changes in the fair value of plan assets representing the funded retirement plan of the Group follow:

	2017	2016
At January 1	<b>₱32,075,505</b>	₱28,598,256
Contributions to the retirement fund	<b>2,497,815</b>	2,724,889
Interest income included in net interest cost	<b>1,408,894</b>	1,282,386
Return on assets excluding amount included in net interest cost	<b>(1,545,239)</b>	(248,789)
Benefits paid	<b>—</b>	(281,237)
<b>At December 31</b>	<b>₱34,436,975</b>	₱32,075,505



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

	2017	2016
At January 1	₱17,842,610	₱14,770,643
Pension expense for the year	8,838,915	8,838,434
Actuarial loss (gain) recognized for the year	7,642,270	(3,041,578)
Contributions to retirement fund	(2,497,815)	(2,724,889)
At December 31	<b>₱31,825,980</b>	₱17,842,610

The major categories of the plan assets as a percentage of the fair value of the total plan assets are as follows:

	2017	2016
Fixed income securities:		
Unitized investment trust funds	41.00%	44.35%
Time certificate of deposit	20.74%	27.17%
Savings deposit	0.09%	0.11%
Due from Bangko Sentral ng Pilipinas	—	26.37%
Investment in government securities	37.99%	1.90%
Accrued interest receivable	0.18%	0.10%
Total plan assets	<b>100.00%</b>	100.00%

The control and administration of the fund vest on the trustee. The trustee shall have the full and complete power and authority to hold, manage, administer, convert, sell, assign, alter, divide, invest and reinvest the fund without distinction between principal and income, to the same extent and with the same effect as might be lawfully done by persons who own and control property and may thus exercise every power and right with respect to each item of property in this trust authority specified in the agreement and expressly conferred upon it by law.

The overall investment policy and strategy of the Group's defined benefit plan is guided by the objective of providing the necessary funding for the benefits payable under the plan and achieving such liquidity as the trustee shall, in its discretion, deem appropriate in the circumstances. The Group's current investment strategy consists substantially of fixed income securities.

The principal assumptions used in determining pension obligation for the Group's pension plan as of December 31 follow:

	2017	2016
Discount rate	5.79%–5.80%	5.54%–5.50%
Future salary increase rate	7.00%	7.00%–6.00%



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

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2017	2016
Discount rate	+100 basis points	<b>(P6,547,905)</b>	(P4,818,307)
	-100 basis points	<b>7,950,905</b>	5,942,776
Future salary increase rate	+100 basis points	<b>8,141,099</b>	5,747,650
	-100 basis points	<b>(6,833,684)</b>	(4,813,409)

The average duration of the defined benefit obligation as of December 31, 2017 and 2016 is 20.4–24.2 years and 19.2–24.7 years, respectively.

The Group expects to contribute P3.1 million to the defined benefit plan in 2018.

The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2017 and 2016:

	2017	2016
Less than one year	<b>P20,890,173</b>	P16,117,322
More than one year to five years	<b>8,932,877</b>	8,525,165
More than five years to 10 years	<b>14,395,465</b>	12,563,210
More than 10 years to 15 years	<b>66,126,037</b>	62,910,540
More than 15 years to 20 years	<b>151,427,202</b>	123,559,178
More than 20 years	<b>352,750,122</b>	232,518,527
<b>Total</b>	<b>P614,521,876</b>	P456,193,942

## 20. Income Taxes

	2017	2016	2015
Current	<b>P90,407,602</b>	P115,629,566	P90,190,909
Final	<b>6,532,901</b>	8,744,210	8,978,227
	<b>96,940,503</b>	124,373,776	99,169,136
Deferred	<b>(2,062,605)</b>	7,601,411	71,546,935
	<b>P94,877,898</b>	P131,975,187	P170,716,071



The reconciliation of income tax expense computed at the applicable statutory rates to income tax expense in the consolidated statements of comprehensive income is as follows:

	2017	2016	2015
Income before income tax	<b>₱1,520,386,704</b>	₱1,560,557,874	₱1,420,678,616
Tax calculated at 30% statutory rate	<b>₱456,116,011</b>	₱468,167,362	₱426,203,585
Adjustments for the tax effects of:			
Equity in net earnings of associates and joint ventures	<b>(387,051,831)</b>	(386,499,901)	(302,912,871)
Unrecognized NOLCO and MCIT	<b>81,576,654</b>	56,341,026	65,498,521
Difference of OSD over deductible expenses	<b>(22,146,917)</b>	4,312,599	(18,658,706)
Realized gain on change in fair value of investment properties	<b>(14,894,907)</b>	—	—
Non-deductible expenses	<b>11,598,309</b>	5,143,800	9,354,063
Interest income subject to final tax	<b>(10,408,119)</b>	(7,282,461)	(8,686,576)
Non-deductible impairment loss	<b>(6,391,855)</b>	—	—
Others	<b>(13,519,447)</b>	(8,207,238)	(81,945)
	<b>₱94,877,898</b>	₱131,975,187	₱170,716,071

The components of the Group's net deferred income tax assets as of December 31 are as follows:

	2017	2016
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets on:		
Allowance for impairment losses	<b>₱13,923,328</b>	₱13,923,328
Net pension liability	<b>10,567,846</b>	9,116,357
	<b>24,491,174</b>	23,039,685
Deferred income tax liabilities on:		
Unamortized debt issue costs	<b>4,268,419</b>	5,524,596
Unrealized gain on changes in unitized investment in trust fund	<b>3,889,466</b>	—
Unrealized foreign exchange gain	<b>28,456</b>	1,159,203
	<b>8,186,341</b>	6,683,799
Deferred income tax liability related to defined benefit obligation recognized as other comprehensive income	<b>330,502</b>	1,986,870
Net deferred income tax assets	<b>₱15,974,331</b>	₱14,369,016



The components of the Group's net deferred income tax liabilities are as follows:

	2017	2016
Deferred income taxes recognized in profit or loss:		
Deferred income tax liabilities on:		
Unrealized fair value gain on investment property	₱106,595,700	₱99,740,267
Unrealized foreign exchange gain	1,141,411	-
Advances for plant repairs and maintenance	-	9,776,889
Accrued rent	-	57,211
	<b>107,737,111</b>	<b>109,574,367</b>
Deferred income tax asset on net pension liability	276,402	-
	<b>107,460,709</b>	<b>-</b>
Deferred income tax asset related to defined benefit obligation recognized as other comprehensive income	286,159	-
	<b>₱107,174,550</b>	<b>₱109,574,367</b>

In 2017 and 2016, the Group has deductible temporary differences and tax credits for which deferred tax assets have not been recognized since management believes that no sufficient taxable income will be available in the year these are expected to be reversed, settled or realized. These unrecognized deductible temporary differences and tax credits follow:

	2017	2016
NOLCO	₱673,579,172	₱535,013,480
MCIT	1,426,062	1,679,053

NOLCO and MCIT as of December 31, 2017 and 2016 can be claimed as deduction against future taxable income and income tax due in the next three years until 2020 and 2019, respectively.

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

## 21. Equity

### Capital Stock

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

Authorized capital stock - ₱1 par value	2,000,000,000
Issued and outstanding shares	1,023,456,698
Unissued shares	976,543,302





The Parent Company's issued capital stock originally consists of 224,880,067 common shares and 600,000,000 preferred shares that were listed in the Philippine Stock Exchange (PSE) since 2003, and 198,576,631 preferred shares that were approved for listing by the PSE on June 29, 2004. In June 2005, the SEC approved the amendment to Article VII that relates to the conversion of the Parent Company's preferred shares to common shares. As of December 31, 2017 and 2016, the Parent Company's issued capital stock all consists of common shares.

The Parent Company has 1,434 stockholders as of December 31, 2017, 1,443 stockholders as of December 31, 2016 and 1,449 stockholders as of December 31, 2015, and has complied with the minimum public ownership requirement of the PSE for listed entities as of the same dates.

#### Dividends

The BOD declared cash dividends to its stockholders as follows:

	2017	2016	2015
Date of declaration	<b>May 12, 2017</b>	May 12, 2016	May 27, 2015
Date of record	<b>May 26, 2017</b>	June 3, 2016	June 9, 2015
Date of payment	<b>June 22, 2017</b>	June 29, 2016	July 3, 2015
Dividends declared:			
Regular dividends	<b>₱203,156,155</b>	₱192,921,585	₱192,921,585
Special dividends	<b>82,592,955</b>	75,019,375	75,019,375
	<b>₱285,749,110</b>	₱267,940,960	₱267,940,960
Dividends per share	<b>₱0.2792</b>	₱0.2618	₱0.2618

#### Appropriation of Retained Earnings for Business Expansion

The BOD has determined, in a BOD meeting held on December 19, 2014, that the Parent Company's operations require additional allocation as reserve for the investment in the two ongoing power plant projects in Visayas and Mindanao and a future investment in a new renewable power plant project also in the Visayas. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1,446.2 million to be used for future investments in these projects which were implemented starting 2015 and were expected to be completed in 2017.

Out of the 2014 retained earnings appropriation, the Group made additional investment of ₱851.2 million in 2015 in the same two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

In a BOD meeting held on December 18, 2015, the BOD has determined that the Parent Company's operations require additional allocation as reserve for the investment on the two ongoing power plant projects in Visayas and Mindanao. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱534.0 million to be used for future investments in these projects which are expected to be completed starting 2017.

Out of the 2015 retained earnings appropriation, the Parent Company made additional investment of ₱405.3 million in 2016 in the same two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.



In a BOD meeting held on December 16, 2016, the BOD has determined that the Parent Company's operation require additional allocation as reserve for the investment on the two ongoing power plants in Visayas and Mindanao. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱690.5 million to be used for future investments in these projects which are expected to be completed starting 2017.

Out of the 2016 retained earnings appropriation, the Parent Company made additional investment of ₱606.0 million in 2017 in the same two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

In a BOD meeting held on December 21, 2017, the BOD has determined that the Parent Company's operation require additional allocation as reserve for the investment on the two ongoing power plants in Visayas and Mindanao and a rooftop solar installation project starting 2018. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1.3 billion to be used for future investments in these projects which are expected to be completed starting 2018.

Unappropriated Retained Earnings

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱3.9 billion and ₱3.5 billion as of December 31, 2017 and 2016, respectively. Such amounts are not available for dividend distribution until such time that the Parent Company receives the dividends from the respective subsidiaries, associates and joint ventures.

Non-controlling Interests

In 2015, VMHI received cash amounting to ₱33.0 million as full payment of subscription, ₱10.9 million of which was contributed by non-controlling interests. In 2016, VMHI received cash amounting to ₱37.0 million for the issuance of capital stock and collection of subscription receivable, ₱12.2 million of which was contributed by non-controlling interest. In 2017, VMHI received cash amounting to ₱11.8 million for the issuance of capital stock, ₱3.8 million of which was contributed by non-controlling interest.

Material Partly-Owned Subsidiary - 1590 EC

In 2017, the Group purchased additional 2.50% indirect ownership interest in 1590 EC, increasing the Group's indirect ownership interest to 55.20% from 52.70% (see Note 1).

	2017	2016	2015
Total current assets	<b>₱1,313,182,600</b>	₱1,231,392,026	₱1,048,785,545
Total noncurrent assets	<b>392,583,926</b>	542,371,291	854,247,328
Total current liabilities	<b>1,150,199,480</b>	1,204,437,354	1,461,384,281
Total noncurrent liabilities	<b>646,781</b>	10,817,227	586,685
Total equity	<b>556,920,265</b>	558,508,736	441,061,907
Sale of power	<b>1,811,340,517</b>	1,530,605,858	1,991,517,373
Operating profit	<b>291,705,707</b>	389,568,838	333,782,601
Net income	<b>298,804,237</b>	296,072,471	247,465,879
Total comprehensive income	<b>296,411,529</b>	299,446,829	247,639,622
Net income attributable to non-controlling interests	<b>141,334,404</b>	140,042,279	117,051,361
Total comprehensive income attributable to non-controlling interests	<b>140,202,653</b>	141,638,350	117,133,541
Dividends paid to non-controlling interests	<b>141,900,000</b>	86,086,000	59,125,000
Accumulated non-controlling interest	<b>249,500,279</b>	264,174,632	208,622,282



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## 22. Earnings Per Share (EPS)

The amounts of EPS are computed as follows:

	2017	2016	2015
Net income attributable to shareholders of the parent	<b>₱1,259,926,428</b>	₱1,293,430,993	₱1,052,735,864
Weighted average number of outstanding common shares	<b>1,023,456,698</b>	1,023,456,698	1,023,456,698
Basic and diluted EPS	<b>₱1.231</b>	₱1.264	₱1.029

There are no potential dilutive shares as of December 31, 2017, 2016 and 2015.

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## 23. Contracts, Commitments and Contingencies

### a. Interim Power Supply Agreements

- On March 31, 2014, 1590 EC entered into an Interim Power Supply Agreement (IPSA) with Manila Electric Company (Meralco) to supply 140 MW for the period April 1 to June 30, 2014. On June 30, 2014, the Energy Regulatory Commission (ERC) approved the extension of the IPSA to October 31, 2014. The IPSA was further extended until December 31, 2014. On October 30, 2014, it was further extended until July 25, 2015 under the same terms and conditions unless otherwise agreed upon. On January 19, 2016, 1590 EC entered into a new IPSA with Meralco to supply 170 MW (firm contract capacity) for the period February 26 to July 25, 2016 and up to 170 MW (non-firm) for the period July 26 to February 25, 2017. The contract was extended to supply 170 MW (firm contract capacity) for the period February 26 to July 25, 2017. There was no renewal or extension of the contract thereafter. Total revenue from the IPSA with Meralco amounted to ₱1,135.0 million, ₱849.0 million and ₱1,324.6 million in 2017, 2016 and 2015, respectively.
- On October 17, 2014, 1590 EC entered into an IPSA with VECO to supply 30 MW for the period March 26 to June 25, 2015. Total revenue from the IPSA with VECO amounted to nil in 2017 and 2016, and ₱147.4 million 2015.
- On July 9, 2015, 1590 EC entered into an IPSA with Clark Electric Distribution Corp. (CEDC) to supply up to 30 MW from trading intervals 1000H to 2100H during Mondays and Saturdays for the period August 8 to September 6, 2015, unless terminated earlier in accordance with the terms of the Agreement or extended by the parties. Revenue from the IPSA with CEDC amounted to nil and ₱45.2 million in 2016 and 2015, respectively.
- On September 7, 2015, 1590 EC entered into an IPSA with Pampanga II Electric Cooperative, Inc. (PELCO II) to supply up to 30 MW from trading intervals 1000H to 2100H during Mondays to Saturdays for the period September 17 to November 15, 2015. Revenue from the IPSA with PELCO II amounted to nil in 2017 and 2016, and ₱60.3 million in 2015.



b. Supply Agreement for Heavy Fuel and Purchased Power

- On April 1, 2012, 1590 EC entered into a Supply Agreement (Consignment) with Pilipinas Shell Petroleum Corporation (PSPC) for the supply of the entity's petroleum product requirements. Under the agreement, PSPC shall sell and deliver, or procure to be delivered, and the Company shall purchase the petroleum products exclusively from PSPC. The agreement is in force for a period of two (2) years commencing April 1, 2012 to April 30, 2014. Upon expiration of the previous agreement, the contract was renewed starting May 1, 2014 to April 30, 2016 and was further renewed from May 1, 2016 to April 30, 2018.

Heavy fuel oil expense recognized in the consolidated statements of comprehensive income amounted to ₱680.7 million, ₱314.8 million and ₱576.7 million in 2017, 2016 and 2015, respectively (see Note 17).

- In 2015, 1590 EC entered into an agreement with TAO for the purchase of power at a contracted capacity of 10MW, dispatchable during intervals 10 to 21 from Mondays to Saturdays, for two (2) months, from March 26 to May 25, 2015. Purchased power from TAO amounted to nil in 2017 and 2016, and ₱20.6 million in 2015.

c. Participation in WESM

The revenue from sale of power recognized by 1590 EC amounting to ₱614.6 million in 2017, ₱681.6 million in 2016 and ₱414.0 million in 2015 were generated from its participation in the trading of electricity at the Wholesale Electricity Supply Market (WESM).

On March 6, 2014, the ERC rendered an Order voiding the WESM prices for the supply months of November and December 2013 and in lieu thereof, substituting regulated prices. The Order came after the ERC formed an Investigating Unit to investigate the unusual increase in WESM prices and the seemingly simultaneous withholding of capacity by electric power generators during the supply months of November and December 2013.

On March 28, 2014, 1590 EC filed its Motion for Reconsideration (MR) to the Order. In an Order dated October 15, 2014, the ERC denied the MR.

On December 10, 2014, as a result of the denial of the MR by the ERC, 1590 EC filed a Petition for Review with Application for Injunction and Temporary Restraining Order with the Court of Appeals requesting for the (a) issuance of a Temporary Restraining Order and Writ of Preliminary Injunction enjoining ERC and PEMC from implementing all orders, decisions, and resolutions in ERC Case No. 2014-021 MC and (b) reversal of the Order of the ERC in ERC Case No. 2014-021 MC and (c) reinstating the November and December 2013 WESM market prices.



On November 7, 2017 the Court of Appeals, in the consolidated Petitions for Review, rendered a Decision declaring the Orders of the ERC dated March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 (the "ERC Orders") for having been rendered without any factual and legal basis. Accordingly, the Court of Appeals nullified the regulated prices imposed by the ERC in the ERC Orders that were to prevail in lieu of the WESM prices for the November and December 2013 supply months. Thereafter, the ERC and Intervenor MERALCO, filed their respective Motions for Reconsiderations ("MR") to which 1590 EC duly filed its respective Oppositions thereto. The MRs of ERC and MERALCO remain pending as of March 27, 2018.

Amounts recognized in the consolidated statements of comprehensive income related to 1590 EC's participation in WESM trading, are presented as "Purchased power" and "Market fees" under "Generation costs" aggregating to ₱113.6 million, ₱150.1 million and ₱294.9 million in 2017, 2016 and 2015, respectively.

Trade receivable from WESM has a term of 30 days and earns interest of 2% plus the rate of the prevailing 91-day Treasury Bill per annum on the past due receivables. Outstanding receivables from transactions with WESM amounted to ₱114.5 million and ₱96.1 million as of December 31, 2017 and 2016 respectively (see Note 7).

d. Operating Leases - Group as Lessee

On May 11, 2012, a MOA was entered into by 1590 EC and PGLU for the right to preserve, maintain and operate the BDPP, including the right to use and sell the power generated therefrom. The MOA commenced on May 26, 2012 until June 25, 2013, but subject to yearly renewal unless otherwise terminated by a mutual agreement, for a monthly consideration of ₱10.5 million.

On March 22, 2013, a new MOA was executed by the Company and PGLU for a period of one year commencing immediately after the expiration of the first MOA or on June 26, 2013, for a monthly consideration of 12.5 million. On April 2, 2014, an amendment to the MOA was executed thereby extending the agreement to December 31, 2015. In February 2015, the parties executed a Second Amendment to the MOA extending the term to December 31, 2018. All other terms and conditions remain.

In addition, the MOA stipulates for the payment by 1590 EC to PGLU of royalty fees equivalent to 1590 EC's one and one-half percent (1.5%) of monthly gross profit, the latter computed as 1590 EC's monthly revenues less monthly costs related to heavy fuel, light fuel and lube oil.

On January 19, 2018, 1590 EC entered into a Lease Contract with the PGLU over the BDPP after emerging as the winning proponent during the bidding for the lease thereof. Under the lease contract, 1590 EC can use, possess, man, operate, and maintain the BDPP for its sole account and expense, for a term of five (5) years commencing upon the tender of a performance security. The lease is in consideration for a monthly rental of ₱14.1 million, royalty payment at 1.5% of monthly net profit, and the infusion of total capital investment of at least ₱600.0 million over the five-year term.



Total rent expense from this operating lease amounted to ₱166.4 million, ₱161.5 million and ₱156.8 million in 2017, 2016 and 2015, respectively, and total royalty fees recognized in the consolidated statements of comprehensive income amounted to ₱14.6 million, ₱15.8 million and ₱15.7 million in 2017, 2016 and 2015, respectively (see Note 17).

e. Open Access Transmission Service

Pursuant to the provision on Credit Support under Section A8.1 of the Open Access Transmission Service Rules as well as the condition set under Billing and Payments of the Transmission Service Agreement, 1590 EC provided additional credit support in the form of a security deposit presented as “Other noncurrent assets” in the consolidated statements of financial position amounting to ₱2.3 million as of December 31, 2017 and 2016.

f. Independent Power Producer Administration Agreement

On October 20, 2014, PSALM awarded VEC to be the IPP administrator of 17 MW out of the total contracted capacity of the Unified Leyte Geothermal Power Plant following an auction of strips of energy of the power plant. The Unified Leyte Geothermal Power Plant has an installed capacity of 240 MW and is located in Malitbog, Southern Leyte. Under the IPP Administration Contract, VEC will pay PSALM monthly generation payments and fixed monthly fee to cover the administrative costs in the trading and settlement of the Strips in the WESM.

Amounts recognized in the consolidated statements of comprehensive income related to VEC’s participation in WESM trading, are presented as “Purchased power” and “Market fees” under “Generation costs” aggregating to ₱775.9 million, ₱788.0 million and ₱761.4 million in 2017, 2016 and 2015, respectively.

g. Energy Supply Agreement (ESA) with VECO

In October 2014, VEC entered into an ESA with VECO to supply 17,000 kW contract energy per month coming from the 17 strips of energy of the Unified Leyte Geothermal Power Plant. The ESA became effective on December 26, 2014 and is valid until July 25, 2021. Total revenue from the ESA with VECO amounting to ₱806.2 million and ₱834.7 million in 2017 and 2016, respectively, are presented under “Sale of power” in the consolidated statements of comprehensive income (see Note 16).

h. PSA with PEI

In April 2017, VEC entered into a PSA with PEI to supply contracted power. The PSA became effective on April 26, 2017 and is valid until December 25, 2020. Revenue from PSA with PEI amounting to ₱61.0 million in 2017 are presented under “Sale of power” in the 2017 consolidated statement of comprehensive income (see Note 16).



i. Contingencies

The Group is a party to certain proceedings and assessments in the normal course of business. The ultimate outcome of these proceedings cannot be presently determined. The Group's position has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Management believes, based on information currently available and professional legal advice, that the ultimate resolution of these proceedings would not likely have a material, adverse effect on the results of operations, financial position or liquidity of the Group. Existing circumstances and assumptions about future developments related to these proceedings may still change. Such changes are reflected in the assumptions when they occur.

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**24. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, advances to associates and stockholders, AFS investments, trade and other payables, notes payable and advances from related parties. The main purpose of these financial instruments is to raise funds for the Group's operations.

The main risks from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk. The BOD reviews and agrees policies for managing each of these risks and these policies are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

With respect to cash investments, the risk is mitigated by the short-term and/or liquid nature of its investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing.

Receivable balances are actively monitored on an ongoing basis and acted upon regularly to avoid significant concentrations of credit risk.

Except for the trade receivables of 1590 EC from an electric cooperative and other receivables which were provided with allowance amounting to ₱34.1 million (see Note 7), management evaluated that the Group's consolidated financial assets as summarized below are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for impairment losses, amounted to ₱5,957.0 million and ₱5,715.7 million as of December 31, 2017 and 2016, respectively.

There are no significant concentrations of credit risk within the Group.



The following tables set out the aging analysis per class of financial assets, including those that were past due but not impaired, as of December 31:

	2017							Total
	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired		
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 days			
<b>Loans and Receivables</b>								
Cash and cash equivalents (excluding cash on hand)	P4,634,622,495	P-	P-	P-	P-	P-	P4,634,622,495	
Trade and other receivables	65,639,601	301,458,632	38,050,143	27,733,775	93,517,552	34,458,046	560,857,749	
Advances to associates and stockholders	1,348,227	1,178,012	15,135	217,220	80,977,735	-	83,736,329	
Advances to other parties (under "Prepayments and other current assets")	700,607,707	428,625	20,727	74,241	2,818,707	-	703,950,007	
Due from RFM Corporation (under "Other noncurrent assets")	-	-	-	-	-	46,078,063	46,078,063	
Restricted cash (under "Other noncurrent assets")	650,000	-	-	-	-	-	650,000	
Security deposits (under "Other noncurrent assets")	3,899,653	-	-	-	-	-	3,899,653	
AFS Investments	3,750,631	-	-	-	-	7,745,118	11,495,749	
	<b>P5,410,518,314</b>	<b>P303,065,269</b>	<b>P38,086,005</b>	<b>P28,025,236</b>	<b>P177,313,994</b>	<b>P88,281,227</b>	<b>P6,045,290,045</b>	

	2016							Total
	Neither Past Due nor Impaired	Past Due But not Impaired				Impaired		
		Less than 30 Days	31-60 Days	61-90 Days	Over 90 days			
<b>Loans and Receivables</b>								
Cash and cash equivalents (excluding cash on hand)	P4,437,126,262	P-	P-	P-	P-	P-	P4,437,126,262	
Trade and other receivables	313,272,290	789,717	5,246,240	3,608,158	76,380,967	34,458,046	433,755,418	
Advances to associates and stockholders	40,563,329	3,549,210	1,014,815	15,306,805	32,380,872	-	92,815,031	
Advances to other parties (under "Prepayments and other current assets")	774,179,285	145,342	44,702	769,479	6,884,090	-	782,022,898	
Due from RFM Corporation (under "Other noncurrent assets")	-	-	-	-	-	46,078,063	46,078,063	
Restricted cash (under "Other noncurrent assets")	650,000	-	-	-	-	-	650,000	
AFS Investments	3,750,631	-	-	-	-	7,745,118	11,495,749	
	<b>P5,569,541,797</b>	<b>P4,484,269</b>	<b>P6,305,757</b>	<b>P19,684,442</b>	<b>P115,645,929</b>	<b>P88,281,227</b>	<b>P5,803,943,421</b>	

The following tables summarize the credit quality per class of financial assets that were neither past due nor impaired as of December 31:

	2017		
	Neither Past Due nor Impaired		
	High Grade	Medium Grade	Low Grade
<b>Loans and Receivables</b>			
Cash and cash equivalents (excluding cash on hand)	P4,634,622,495	P-	P-
Trade and other receivables	65,639,601	-	-
Advances to associates and stockholders	1,348,227	-	-
Advances to other parties (under "Prepayments and other current assets")	700,607,707	-	-
Restricted cash (under "Other noncurrent assets")	650,000	-	-
Security deposits (under "Other noncurrent assets")	3,899,653	-	-
AFS Investments	3,750,631	-	-
	<b>P5,410,518,314</b>	<b>P-</b>	<b>P-</b>





	2016		
	Neither Past Due nor Impaired		
	High Grade	Medium Grade	Low Grade
<b>Loans and Receivables</b>			
Cash and cash equivalents (excluding cash on hand)	P4,437,126,262	P-	P-
Trade and other receivables	313,272,290	-	-
Advances to associates and stockholders	40,563,329	-	-
Advances to other parties (under "Prepayments and other current assets")	774,179,285	-	-
Restricted cash (under "Other noncurrent assets")	650,000	-	-
<b>AFS Investments</b>	<b>3,750,631</b>	-	-
	<b>P5,569,541,797</b>	<b>P-</b>	<b>P-</b>

The credit quality of financial assets is managed by the Group using high, medium and low grades as internal credit ratings.

High grade - pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions and government agencies.

Medium and low grades - other financial assets not belonging to high grade financial assets are included in either of these categories.

The credit quality of the financial assets was determined as follows:

- *Cash and Cash Equivalents, and Restricted Cash* - high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Trade and Other Receivables* - high grade since these pertain to receivables from customers or parties who have established good credit standing with the Group, except for past due and impaired trade and other receivables which are considered as low grade financial assets.
- *Advances to Associates and Stockholders, and Advances to Other Parties* - high grade since these pertain to advances to related parties who are consistent in the payment of its accounts.
- *AFS Investments* - high grade since these pertain to investments in AFS securities, which include listed shares of companies whose fair values are based on quoted market prices or published buying and selling prices.
- *Security Deposits* - classified as high grade as these are receivable from counterparties who are highly reputable.

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements and the Group's trade receivables are maintained to meet maturing obligations. The Group, in general, matches the appropriate long-term funding instruments with the general nature of its equity instruments.



The following tables summarize the Group's financial assets that can be used to manage its liquidity risk and the maturity profile of the Group's financial liabilities based on contractual undiscounted payments as of December 31:

	2017				
	Contractual Undiscounted Payments				
	Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	₱4,635,082,495	₱4,635,082,495	₱-	₱-	₱-
Trade and other receivables	560,857,750	318,009,452	201,169,631	41,678,667	-
Advances to associates and stockholders	83,736,329	16,218,050	58,330,487	9,187,792	-
Advances to other parties (under "Prepayments and other current assets")	703,950,007	698,308,703	2,822,597	2,818,707	-
Due from RFM Corporation (under "Other noncurrent assets")	46,078,063	-	-	-	46,078,063
Restricted cash (under "Other noncurrent assets")	650,000	650,000	-	-	-
Security deposit (under "Other noncurrent assets")	3,899,653	-	-	3,899,653	-
AFS Investments	3,750,631	3,750,631	-	-	-
	6,038,004,928	5,672,019,331	262,322,715	57,584,819	46,078,063
<b>Financial Liabilities</b>					
Other financial liabilities:					
Trade and other payables*	1,157,821,088	965,535,458	176,831,968	10,453,662	-
Short-term note payable	-	-	-	-	-
Long-term note payable	3,399,917,631	-	190,400,538	3,209,517,093	-
Advances from related parties	72,406,345	72,035,147	55,855	315,343	-
	4,625,145,064	1,037,570,605	367,288,361	3,220,286,098	-
<b>Net Financial Assets (Liabilities)</b>	<b>₱1,412,859,864</b>	<b>₱4,634,448,726</b>	<b>(₱104,965,646)</b>	<b>(₱3,162,701,279)</b>	<b>₱46,078,063</b>

\*Excluding statutory payables and unearned income

	2016				
	Contractual Undiscounted Payments				
	Total	On Demand	Less than 1 Year	1 to 5 Years	More than 5 Years
<b>Financial Assets</b>					
Loans and receivables:					
Cash and cash equivalents	₱4,437,126,262	₱3,794,924,114	₱ 642,202,148	₱-	₱-
Trade and other receivables	309,385,320	-	304,680,918	4,704,402	-
Advances to associates and stockholders	92,815,031	16,535,636	66,294,066	9,985,329	-
Advances to other parties (under "Prepayments and other current assets")	782,022,898	771,761,561	1,028,162	8,921,599	311,576
Due from RFM Corporation (under "Other noncurrent assets")	46,078,063	-	-	-	46,078,063
Restricted cash (under "Other noncurrent assets")	650,000	-	-	650,000	-
AFS Investments	3,750,631	3,750,631	-	-	-
	5,671,828,205	4,586,971,942	1,014,205,294	24,261,330	46,389,639
<b>Financial Liabilities</b>					
Other financial liabilities:					
Trade and other payables*	1,113,286,935	830,608,929	277,514,622	5,163,384	-
Short-term note payable	103,500,000	-	103,500,000	-	-
Long-term note payable	3,591,671,252	-	191,753,621	609,917,631	2,790,000,000
Advances from related parties	143,933,390	102,634,757	31,375,398	9,923,235	-
	4,952,391,577	933,243,686	604,143,641	625,004,250	2,790,000,000
<b>Net Financial Assets (Liabilities)</b>	<b>₱719,436,628</b>	<b>₱3,653,728,256</b>	<b>₱410,061,653</b>	<b>(₱600,742,920)</b>	<b>(₱2,743,610,361)</b>

\*Excluding statutory payables and unearned income



Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities when revenue or expense is denominated in a different currency from the Group's functional currency.

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

2017			
	USD	EUR	Php Equivalent
Asset:			
Cash	US\$23,093	€1,021	₱1,213,895
Trade and other receivables	1,744,055	-	87,080,666
	<b>US\$1,767,148</b>	<b>€1,021</b>	<b>₱88,294,561</b>
2016			
	USD	EUR	Php Equivalent
Asset:			
Cash	US\$89,319	€1,020	₱4,493,818
Trade and other receivables	401,189	-	19,947,117
	<b>US\$490,508</b>	<b>€1,020</b>	<b>₱24,440,935</b>

The December 31 exchange rates used follows:

	2017	2016
US Dollar	<b>₱49.93 to US\$1</b>	₱49.72 to US\$1
Euro Dollar	<b>₱59.61 to €1</b>	₱51.84 to €1

The Group recognized net foreign exchange loss of ₱1.2 million in 2017, net foreign exchange gain of ₱1.5 million in 2016 and net foreign exchange loss of ₱0.3 million 2015.

The tables below demonstrate the sensitivity to a reasonably possible change in the Philippine Peso, with all other variables held constant, of the Group's income before income tax (due to changes in the fair value of monetary assets and liabilities) as of December 31, 2017 and 2016.

Change in Philippine Peso to US Dollar		
	2.44%	1.22%
	Appreciation	Depreciation
Effect in income before income tax:		
<b>2017</b>	<b>₱2,152,902</b>	<b>₱1,076,451</b>
2016	1,075,513	858,460
Change in Philippine Peso to Euro		
	6.11%	7.10%
	Appreciation	Depreciation
Effect in income before income tax:		
<b>2017</b>	<b>₱3,718</b>	<b>₱4,323</b>
2016	820	909



There is no other impact on the Group's equity other than those already affecting the consolidated income before income tax.

#### Fair Value Measurement

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

#### Fair Value Hierarchy

The Group uses the following hierarchy for determining the fair value of financial instruments:

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

As of December 31, 2017 and 2016, the carrying values of the Group's financial instruments, except for the long-term notes payable, approximate fair values due to their relatively short-term maturity.

The Group considers the notes payable with fair value of ₱3.0 billion and ₱3.1 billion as of December 31, 2017 and 2016, respectively, under Level 3 classification.

The Group's investment properties, which are classified under Level 3, are measured at fair value. As of December 31, 2017 and 2016, there were no transfers into and out of Level 3 fair value measurements.

#### Valuation Techniques Used to Derive Level 3 Fair Values

The following tables show an analysis of the Group's long-term notes payable for which fair values are disclosed at Level 3 of the fair value hierarchy as at December 31:

Description	Fair Value as of December 31, 2017	Valuation Technique	Key Observable Inputs	Range (Weighted Average)
Long-term notes payable	₱3,011,089,999	Discounted Cash Flow Approach	Risk-free interest rate	3.71%–5.31% (4.14%)

Description	Fair Value as of December 31, 2016	Valuation Technique	Key Observable Inputs	Range (Weighted Average)
Long-term notes payable	₱3,050,730,103	Discounted Cash Flow Approach	Risk-free interest rate	1.17%–4.68% (4.33%)

#### Changes in Valuation Techniques

There were no changes in the valuation techniques used by the Group in determining the fair value of its AFS investments and investment properties during the year.



Highest and Best Use

As at December 31, 2017 and 2016, the current use of the Group's investment properties is considered its highest and best use.

Fair Value Hierarchy

The following tables show an analysis of the Group's assets measured at fair value recognized in the consolidated statements of financial position by level of the fair value hierarchy:

2017				
Fair Value Measurement Using				
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Investment properties (see Note 12):				
Land	₱502,711,090	₱-	₱-	₱502,711,090
Buildings	-	-	-	-
	<b>₱502,711,090</b>	<b>₱-</b>	<b>₱-</b>	<b>₱502,711,090</b>

2016				
Fair Value Measurement Using				
	Total	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets Measured at Fair Value</b>				
Investment properties (see Note 12):				
Land	₱511,423,557	₱-	₱-	₱511,423,557
Buildings	3,378,000	-	-	3,378,000
	<b>₱514,801,557</b>	<b>₱-</b>	<b>₱-</b>	<b>₱514,801,557</b>

Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statements of comprehensive income amounted to ₱72.5 million in 2017, nil in 2016, and ₱240.7 million in 2015 (see Note 12). The Group did not recognize any unrealized gain on AFS investments in 2017 and 2016. All gains and losses recorded in the consolidated statements of comprehensive income for recurring fair value measurement categorized within Level 3 of the fair value hierarchy are attributable to changes in unrealized gain on fair value remeasurement of investment properties held at the end of the reporting period.

As of December 31, 2017, the Group does not have liabilities measured at fair value. There were no transfers between Levels 1 and 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Valuation Techniques Used to Derive Level 3 Fair Value

The tables below present the following for each class of the Group's investment properties as of December 31, 2017 and 2016:

- The fair value measurements at the end of the reporting period;
- The level of the fair value hierarchy within which the fair value measurements are categorized in their entirety;
- A description of the valuation techniques applied;
- The inputs used in the fair value measurement; and



- For Level 3 fair value measurements, quantitative information about the significant unobservable inputs used in the fair value measurement.

2017				
Class of Property	Fair Value	Valuation Technique	Key Unobservable Inputs	Range
Investment properties (see Note 12):				
Land	₱502,711,090	Sales Comparison Approach	Price per square meter	₱2,400–₱18,300
Buildings	–	Cost Approach	Reproduction cost	–
2016				
Class of Property	Fair Value	Valuation Technique	Key Unobservable Inputs	Range
Investment properties (see Note 12):				
Land	₱511,423,557	Sales Comparison Approach	Price per square meter	₱2,100–₱36,500
Buildings	3,378,000	Cost Approach	Reproduction cost	400,000–1,728,000

#### Descriptions and Definitions

The table above includes the following descriptions and definitions relating to valuation techniques and key unobservable inputs made in determining the fair values:

*Sales Comparison Approach.* This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

The appraiser gathers data on actual sales and/or listings, offers, and renewal options, and identifies the similarities and differences in the data, ranks the data according to their relevance, adjusts the sales prices of the comparable to account for the dissimilarities with the unit being appraised, and forms a conclusion as to the most reasonable and probable market value of the subject property.

The elements of comparison include location, physical characteristics, available utilities, zoning, and highest and best use. The most variable elements of comparison are the site’s physical characteristics, which include its size and shape, frontage, topography and location.

*Cost Approach.* This is a comparative approach to the value of property or another asset that considers as a substitute for the purchase of a given property, the possibility of constructing another property that is a replica of, or equivalent to, the original or one that could furnish equal utility with no undue cost resulting from delay. It is based on the reproduction or replacement cost of the subject property or asset, less total (accrued) depreciation, plus the value of the land to which an estimate of entrepreneurial incentive or developer’s profit/loss is commonly added.



*Sensitivity Analysis to Significant Changes in Unobservable Inputs within Level 3 of the Hierarchy*

- *Land.* Significant increases (decreases) in price per square meter in isolation would result in a significantly higher (lower) fair value measurement.
- *Buildings and Improvements.* Significant increases (decreases) in the reproduction cost in isolation would result in a significantly higher (lower) fair value measurement.

Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended 2017, 2016 and 2015.

The Parent Company is required to maintain a minimum current ratio and maximum debt-to-equity ratio as part of its covenants on its notes payable. The Parent Company has complied with these ratio requirements as of December 31, 2017 and 2016 (see Note 15). The Parent Company is also subject to Minimum Public Ownership requirement of the PSE. As of December 31, 2017 and 2016, the Parent Company has complied with the requirement. The Parent Company is not subject to other externally imposed capital requirements (see Note 21).

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group determines net debt as the sum of short-term and long-term notes payable less cash and cash equivalents.

Gearing ratios of the Group as of December 31 are as follows:

	2017	2016
Notes payable	<b>₱2,895,771,935</b>	₱3,025,084,679
Less: Cash and cash equivalents	<b>4,635,082,495</b>	4,437,776,262
Net cash and cash equivalents (a)	<b>(1,739,310,560)</b>	(1,412,691,583)
Equity	<b>10,702,899,708</b>	9,457,039,460
Equity and net cash and cash equivalents (b)	<b>₱8,963,589,148</b>	₱8,044,347,877
Gearing ratio (a/b)	<b>(0.19):1.00</b>	(0.18):1.00



## 25. Notes to the 2017 Consolidated Statement of Cash Flows

### Changes in Liabilities Arising from Financing Activities (in thousands)

	Long-term Notes Payable	Advances from Related Parties	Dividends Payable	Others	Total Liabilities from Financing Activities
January 1, 2017	₱3,025,085	₱111,677	₱4,459	₱-	₱3,141,221
Non-cash changes:					
Dividends declared	-	-	427,649	-	427,649
Amortization of debt issue cost	4,187	-	-	-	4,187
Disposal of a subsidiary (Note 1)	-	(8,898)	-	-	(8,898)
Additional advances to related parties	-	63,579	-	-	63,579
Cash flows	(133,500)	(93,952)	(427,289)	3,894	(650,847)
December 31, 2017	₱2,895,772	₱72,406	₱4,819	₱3,894	₱2,976,891

### Non-cash Changes in an Investing Activity

The Group transferred certain investment properties amounting to ₱30.6 million to property, plant and equipment in 2017.

## 26. Operating Segment Information

The Group is currently organized into two operating segments: (1) power generation and distribution operations and (2) investing in shares of stock. These operating segments are consistent with those reported to the BOD, the Group's Chief Operating Decision Maker (CODM).

The operating segments and their corresponding principal activities are as follows:

### Power Generation and Distribution

1590 EC operates a diesel power plant wherein power generated is primarily traded at WESM. VEC is the IPP administrator of 17 MW contracted capacity of ULGPP wherein energy generated is covered under an energy supply agreement with VECO (see Note 23). VMHI and Core are on its pre-operating stage of building a hydro power plant in Silay, Negros Occidental and operating as a retail electricity supplier, respectively (see Note 1). VII and VGPC were incorporated in 2014 and VIDC was incorporated in 2015, which companies are intended to undertake various power generation activities of the Group.

VECO, an associate of the Group, is involved in the distribution and sale of electricity, while the other associates and joint ventures are engaged in the generation and supply of power to various entities and parties.

### Investing in Shares of Stock

As disclosed in Note 1, except for 1590 EC, VEC, VMHI, Core, VII, VGPC, the Parent Company and all other subsidiaries are operating as holding and investing companies. Aside from operating as a power generation company, VEC also operates as a holding and investing company. Revenue from this segment principally comes from equity in net earnings and management fees from investee companies.





The segment results for the years ended December 31 follow:

	2017			
	Power Generation and Distribution	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱1,811,340,517	₱-	₱-	₱1,811,340,517
Revenue from inter-segment, associates and affiliates	1,361,274,639	1,652,512,718	(2,052,817,442)	960,969,915
Equity in net earnings of associates and joint ventures	1,290,172,769	-	-	1,290,172,769
Interest income	16,525,038	56,012,284	-	72,537,322
Inter-segment revenues	(546,296,800)	(1,506,520,642)	2,052,817,442	-
	<b>3,933,016,163</b>	<b>202,004,360</b>	<b>-</b>	<b>4,135,020,523</b>
Income from operations	778,936,669	725,785,914	-	1,504,722,583
Insurance claims	87,129,498	-	-	87,129,498
Gain on fair value remeasurement	-	72,501,133	-	72,501,133
Gain on disposal of a subsidiary	12,068,717	-	-	12,068,717
Finance cost	(2,222,611)	(174,002,357)	-	(176,224,968)
Foreign exchange gain (loss)	(1,253,375)	3,921	-	(1,249,454)
Other income	5,655,242	15,783,953	-	21,439,195
Income before income tax	880,314,140	640,072,564	-	1,520,386,704
Income tax expense	(80,503,727)	(14,374,171)	-	(94,877,898)
Net income	<b>₱799,810,413</b>	<b>₱625,698,393</b>	<b>₱-</b>	<b>₱1,425,508,806</b>

	2016			
	Power Generation and Distribution	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱1,530,605,858	₱-	₱-	₱1,530,605,858
Revenue from inter-segment, associates and affiliates	1,050,137,336	1,455,742,356	(1,513,986,133)	991,893,559
Equity in net earnings of associates and joint ventures	1,288,333,002	-	-	1,288,333,002
Interest income	8,548,676	50,701,193	-	59,249,869
Inter-segment revenues	(270,686,000)	(1,243,300,133)	1,513,986,133	-
	<b>3,606,938,872</b>	<b>263,143,416</b>	<b>-</b>	<b>3,870,082,288</b>
Income from operations	603,459,075	1,094,529,392	-	1,697,988,467
Finance cost	(2,553,626)	(174,992,188)	-	(177,545,814)
Foreign exchange gain	1,541,433	-	-	1,541,433
Other income	24,263,873	14,309,915	-	38,573,788
Income before income tax	626,710,755	933,847,119	-	1,560,557,874
Income tax expense	(125,199,700)	(6,775,487)	-	(131,975,187)
Net income	<b>₱501,511,055</b>	<b>₱927,071,632</b>	<b>₱-</b>	<b>₱1,428,582,687</b>



	2015			
	Power Generation and Distribution	Investing in Shares of Stock	Eliminations	Consolidated
Revenues from external customers	₱1,844,105,327	₱-	₱-	₱1,844,105,327
Revenue from inter-segment, associates and affiliates	1,481,919,789	1,129,654,986	(1,509,210,386)	1,102,364,389
Equity in net earnings of associates and joint ventures	1,009,709,570	-	-	1,009,709,570
Interest income	8,493,306	51,254,209	-	59,747,515
Inter-segment revenues	(287,494,000)	(1,221,716,386)	1,509,210,386	-
	4,056,733,992	(40,807,191)	-	4,015,926,801
Income from operations	888,760,696	459,158,307	-	1,347,919,003
Gain on fair value remeasurement of investment properties	-	240,730,557	-	240,730,557
Finance cost	(2,802,602)	(170,030,841)	-	(172,833,443)
Foreign exchange loss	(302,360)	-	-	(302,360)
Other income (expense)	(2,867,655)	8,032,514	-	5,164,859
Income before income tax	882,788,079	537,890,537	-	1,420,678,616
Income tax expense	(89,829,890)	(80,886,181)	-	(170,716,071)
Net income	₱792,958,189	₱457,004,356	₱-	₱1,249,962,545

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

Of the Group's total revenues, about 43% and 21% pertains to energy fees in 2017, 40% and 22% in 2016, and 44% and 18% in 2015, of 1590 EC and VEC, respectively.

Revenue from sale of power to two major customers amounted to ₱2.0 billion representing 79% and ₱1.7 billion representing 71% of the total revenue from sale of power in 2017 and 2016, respectively.

In 2015, revenue from sale of power from a single customer amounted to ₱2.1 billion, representing 75% of the total revenue from sale of power.

Geographical business information is not required since the Group has only one geographical segment as all of its assets are located in the Philippines, and it operates or derives all of its revenue from domestic operations.

Inter-segment revenues are eliminated upon consolidation and reflected in the 'inter-segment revenues' row.



Other segment information included in the consolidated statements of financial position as of December 31 is as follows:

	2017		
	Power Generation	Investing in Shares of Stock	Consolidated
Assets	₱7,456,799,786	₱8,296,737,917	₱15,753,537,703
Liabilities	1,381,909,962	3,085,871,533	4,467,781,495
Capital expenditures	6,074,889,823	5,210,866,385	11,285,756,208

	2016		
	Power Generation	Investing in Shares of Stock	Consolidated
Assets	₱6,794,003,727	₱7,767,951,103	₱14,561,954,830
Liabilities	1,395,338,266	3,139,271,371	4,534,609,637
Capital expenditures	5,398,665,461	4,628,679,732	10,027,345,193

	2015		
	Power Generation	Investing in Shares of Stock	Consolidated
Assets	₱6,500,617,070	₱7,189,319,981	₱13,689,937,051
Liabilities	1,634,795,271	3,117,077,207	4,751,872,478
Capital expenditures	4,865,821,799	4,072,242,774	8,938,064,573

Other segment information included in the consolidated statements of comprehensive income for the years ended December 31, 2017, 2016 and 2015 is as follows:

	Power Generation	Investing in Shares of Stock	Consolidated
Depreciation and amortization:			
2017	₱88,763,731	₱17,751,965	₱106,515,696
2016	89,655,679	18,594,212	108,249,891
2015	35,643,824	16,611,304	52,255,128



## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders  
Vivant Corporation  
Unit 907-908 Ayala Life-FGU Center  
Mindanao Avenue Corner Biliran Road  
Cebu Business Park, Barangay Luz  
Cebu City, Philippines 6000

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Vivant 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 March 27, 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.

*Leovina Mae V. Chu*

Leovina Mae V. Chu  
Partner  
CPA Certificate No. 99910  
SEC Accreditation No. 1199-AR-1 (Group A),  
June 22, 2015, valid until June 21, 2018  
Tax Identification No. 209-316-911  
BIR Accreditation No. 08-001998-96-2018,  
February 2, 2018, valid until February 1, 2021  
PTR No. 6621343, January 9, 2018, Makati City

March 27, 2018



**VIVANT CORPORATION**  
**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR**  
**DIVIDEND DECLARATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

Items	Amount
<b>Unappropriated Retained Earnings, Beginning</b>	P1,031,800,271
<b>Adjustment:</b>	
Deferred income tax assets that reduced the amount of provision for income tax	(22,709,032)
Deferred income tax liabilities that increased the amount of provision for income tax	5,551,875
<b>Unappropriated Retained Earnings, as Adjusted, Beginning</b>	1,014,643,114
<b>Net Income Based on the Face of AFS</b>	863,557,821
<b>Less: Non-actual/Unrealized Income Net of Tax</b>	
Equity in net income of an associate/joint venture	-
Unrealized foreign exchange gain - net (except those attributable to cash and cash equivalents)	-
Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of investment property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP - gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred income tax assets that reduced the amount of provision for income tax	(1,782,142)
<b>Add: Non-actual Losses</b>	
Unrealized foreign exchange loss - net (except those attributable to cash and cash equivalents)	-
Equity in net loss of an associate/joint venture	-
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
Impairment loss on investment	21,306,182
Deferred income tax liability that increased the amount of provision for income tax	2,634,466
<b>Net Income Actual/Realized</b>	885,716,327
<b>Add (Less)</b>	
Dividend declarations during the period	(285,749,110)
Appropriations of retained earnings during the period	(1,250,000,000)
Reversals of appropriations	605,975,033
Effects of prior period adjustments	-
Treasury shares	-
<b>TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION</b>	P970,585,364

\* SGVCEB02047 \*

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE A - FINANCIAL ASSETS

#### RECEIVABLES, AVAILABLE-FOR-SALE INVESTMENTS AND OTHER

#### SHORT-TERM INVESTMENTS

DECEMBER 31, 2017

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Balance Sheet/Notes	Value Based on Market Quotations at Balance Sheet Date	Income Received and Accrued
Loans and receivables:				
Cash and cash equivalents	—	₱4,635,082,495	₱4,635,082,495	₱72,537,322
Trade and other receivables:				
Trade receivables	—	258,173,350	258,173,350	2,772,310,432
Dividends receivable	—	104,200,000	104,200,000	—
Advances to shareholders of a joint venture	—	17,792,000	17,792,000	—
Accounts receivable	—	28,858,278	28,858,278	—
Insurance claims receivable	—	87,080,666	87,080,666	—
Advances to officers and employees	—	3,097,115	3,097,115	—
Accrued interest	—	6,736,241	6,736,241	—
Others	—	20,462,053	20,462,053	—
		526,399,703	526,399,703	2,772,310,432
Advances to associates and stockholders	—	83,736,329	83,736,329	—
Advances to other parties	—	703,950,007	703,950,007	—
Due from RFM Corporation	—	—	—	—
Restricted Cash	—	650,000	650,000	—
Security Deposits	—	3,899,653	3,899,653	—
		5,953,718,187	5,953,718,187	
Available-for-sale investments:				
Cebu Country Club, Inc.	—	3,400,000	3,400,000	—
Tower Club, Inc.	—	300,000	300,000	—
INCA Plastic Philippines	—	50,000	50,000	—
Others	—	631	631	—
		3,750,631	3,750,631	—
<b>Total financial assets</b>	<b>—</b>	<b>₱5,957,468,818</b>	<b>₱5,957,468,818</b>	<b>₱2,844,847,754</b>

See Notes 6, 7, 9, 13 and 16 of the Consolidated Financial Statements.

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES) DECEMBER 31, 2017

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Reversals	Write Offs	Balance at End of Period		
						Current	Noncurrent	Total
Calamian Islands Power Corp.	P281,328	P33,791,056	(P3,735,865)	P-	P-	P30,336,519	P-	P30,336,519
Cebu Private Power Corporation	112,263,875	160,659,795	(232,048,313)	-	-	40,875,357	-	40,875,357
Delta P, Inc.	1,060,769	160,407,992	(155,923,692)	-	-	5,545,069	-	5,545,069
Minergy Power Corporation	-	60,000,000	-	-	-	60,000,000	-	60,000,000
Vivant-Sta. Clara Northern Renewables Generation Corporation	888,119	11,409,044	(11,355,587)	-	-	941,576	-	941,576
Prism Energy, Inc.	1,532,400	60,994,199	(10,220,241)	-	-	52,306,358	-	52,306,358
Visayan Electric Company, Inc.	86,005,194	1,540,272,668	(1,543,795,153)	-	-	82,482,709	-	82,482,709
Global Luzon Energy Development Corporation	39,289,553	126,378,219	(89,209,287)	-	-	76,458,485	-	76,458,485
Lunar Power Core Inc.	-	708,588	-	-	-	708,588	-	708,588
Abovant Holdings, Inc.	-	299,199,875	(299,199,875)	-	-	-	-	-
Advances to officers and employees	4,959,370	-	(1,862,255)	-	-	3,097,115	-	3,097,115
	P216,280,608	P2,453,821,436	(P2,347,350,268)	P	P	P352,751,776	P	P352,751,776

**VIVANT CORPORATION AND SUBSIDIARIES**

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

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		Total
					Current	Noncurrent	
Vivant Energy Corporation	P115,831	P55,589,030	(P335,592)	P-	P55,369,269	P-	P55,369,269
Vivant Corporation	-	133,670	-	-	133,670	-	133,670
Hijos de F. Escaño, Inc.	2,024	23,388	(12,991)	-	12,421	-	12,421
Vivant Geo Power Corp.	403	353	(627)	-	129	-	129
Vivant Isla Inc.	134	129	(134)	-	129	-	129
Southern Grove Properties and Development Corp.	9,923,646	50,505,161	(411)	-	60,428,396	-	60,428,396
1590 Energy Corp.	2,374,932	2,371,580	(2,761,026)	-	1,985,486	-	1,985,486
Vivant Renewable Energy Corporation	2,867	-	(2,867)	-	-	-	-
Vivant -Malogo Hydropower, Inc.	662,864	875,277	(754,072)	-	784,069	-	784,069
Corenergy Inc.	185,374	129,811	(288,341)	-	26,844	-	26,844
Vivant Powercore Active Inc.	7,171	569	(7,171)	-	569	-	569
Vivant Enercore Integrated Inc.	7,321	569	(7,321)	-	569	-	569
Vivant Integrated Generation CORPORATION	423,002	558,889	(214,581)	-	587,290	-	587,290
Vivant Integrated Diesel Corporation	134	129	(134)	-	129	-	129
Vivant Realty Ventures Corp.	-	27,887,672	-	-	27,887,672	-	27,887,672
Amberdust Holding Corp.	-	53,263	-	-	53,263	-	53,263
Southern Powercore Holding Corp.	-	55,744	-	-	55,744	-	55,744
	<b>P13,705,703</b>	<b>P137,985,214</b>	<b>(P4,385,268)</b>	<b>P-</b>	<b>P147,305,649</b>	<b>P-</b>	<b>P147,305,649</b>



**VIVANT CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS**  
**DECEMBER 31, 2017**

Description	Beginning Balance	Additions of Cost	Charged to Cost and Expenses	Charged to Other Accounts	Other Changes	Ending Balance
Goodwill	P42,559,451	P-	P-	P-	P-	P42,559,451
Software cost	1,127,890	-	(841,870)	-	-	286,020
	P43,687,341	P-	(P841,870)	P-	P-	P42,845,471

**VIVANT CORPORATION AND SUBSIDIARIES****SCHEDULE E - LONG-TERM DEBT****DECEMBER 31, 2017**

<u>Title of Issue and Type of Obligation</u>	<u>Amount Authorized by Indenture</u>	<u>Current Portion of Long-term Debt</u>	<u>Long-term Debt</u>
Fixed Rate Corporate Notes (FRCN)	₱2,910,000,000	₱30,000,000	₱2,880,000,000
Unamortized debt issue cost	(14,228,065)	(4,383,054)	(9,845,011)
	2,895,771,935	25,616,946	2,870,154,989
Pension liability	31,825,980	—	31,825,980
	₱2,927,597,915	₱25,616,946	₱2,901,980,969

**VIVANT CORPORATION AND SUBSIDIARIES**

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM  
LOANS FROM RELATED COMPANIES)  
DECEMBER 31, 2017**

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

**VIVANT CORPORATION AND SUBSIDIARIES**

**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**

**DECEMBER 31, 2017**

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

**VIVANT CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H - CAPITAL STOCK**  
**DECEMBER 31, 2017**

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Number of Shares held by Related Parties	Directors, Officers and Employees	Others
Capital stock	2,000,000,000	1,023,456,698	-	892,911,763	-	130,544,935

## VIVANT CORPORATION

### SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS AS OF DECEMBER 31, 2017

List of Philippine Financial Reporting Standards (PFRSs) and Philippine Interpretations Committee (PIC) Q&A's effective as of December 31, 2017:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendments to PFRS 1: Borrowing costs			✓
	Amendments to PFRS 1: Meaning of "Effective PFRSs"			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	See footnoteError! Bookmark not defined.		
PFRS 3 (Revised)	Business Combinations	✓		
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendments to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓

<sup>1</sup>Not early adopted; Effective beginning on or after January 1, 2018

<sup>2</sup>Not early adopted; Effective beginning on or after January 1, 2019

<sup>3</sup>Deferred effectivity

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4 Insurance Contracts	See footnote <sup>1</sup> Error! Bookmark not defined.		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendments to PFRS 5: Changes in Methods of Disposal			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendments to PFRS 7: Disclosures - Servicing Contracts	✓		
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	✓		
<b>PFRS 8</b>	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
<b>PFRS 9</b>	Financial Instruments (2010 version)	See footnote <sup>1</sup> Error! Bookmark not defined.		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote <sup>1</sup> Error! Bookmark not defined.		
	Amendments to PFRS 9, Prepayment Features with Negative Compensation	See footnote <sup>1</sup> Error! Bookmark not defined.		
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities	✓		
	Amendment to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	See footnote <sup>1</sup> Error! Bookmark not defined.		
<b>PFRS 11</b>	Joint Arrangements	✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28:			✓

<sup>1</sup>Not early adopted; Effective beginning on or after January 1, 2018

<sup>2</sup>Not early adopted; Effective beginning on or after January 1, 2019

<sup>3</sup>Deferred effectivity

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Investment Entities - Applying the Consolidation Exception			
	Amendment to PFRS 12: Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term receivable and payables	✓		
	Amendments to PFRS 13: Portfolio Exception			✓
<b>PFRS 14</b>	Regulatory Deferral Accounts			✓
<b>PFRS 15</b>	Revenue from Contracts with Customers	See footnote <sup>1</sup> Error! Bookmark not defined.		
<b>PFRS 16</b>	Leases	See footnote <sup>2</sup> Error! Bookmark not defined.		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Clarification of the requirements for comparative information	✓		
	Amendments to PAS 1: Disclosure Initiatives	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiatives	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Balance Sheet Date	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendment to PAS 12: Recognition of Deferred Tax assets for Unrealized Losses			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of servicing equipment			✓

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<sup>2</sup>Not early adopted; Effective beginning on or after January 1, 2019

<sup>3</sup>Deferred effectivity



<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendment to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Bearer Plants			✓
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans - Employee Contributions			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements			✓
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities			✓
	Amendment to PAS 27: Equity Method in Separate Financial Statements			✓
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures	✓		
	Amendment to PAS 28: Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)	See footnoteError! Bookmark not defined.		
	Amendments to PAS 28, Long-term Interests in Associates and Joint Ventures	See footnoteError! Bookmark not defined.		
	Amendment to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	See footnoteError! Bookmark not defined.		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendment to PAS 32: Presentation - Tax effect of distribution to holders of equity instrument			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
	Amendments to PAS 34: Disclosure of Information 'elsewhere in the interim financial report'	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	✓		
	Amendments to PAS 16 and PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
<b>PAS 40</b>	Investment Property	✓		
	Amendment to PAS 40: Interrelationship between PFRS 3 and PAS 40			✓
	Amendments to PAS 40: Transfers of Investment Property	See footnoteError! Bookmark not		

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<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS</b> Effective as of December 31, 2017		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
			defined.	
<b>PAS 41</b>	Agriculture			✓
	Amendment to PAS 41: Bearer Plants			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC 14: Prepayments of a Minimum Funding Requirement			✓
<b>IFRIC 15</b>	Agreements for the Construction of Real Estate	See footnoteError! Bookmark not defined.		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners			✓
<b>IFRIC 18</b>	Transfers of Assets from Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓
<b>IFRIC 22</b>	Philippine Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration	See footnoteError! Bookmark not defined.		
<b>IFRIC 23</b>	Uncertainty over Income Tax Treatments	See footnoteError! Bookmark not defined.		
<b>SIC-7</b>	Introduction of the Euro			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017		Adopted	Not Adopted	Not Applicable
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives			✓
SIC-21	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

Note: Standards and interpretations tagged as “Not Applicable” are those standards and interpretations which were adopted but the entity has no significant covered transaction as at and for the years ended December 31, 2017 and 2016.

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