**COVER SHEET**

| | | | 1 | 7 | 5 | 2 | 2 | 2 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|

S.E.C. Registration Number

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|

P.S.E. Control Number

| V | I | V | A | N | T | | C | O | R | P | O | R | A | T | I | O | N | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

(Company's Full Name)

| U | n | i | t | | 9 | 0 | 7 | - | 9 | 0 | 8 | | A | y | a | l | a | | L | i | f | e | - | F | G | U | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

| C | e | n | t | e | r | , | | M | i | n | d | a | n | a | o | | A | v | e | . | , | | c | o | r | . | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

| B | i | l | i | r | a | n | | R | d | . | | B | g | y | | L | u | z | , | C | e | b | u | | C | i | t | y |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|

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

| Joan A. Giduquio-Baron |
|---|

Contact Persons

| (032) 232-0283, 234-2256 and 234-2285 |
|---|

Telephone Number of the Contact Person

| 1 | 2 |
|---|---|

Month

| 3 | 1 |
|---|---|

Day

Fiscal Year

Month Day

**SEC FORM 17-A**

| 0 | 6 |
|---|---|

Month

| 1 | 6 |
|---|---|

Day

FORM TYPE

| N/A |
|---|

Secondary license Type, If Applicable

| C | F | D |
|---|---|---|

Dept. Requiring this Doc.

Amended Articles Number/Section

| 1,423 |
|---|

Total No. of Stockholders

| 1,415 |
|---|

Domestic

| 8 |
|---|

Foreign

To be accomplished by SEC Personnel concerned

| | | | | | | | |
|---|---|---|---|---|---|---|---|

LCU

| | | | | | | | |
|---|---|---|---|---|---|---|---|

Document I.D.

Cashier

| |
|---|
| |

Remarks = Pls. Use blackink for scanning purposes

SEC
Cebu Extension Office
APR 05 2019
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SECTION 141 OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended: **2018**

2. SEC Identification Number **175222**

3. BIR Tax Identification No. **242-603-734-000**

4. **VIVANT CORPORATION**
Exact name of issuer as specified in its charter

5. **City of Mandaluyong**
Province, Country or other jurisdiction of incorporation or organization

[ ] (SEC Use Only)

6. Industry Classification Code:

7. **VIVANT CORPORATION**
**Unit 907-908 Ayala Life-FGU Center, Mindanao Avenue corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City**
Address of principal office

**6000**
Postal Code

8. **(6332) 234-2256; 234-2285**
Issuer's telephone number, including area code

9. **There has been no change since last report.**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Stock** | **1,023,456,698** |
| **Amount of Debt Outstanding** | **Php 4,626,844,714** |

11. Are any or all of these securities listed on a Stock Exchange.

Yes [ x ] No [ ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

| | |
|---|---|
| **Philippine Stock Exchange** | **Common Stock** |



12. Check whether the issuer:

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

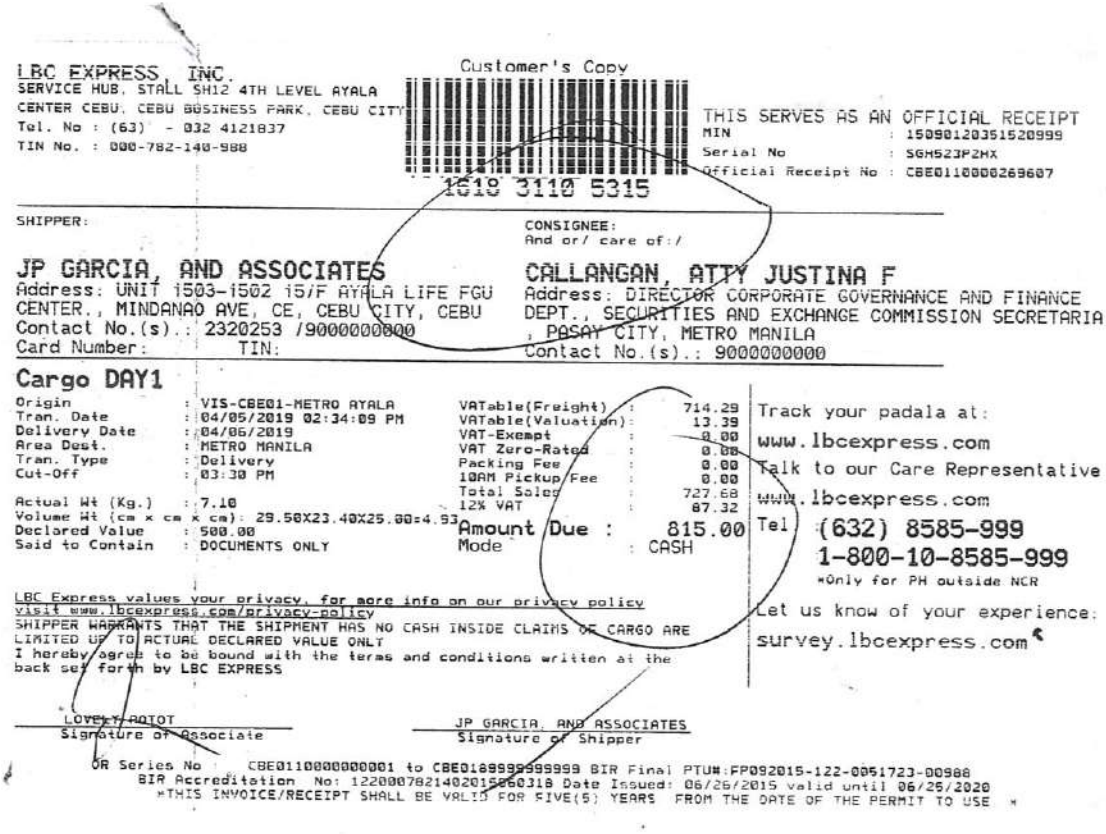
Yes [x] No [ ]

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

Yes [x] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant.

**129,279,712 x Php 16.98 = Php 2,195,169,509.76**



LBC EXPRESS, INC.
SERVICE HUB, STALL SH12 4TH LEVEL AYALA
CENTER CEBU, CEBU BUSINESS PARK, CEBU CITY
Tel. No : (63) - 032 4121837
TIN No. : 000-782-140-988

Customer's Copy

1618 3110 5315

THIS SERVES AS AN OFFICIAL RECEIPT
MIN : 150901203515209999
Serial No : SGM52JP2MX
Official Receipt No : CBE0110000269607

SHIPPER:
JP GARCIA, AND ASSOCIATES
Address: UNIT 1503-1502 15/F AYALA LIFE FGU CENTER., MINDANAO AVE, CE, CEBU CITY, CEBU
Contact No.(s).: 2320253 /9000000000
Card Number: TIN:

CONSIGNEE:
And or/ care of:/
CALLANGAN, ATTY JUSTINA F
Address: DIRECTOR CORPORATE GOVERNANCE AND FINANCE DEPT., SECURITIES AND EXCHANGE COMMISSION SECRETARIA , PASAY CITY, METRO MANILA
Contact No.(s).: 9000000000

Cargo DAY1

Origin : VIS-CBE01-METRO AYALA
Tran. Date : 04/05/2019 02:34:09 PM
Delivery Date : 04/06/2019
Area Dest. : METRO MANILA
Tran. Type : Delivery
Cut-Off : 03:30 PM

Actual Wt (Kg.) : 7.10
Volume Wt (cm x cm x cm): 29.50X23.40X25.80=4.93
Declared Value : 500.00
Said to Contain : DOCUMENTS ONLY

VATable(Freight) : 714.29
VATable(Valuation) : 13.39
VAT-Exempt : 0.00
VAT Zero-Rated : 0.00
Packing Fee : 0.00
10AM Pickup Fee : 0.00
Total Sales : 727.68
12% VAT : 87.32
Amount Due : 815.00
Mode : CASH

Track your padala at:
www.lbcexpress.com
Talk to our Care Representative
www.lbcexpress.com
Tel (632) 8585-999
1-800-10-8585-999
*Only for PH outside NCR
Let us know of your experience:
survey.lbcexpress.com

LBC Express values your privacy, for more info on our privacy policy visit www.lbcexpress.com/privacy-policy
SHIPPER WARRANTS THAT THE SHIPMENT HAS NO CASH INSIDE CLAIMS OF CARGO ARE LIMITED UP TO ACTUAL DECLARED VALUE ONLY
I hereby agree to be bound with the terms and conditions written at the back set forth by LBC EXPRESS

LOVELY ROTOT
Signature of Associate

JP GARCIA, AND ASSOCIATES
Signature of Shipper

OR Series No : CBE0110000000001 to CBE0189999999999 BIR Final PTU#:FP092015-122-0051723-00988
BIR Accreditation No: 12200078214020150860318 Date Issued: 06/26/2015 valid until 06/25/2020
*THIS INVOICE/RECEIPT SHALL BE VALID FOR FIVE(5) YEARS FROM THE DATE OF THE PERMIT TO USE *

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### 1. Business Development

Vivant Corporation (Vivant or the Company) is a publicly listed holding company that, through its subsidiaries and affiliates, has interests in various companies engaged in the electric power generation (renewable and non-renewable energy), electric power distribution, and retail electricity supply business. The Garcia-Escaño family of Cebu (the Family) collectively owns approximately 76% of the outstanding capital stock of Vivant as of December 31, 2018.

Vivant's origins can be traced back to the rich and humble beginnings of Viuda y Hijos de F. Escaño Incorporada, the successor of the enterprise that Don Fernando Escaño founded in 1879, which came to be known as Hijos de F. Escaño Inc. (HDFE). The entry into the power industry dates back to the early 1900s when the Family diversified its business interests (mainly shipping and trade) to include electricity power distribution when it took over the operations of the Visayas Electric Company (VECO). VECO was the power distribution utility serving the electricity requirements of the City of Cebu and its surrounding municipalities.

The Second World War caused significant damage in the facilities of VECO. It was during the close of the war in 1945 that initiatives of VECO, alongside with the US Army, allowed the resumption of its operations to its pre-war levels. Staff levels were beefed up, while investments in new machineries and equipment poured in. Currently, VECO stands as the second largest privately-owned electric power distribution utility in the Philippines in terms of annual gigawatt-hour (GWh) sales. As of end-2018, Vivant has an effective equity interest of approximately 35% in VECO (accounting for both direct and indirect shareholdings).

In 2002, the Family acquired 99% of Philstar.com, a company listed in the Philippine Stock Exchange (PSE). Subsequently, the Family's holdings in HDFE and VECO were infused to this company. Philstar.com was afterward renamed Vivant Corporation.

Starting in 2007, Vivant, through its subsidiaries and affiliates, started its foray into the power generation business via equity investments in the following generation companies:

- Cebu Private Power Corporation, owner and operator of a 70 megawatts (MW) diesel-fired power plant located in the island of Cebu;
- Delta P, Inc. (DPI), owner and operator of a 16 MW diesel-fired power plant in Palawan; and
- Cebu Energy Development Corporation, a project company that owns and operates a 246 MW coal-fired power plant in Toledo City, Cebu.

The Company likewise participated in the government's privatization efforts conducted by the Power Sector Assets and Liabilities Management (PSALM):

- Acquisition of the 0.8 MW Amlan Hydroelectric Power Plant in Negros island in 2009; and
- Appointment as the Independent Power Producer (IPP) Administrator of the 70 MW Bakun Hydroelectric Power Plant (BHPP) in Alilem, Ilocos Sur in 2009

In 2010, Vivant, through one of its subsidiaries, entered into an agreement with the Provincial Government of La Union (PGLU) for the management and operation of the 225 MW Bauang diesel-fired power plant.

In April 2013, the Company, through one of its associates, broke ground for the construction of the 8 MW bunker- and 750 kW diesel-fired power plants in the municipalities of Coron and Busuanga, respectively. The plants commenced commercial operations in the last quarter of 2014 and have serviced the power requirements of the local distribution utility via a Power Supply Agreement (PSA).

In November 2013, Vivant, through wholly-owned subsidiary Vivant Energy Corporation (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 17 MW of geothermal power from ULGPP beginning January 1, 2015.

In January 2014, Vivant signed an agreement to issue Php 3 billion (bn) in Fixed Rate Corporate Notes (FRCN). The offering was fully subscribed by a consortium of local banks. Proceeds of the issue, which were in two (2) tranches, were earmarked to partly fund the Company's and its subsidiaries' capital projects.

In February 2014, a Memorandum of Understanding was executed by wholly-owned subsidiary Vivant Integrated Generation Corporation (VIGC) and Mindanao Energy Systems, Inc. (Minergy) that involved the possible equity investments by VIGC in Minergy's future power generation projects. Subsequent to this, a Subscription Agreement between VIGC and Minergy Coal Corporation (MCC) was executed, which allowed VIGC to subscribe to 40% of all issued capital and shares of MCC. MCC is the project company that was set up by Minergy to build, own and operate a 3x55 MW coal-fired power plant in Balingasag, Misamis Oriental. Construction commenced in the first quarter of 2014. In 2015, MCC changed its corporate name to Minergy Power Corporation (MPC). The power generation facility has started to feed into the franchise area of Cagayan de Oro Electric Power and Light Corporation (CEPALCO), which covers the City of Cagayan de Oro and adjoining towns, in September 2017.

On August 27, 2014, a shareholders' agreement between VIGC and Therma Power, Inc. (TPI) was signed. This agreement involved the investment by VIGC in Therma Visayas, Inc. (TVI), the project proponent for the construction and operation of a 2x170 MW coal-fired power generation facility in Toledo City, Cebu. The agreement involved the entry of VIGC into TVI for a 20% equity stake. Construction commenced in the first quarter of 2015. Works on grid connection and energization of the plant are underway. Commercial operation is targeted within first half of 2019.

In December 2015, after the successful conduct of a Competitive Selection Process by the Palawan Electric Cooperative (PALECO), DPI was declared as the winning proponent and awardee of the fifteen (15)–year PSA for a 26.65 MW Gross Dependable Capacity. Consequently, DPI embarked on an expansion program in 2016 involving the construction of a 30 MW diesel-fired power plant. The power plant facility started to feed into the PALECO service area in the second quarter of 2017.

In January 2017, 1590 EC signed a 5-year Ancillary Service Procurement Agreement (ASPA) with the National Grid Corporation of the Philippines (NGCP). This involved the provision of Dispatchable Reserve on a non-firm basis. The ASPA became effective in May 2017, after obtaining Provisional Approval by the ERC.

In May 2017, Vivant entered into a joint venture with ET Energy Pilipinas Holding Corporation (ETEPHC). The joint venture will explore opportunities in the solar rooftop space. Through 100%-owned VEC and Vivant Renewables Energy Corporation (VREC), the Company has 60% ownership in the joint venture company, ET-Vivant Solar Corporation (ET-Vivant).

In May 2017, a Commencement/Stay Order was issued by the Cebu City Regional Trial Court Branch 11 in favor of 48%-owned Vivant-Sta. Clara Northern Renewables Generation Corporation (NR) pursuant to a Petition for Corporate Rehabilitation. NR is the Administrator of the 70MW capacity of the BHPP. As of date, NR is still awaiting the court's decision on whether or not to allow the rehabilitation.

In December 2017, Vivant, through wholly-owned subsidiary VIGC, and Global Business Power Corporation (GBPC) signed a Pre-Development Agreement to jointly participate in a project that will involve the construction and operation of a 2x335 MW coal fired power plant in La Union. This project will be undertaken through Global Luzon Energy Development Corporation, a special purpose vehicle that was set up where Vivant has an effective ownership of 42.5%.

Also, in December 2017, VEC and ICS Renewables Holdings, Inc. (ICS Renewables) executed a Deed of Sale with Assignment of Subscription Rights, which effectively transferred Vivant's ownership in AHPC to ICS Renewables by year-end.

A Deed of Sale with Assignment of Subscription Rights was likewise executed by VEC and ICS Renewables which effectively transferred ICS Renewables' shares in 1590 EC to VEC. As of year-end 2017, VEC increased its equity stake in 1590 EC from 52.7% to 55.2%.

In May 2018, Sabang Renewable Energy Corporation (SREC) broke ground for the construction of a hybrid power generation facility in Bgy. Cabayugan, an unelectrified area in Puerto Princesa. The facility will be composed of 1.4 MW solar power generation plant, 2.3 MWh storage facility and 1.28 MW diesel-fired power generation unit. The project is expected to be completed within the first half of 2019. The Company has an effective ownership of 30% in SREC.

In October 2018, Vivant, through wholly-owned subsidiaries VEC and VREC, sold all of its shareholdings in NR to North Renewable Energy Corporation. Through VEC and VREC, Vivant owned a total of 48% equity in NR.

***2. Business of Issuer***

Through its equity interests in its subsidiaries and associates, Vivant is in the business of electric power generation, electric power distribution and retail electricity supply in the Philippines (Please see Exhibit "A" for Vivant's Corporate Structure).

## POWER GENERATION

As of end-2018, VEC holds all of Vivant's interests in the electric power generation business. To date, the Company has built a portfolio comprised of both renewable and non-renewable power generation plants with total attributable capacity of approximately 306 MW. As of December 31, 2018, approximately 66% of Vivant's net income from business segments was accounted for by its power generation business.

The table below summarizes the operating results of the generation companies as of December 31, 2018.

| Generation Companies | Energy Sold[1] (in GWh) | | | Revenue[1] (in Php million) | | |
|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2016 | 2017 | 2018 |
| CPPC | 145.6 | 141.1 | 66.5 | 1,292.4 | 1,484.4 | 1,253.2 |
| Delta P[2] | 65.7 | 79.5 | 81.6 | 566.0 | 916.9 | 1,246.3 |
| CEDC[3] | 1,722.8 | 1,724.3 | 1,861.1 | 7,965.6 | 8,751.5 | 9,728.2 |
| AHPC | 2.4 | 3.8 | -- | 5.6 | 13.4 | -- |
| NR[4] | 262.9 | 240.0 | -- | 769.0 | 797.5 | -- |
| 1590 EC | 142.4 | 184.8 | 114.8 | 1,530.6 | 1,811.3 | 1,254.0 |
| CIPC | 22.1 | 27.5 | 33.0 | 262.0 | 356.2 | 494.4 |
| VEC[4] | 149.1 | 140.0 | 151.2 | 852.6 | 807.6 | 916.4 |
| MPC[5] | -- | 238.2 | 817.3 | -- | 1,422.4 | 6,460.3 |

*Notes:*

1. *Figures are at 100%*
2. *Includes 30-MW expansion project, which started to feed into the PALECO service area in May 2017.*
3. *Includes billed minimum contracted energy (MCE)*
4. *Through IPP Administration Agreements with PSALM.*
5. *Started operations in September 2017 with Unit 1 at 48 MW gross capacity and Units 2 and 3 at 55 MW gross capacity each.*

### Cebu Private Power Corporation (CPPC)

Incorporated on July 13, 1994, CPPC owns and operates one of the largest diesel power plants in the island of Cebu – the ten (10) Caterpillar-Mak-powered 70 MW Bunker C-fired power plant situated on a 1.8-hectare site in the old VECO compound at Bgy. Ermita, Cebu City.

Commissioned in 1998, the CPPC plant was constructed pursuant to a build-operate-transfer (BOT) contract to supply 62 MW of power to VECO.

On April 20, 2007, Vivant acquired from East Asia Utilities Corporation 40% of the outstanding common shares of CPPC. The remaining 60% of the outstanding common shares was acquired by Aboitiz Power Corporation (AP).

In December 2010, CPPC started selling its excess capacity to the Wholesale Electricity Spot Market (WESM).

In July 2013, CPPC and VECO filed an application for a new ten (10)-year PSA with the Energy Regulatory Commission (ERC). Upon approval and implementation, the new agreement will redound to a slightly lower electricity rate for VECO.

**Delta P, Inc. (DPI)**

Established in 1997, DPI is an independent power producer in Palawan operating a 16 MW bunker-fired power plant with four units of 4 MW generator sets. In March 2007, Gigawatt Power Inc. (GPI) acquired the 100% interest of Wärtsilä Technology Oy Ab in DPI. In June 2007, GPI divested and sold a 20% equity stake in DPI to Vivant. Through wholly-owned subsidiary VEC, Vivant's equity stake increased to 35% in October 2007 through an additional share acquisition from GPI.

The power plant facility of DPI is located on a 25,981 sq.m. parcel of land leased from the City Government of Puerto Princesa at Kilometer 13, North National Highway, Barangay Santa Lourdes, Puerto Princesa, Palawan. Commercial operations started in May 1997 by virtue of a Lease Agreement with the National Power Corporation (NPC), which was scheduled to expire in April 2009. The power generated by the plant served a portion of the electricity requirements of PALECO.

On February 6, 2009, DPI and PALECO signed a PSA for DPI to directly supply PALECO'S power requirements for the next ten (10) years. DPI and PALECO filed a joint petition with the ERC for the approval of the PSA, which the latter granted on November 9, 2009.

In May 2015, a Share Purchase Agreement was executed between VEC and GPI, which resulted to a 50:50 equity ownership between the companies.

In December 2015, after the successful conduct of a Competitive Selection Process by PALECO, DPI was declared as the winning proponent and awardee of the fifteen (15)–year PSA for a 26.65 MW Gross Dependable Capacity. Consequently, DPI embarked on an expansion program in 2016 involving the construction of a 30 MW diesel-fired power plant. In April 2016, DPI and PALECO filed a Joint Application with the ERC for the approval of the PSA. A public hearing was held on February 17, 2017. The power plant facility started to feed into the PALECO service area in the second quarter of 2017.

**Abovant Holdings, Inc. (AHI) and Cebu Energy Development Corporation (CEDC)**

AHI was established in 2007 as a joint venture between Vivant and AP. The company's main purpose was to invest in a new power plant to be built in Barangay Daanlungsod, Toledo City, Cebu. AHI is 40% owned by Vivant (currently through wholly-owned VIGC) and 60% owned by AP (currently through wholly-owned Therma Power, Inc.).

AHI and Global Formosa Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation of the Metrobank Group and Formosa Heavy Industries, Inc., formed CEDC in December 2008 to build, own and operate a $450 million (mn) 3 x 82 MW coal-fired power plant located in Toledo, Cebu utilizing the latest Circulating Fluidized Bed technology. Commercial operations commenced in 2011. With AHI's 44% stake in CEDC (Global Formosa owns the remaining 56%), Vivant's effective interest in CEDC is at 17.6%.

In October 2009, CEDC signed an Energy Power Purchase Agreement (EPPA) with VECO for the supply of 105 MW of electricity for twenty-five (25) years. The application for approval was filed with the ERC in the same year and was approved in February 2010. To date, CEDC has signed other EPPAs with electric cooperatives and distribution utilities in Cebu and Bohol. The company's EPPAs will provide contracted minimum energy offtake with fuel cost as a pass-through.

**Vivant-Sta. Clara Northern Renewables Generation Corporation (NR)**

In 2009, NR submitted the highest offer in the competitive bid conducted by PSALM for the appointment of the IPP Administrator of the contracted capacities of the 70 MW Bakun hydroelectric power plant located in Alilem, Ilocos Sur and the 30 MW Benguet hydroelectric power plants located in Benguet, Cordillera Administrative Region. The offer by NR resulted in a bid price of US$145 mn, as calculated in accordance with the PSALM's bid rules.

Under the IPP Administration Agreement, NR will pay a series of monthly payments to PSALM for a period of sixteen (16) years until January 2026 in consideration for the right to trade/market the electricity generated by the plants, either through the WESM or bilateral contracts. After the expiry of said contract, the power stations will be transferred to NR, subject to its acceptance. PSALM exercised the right to divide and segregate the contracted capacities of Bakun and Benguet in the latter part of 2010.

By virtue of the segregation done by PSALM, NR assumed the responsibility of selling only the Bakun plant's contracted capacity. The Bakun plant is located within the 13,213 hectare watershed area of the Bakun river in Ilocos Sur province in Northern Luzon, which taps the flow of the Bakun river to provide the plant with its generating power. The plant was constructed under the government's BOT scheme and is currently owned and being operated by Luzon Hydro Corporation (LHC).

In May 2017, a Commencement/Stay Order was issued by Cebu City Regional Trial Court Branch 11 in favor of the company pursuant to a Petition for Corporate Rehabilitation. As of date, NR still awaits for the court's decision on whether or not to allow the rehabilitation.

In October 2018, Vivant, through wholly-owned subsidiaries VEC and VREC, sold all of its shareholdings in NR to North Renewable Energy Corp.

**1590 Energy Corporation (1590 EC)**

In March 2010, a Memorandum of Agreement (MOA) was entered into between the PGLU, VEC and GPI wherein the parties agreed to enter into a Sale and Purchase Agreement (SPA) giving VEC and GPI exclusive right to purchase the 225 MW Bauang diesel-fired power plant (Bauang plant) owned by the PGLU until July 25, 2010.

On July 22, 2010, the MOA was amended granting VEC and GPI the right to an interim management and operation of the Bauang diesel-fired power plant and an extension of the SPA for six (6) months or until January 26, 2011. Hence, VEC and GPI incorporated 1590 EC in July 2010 to undertake all the rights, interests and obligations under the Interim Agreement. On September 10, 2010, VEC and GPI with the conformity of PGLU transferred all their rights, interests and obligations under the Interim Agreement to 1590 EC.

In December 2010, 1590 EC formally signified its intent to purchase the diesel power plant, thus, a Contract to Sell (CTS) was executed between 1590 EC and the PGLU, the closing of which was subject to certain conditions.

In May 2012, a Mutual Rescission Agreement (MRA) was entered into by 1590 EC and the PGLU, thus terminating the CTS. Simultaneously, a MOA was executed by both parties giving 1590 EC the right to preserve, maintain and operate, including the right to use and sell the power generated by the Bauang plant for a period of one year. In 2013, 1590 EC and the PGLU entered into an agreement to extend the term of the MOA up to end-2015. In February 2015, the parties executed a Second Amendment to the MOA extending the term of the MOA up to end-2018.

In January 2017, 1590 EC signed a 5-year ASPA with NGCP. This will involve the provision of Dispatchable Reserve on a non-firm basis. Effectivity of the contract will be upon receipt of a Provisional Approval by the ERC, which was obtained in May 2017.

In December 2017, VEC and ICS Renewables executed a Deed of Sale with Assignment of Subscription Rights, which effectively transferred ICS Renewables' shares in 1590 EC to VEC. As of year-end 2017, VEC increased its equity stake in 1590 EC from 52.7% to 55.2%.

In January 2018, through a bidding conducted by the PGLU, 1590EC was awarded the right to operate and maintain the 215-MW diesel bunker-fired power plant located in Bauang, La Union through a 5-year lease, which commenced in January 2019.

**Vivant-Malogo Hydropower, Inc. (VMHI)**

VMHI was incorporated in June 2012 as the project company to implement a greenfield power plant project, which will involve the construction and operation of a series of run-of-river hydropower facility in Barangay Kapitan Ramon in Silay City, which is located in the northwestern section of the Negros island. VMHI will implement the project in phases, where Phase 1 will involve the construction and operation of a 6 MW power plant facility along the Malogo river. The company has finalized the detailed engineering plans of the facility and is in the process of rebidding the project's Engineering, Procurement and Construction (EPC) contract. Construction of the plant is estimated to be completed after a period of 22 to 24 months. Vivant, however, has decided to put the project on hold given the prevailing transmission constraint in the Negros grid, which is expected to be resolved by 2020 upon the completion of the Cebu-Negros-Panay 230kV backbone project of NGCP.

VEC holds an effective equity stake of 67% in VMHI.

**Calamian Islands Power Corporation (CIPC)**

CIPC was established in October 2010 as the project company to undertake the construction and operation of the 8 MW bunker- and 750 kW diesel-fired power plants in the municipalities of Coron and Busuanga, respectively. In August 2011, CIPC entered into a fifteen (15)-year PSA with Busuanga Island Electric Cooperative covering the total capacity of the project. CIPC broke ground in April 2013. The Busuanga power station started feeding into the island's grid in the fourth quarter of 2013, while the Coron power station commenced power generation in August 2014.

VEC has an equity stake of 50% in CIPC.

**Minergy Power Corporation (MPC)**

MPC, formerly known as MCC, is the project company that was set up by Minergy to build, own and operate a 3x55 MW coal-fired power plant in Balingasag, Misamis Oriental. In May 2014, a Subscription Agreement between VIGC and MCC was executed which allows VIGC to subscribe to 40% of all issued capital and shares of MPC.

Construction commenced in the first quarter of 2014. The plant started to feed into the franchise area of CEPALCO, which covers the City of Cagayan de Oro and adjoining towns, in September 2017.

**Therma Visayas, Inc. (TVI)**

TVI is the project company that will build, own and operate the 2x170 MW coal-fired power plant in Barangay Bato, Toledo City, Cebu. The project is intended to address the increasing power demand of the Visayas grid. The plant design includes provisions for the addition of a third generating unit.

In May 2014, TVI signed an EPC contract with Hyundai Engineering Co., Ltd. And Galing Power Energy Co., Inc.

An agreement was executed in August 2014 between VIGC and Therma Power, Inc. (TPI), which allowed VIGC to acquire a twenty percent (20%) equity stake in TVI. TPI, a wholly-owned subsidiary of Aboitiz Power, is the parent company of TVI.

In March 2015, the Notice to Proceed for all EPC activities was issued. Works on grid connection and energization of the plant are underway. Commercial operation is targeted within first half of 2019.

**Sabang Renewable Energy Corporation (SREC)**

SREC is the project proponent for the construction and operation of a hybrid power generation facility in Bgy. Cabayugan, an unelectrified area in Puerto Princesa. As the the Qualified Third Party (QTP), SREC will supply and distribute power to customers comprising mainly of local residents. The QTP location which is the gateway to the Puerto Princesa Underground River, a UNESCO World Heritage Site, has been waived from the franchise area of Palawan Electric Cooperative (PALECO). The facility will be composed of 1.4 MW solar power generation plant, 2.3 MWh storage facility and 1.28 MW diesel-fired power generation unit. The project broke ground in May 2018 and is expected to be completed within the first half of 2019. The Company has an effective ownership of 30% in SREC.

**ET-Vivant Solar Corporation (ET-Vivant)**

As part of its venture into the retail business, Vivant, through wholly owned subsidiaries VEC and VREC, entered into a joint venture with ETEPHC to construct and operate solar rooftop generation facilities. In March 22, 2018, ET-Vivant was incorporated with Vivant having a 60% equity stake. As of end-2018, construction works were ongoing for a 1.35 MW solar rooftop facility for an industrial customer in Visayas.

**Future Projects**

The Company continuously looks for opportunities in the power generation business, whether via greenfield, brownfield or acquisition. The Company conducts an extensive evaluation process before any proposed project is undertaken. Several factors are assessed and considered, which include but not limited to, the project's land use requirements, access to the grid, fuel supply availability and arrangements, permits and licenses, competitiveness of the plant and presence of potential offtakers.

Notwithstanding the review and evaluation process undertaken, the Company cannot give the assurance that a project, if implemented, will be successful. There is no assurance that the Company will eventually develop a particular project in the manner planned or at or below the cost estimated by the Company.

**Electric Power Distribution**

In addition to investments in the power generation sector, the Company has investments, both direct and indirect, in VECO, the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales. As of end-2017, Vivant has a beneficial ownership in VECO of roughly 35%.

**Visayan Electric Company (VECO)**

VECO, through its predecessor, has been in the distribution business since the early 1900s. It is an electric distribution utility engaged in the conveyance, distribution and sale of electric power pursuant to its legislative franchise, Republic Act No. 9339, and serves the electrical needs of four cities (Cebu, Mandaue, Talisay and Naga), and four municipalities (Consolacion, Liloan, Minglanilla, and San Fernando), all located in the Province of Cebu. Its franchise was granted by the Congress of the Philippines and is due to expire in 2030. VECO's service coverage is about 672 square kilometers serving 437,823 customers with a peak demand of 547 MW and electricity sales of 3,159 GWh in 2018.

The table below summarizes the key operating statistics of VECO for 2018 and the past two (2) years.

| | Electricity Sold (MWh) | Peak Demand (MW) | # of Customers |
|---|---|---|---|
| 2016 | 2,922,950 | 524 | 408,586 |
| 2017 | 2,938,532 | 522 | 422,814 |
| 2018 | 3,159,032 | 547 | 437,823 |

VECO is among the distribution utilities included in the third group (Group C) of private utilities to shift to Performance Based Regulation (PBR). The ERC issued in May 2010 its final determination on VECO's application for approval of its annual revenue requirements and performance incentive scheme under the PBR for the regulatory period July 1, 2010 to June 30, 2014.

VECO was scheduled to undergo the PBR reset process in the first quarter of 2014. However, the company was not able to do so given that the ERC has since put on hold all PBR reset processes. As such, VECO has continued to apply the rates approved for the last year of the first regulatory period until such time it is able to undergo the ERC-mandated reset process.

**Retail Electricity Supply Business**

One of the objectives of the EPIRA law is to ensure the competitive supply of electricity at the retail level. With the implementation of the Retail Competition and Open Access (RCOA), large-scale customers will be allowed to source electricity from Retail Electricity Suppliers (RES) licensed by the ERC.

Vivant has prepared its organization for the RCOA with the establishment of two (2) RES companies.

**Prism Energy, Inc. (Prism Energy)**

Prism Energy was incorporated in March 2009, as a joint venture between Vivant (40%) and AP (60%). The company obtained its five-year RES license in May 2012. Prism Energy is seen to service the requirements of the contestable customers in the Visayas region. License renewal process has been initiated and is just awaiting ERC decision.

As of year-end, Prism Energy was serving 37 customers with a total average consumption of 516,870 kWh per month. The total electricity delivered to its customer base amounted to 155,899,709 kWh in 2018.

**Corenergy, Inc. (Corenergy)**

Corenergy was incorporated in December 2012 as a wholly-owned subsidiary of Vivant, through VEC. The company obtained its 5-year RES license in September 2016 and is eyeing contestable customers in Luzon and Visayas regions.

As of year-end, Corenergy was serving 2 customers with a total average consumption of 734,754 kWh per month. The total electricity delivered to its customer base amounted to 12,034,796 kWh in 2018.

**(ii) Sales**

The table below sets forth comparative figures for revenue, profitability and assets.

| (in Php mn) | 2016 | 2017 | 2018 |
|---|---|---|---|
| Gross Income | 3,870.1 | 4,135.0 | 4,280.3 |
| Operating Income | 1,698.0 | 1,504.7 | 1,838.4 |
| Total Assets | 14,562.0 | 15,753.5 | 17,197.3 |

The operations of Vivant, its subsidiaries and associates are based only in the Philippines.

Revenue contribution by business grouping is as follows:

| | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|
| | Php mn | %-tot | Php mn | %-tot | Php mn | %-tot |
| Power Generation | 3,121.6 | 81 | 3,295.9 | 80 | 3,421.3 | 80 |
| Power Distribution | 689.2 | 18 | 760.3 | 18 | 720.2 | 17 |
| Retail Electricity Supply | -- | -- | 6.2 | 0 | 21.7 | 0 |
| Others | 59.3 | 1 | 72.5 | 2 | 117.1 | 3 |
| Total | 3,870.1 | 100 | 4,135.0 | 100 | 4,280.3 | 100 |

**(iii) Distribution Methods of Products and Services**

The generation companies sell their electricity either through the WESM or through bilateral power supply agreements with private distribution utilities, cooperatives, RES and other large end-users.

Most of the generation companies have transmission service agreements with the NGCP for the transmission of electricity to the designated delivery points of their customers. Some have built their own transmission lines to directly connect to their customers.

The distribution company has an exclusive distribution franchise in the area where it operates. It has its own distribution network consisting of an extensive network of predominantly overhead lines and substations. An agreement with NGCP is likewise entered into to facilitate the use of NGCP's transmission facilities to receive power from its IPPs, NPC and/or PSALM for distribution to its respective customers.

The RES company entered into supply contracts with its existing customers. As of year-end, PRISM Energy was serving 37 customers with a total average consumption of 516,870 kWh per month. The total electricity delivered to its customer base amounted to 155,899,709 kWh in 2018. Corenergy on the other hand was serving 2 customers with a total average consumption of 734,754 kWh per month. The total electricity delivered to its customer base amounted to 12,034,796 kWh in 2018.

**(iv) New Products and Services**

Neither Vivant, nor its subsidiaries and associates, have any publicly-announced new product or service to date, apart from the ongoing greenfield, rehabilitation or expansion projects being undertaken.

**(v) Competition**

**Generation Business**

Vivant, through the facilities of its power generation subsidiaries and associates located in Luzon, Visayas and Mindanao, faces competition from other power generation plants that supply electricity to these island grids. Given the privatization of NPC-owned power generation facilities, the Company has to contend with local and multinational IPPs for signing power supply agreements and offering power supply through the WESM (where applicable).

The retail competition has further intensified the competition landscape for securing bilateral contracts. Generation companies have set up their RES operations to tap the contestable customers (as defined by RCOA, which is currently large end-users with a monthly peak average demand of at least 500 kW for the preceding 12 months). Further competition can be brought about by entities that established RES operations by acting as demand aggregators. Customer migration could result to the reduction of existing supply contracts of power generation companies with distribution utilities. Negotiations for new contracts could result to less favorable terms given the current scenario.

Competition in the development of new power generation facilities, the acquisition of existing power plants and financing these undertakings could also be expected. Given the robust performance of the industry in the last couple of years, many investors have been attracted to participate and explore opportunities in the development of electric power generation projects, both in the renewable and non-renewable energy spectrum.

**Distribution Business**

VECO has an exclusive franchise to distribute electricity in the area covered by its franchise.

Under Philippine law, the franchise of any distribution utility may be renewed by the Congress of the Philippines, provided that requirements relating to the rendering of public services are met. VECO intends to apply for the extension of its franchise upon its expiry. Competition or opposition from third parties may arise while the application for the extension of its franchise is underway. However, under the Philippine law, a party wishing to secure a franchise to distribute electricity must first obtain from the ERC a Certificate of Public Convenience and Necessity and shall prove that such party has the technical and financial capability to operate a distribution franchise. Ultimately, it is the Philippine Congress that has absolute discretion in determining whether to issue new franchises or renew existing franchises.

Customer migration has transpired as contestable customers opted to source their electricity requirements via Retail Supply Contracts with licensed RES operators. As of date, the current threshold for voluntary participation of a contestable customer is monthly peak average demand of at least 500 kW for the preceding 12 months. The reduction from 1 MW to 750 kW and 500 kW was implemented through DOE Department Circular No. DC2017-12-0013. In the same circular, the DOE also provided for voluntary demand aggregation of electricity end-users within a contiguous area whose aggregate average peak demand in not less than 500 kW for the preceding 12 months.

**(vi) Sources of Raw Materials and Supplies**

**Generation Business**

The Company's hydroelectric power generation plant harnesses the kinetic energy from the flow of water on rivers to generate electricity. This hydroelectric company possesses a water permit issued by the National Water Resources Board (NWRB), which allows it to utilize a certain volume of water from the applicable source of water flow to generate energy.

In the case of the fossil-fired power generation plants, fuel supply contracts with various suppliers have been entered into. Oil-fired plants have existing medium-term (2-3 years) contracts with local large oil companies and fuel distributors. The coal plant sources its fuel requirements via medium to long-term supply contracts with various suppliers.

**Distribution Business**

VECO secured bulk of its electricity requirements by entering into bilateral agreements with various IPPs. These agreements are governed by the ERC regulations. Under current rules, VECO is allowed to purchase up to 90% of its total electricity requirements via bilateral contracts.

Below are the power purchase agreements of VECO in 2018.

| Supplier | Contract Demand | Start Date | Expiry Date |
|---|---|---|---|
| CEDC | 83 MW | Mar 2011 | Feb 2036 |
| Greencore | 60 MW | Jan 2011 | Dec 2024 |
| CPPC | 61.72 MW | Old PSA has been extended pending ERC approval of new PSA. New PSA will be 10 years from date of ERC approval. | |
| AES (UL) | 40 MW | Jan 2015 | July 2021 |
| VEC (UL) | 17 MW | Jan 2015 | July 2021 |
| SLPGC | 50 MW | Jan 2016 | Jun 2018 |

To meet the future supply requirement of its franchise area, VECO entered into a fifteen (15)-year power supply contract with TVI involving the supply of 150 MW. This should be available to service VECO's long-term capacity requirement in 2019, pending its approval by the ERC.

Given the impact of RCOA on its market, VECO will continue to review its contracts profile and negotiate, if necessary, for the reduction of its bilateral agreements.

**(vii) Major Customers**

The bulk of the total attributable electricity generated by Vivant, through its subsidiaries and associates, are sold to private distribution utilities, electric cooperatives, NGCP, RES and some large industrial users via bilateral agreements. The balance is sold through the WESM. For the year 2018, Vivant had a 89:11 sales mix that was in favor of energy sales covered by sale contracts.

Vivant's distribution business, on the other hand, has a wide and diverse customer base. The distribution utility's customers are categorized as follows:

- **Industrial customers**: consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls.
- **Residential customers**: consist of structures utilized for residential purposes
- **Commercial customers**: include service-oriented businesses, universities and hospitals
- **Other customers**: include streetlights

**(viii) Transactions With and/or Dependence on Related Parties**

Vivant and its subsidiaries and associates, in their regular conduct of business, have entered into related party transactions where Vivant, as parent company, provides two (2) types of professional services: (1) strategic and technical and (2) corporate center services.

Functions covered would include regulatory, sales and marketing, technical operations, business development, corporate finance, corporate management systems, legal and human resources among others. These services are rendered by Vivant to allow efficient transfer of business and technical expertise, thus improving cost efficiencies and synergies. Vivant houses a pool of highly qualified professionals with business expertise relating to the business of the

Vivant Group. Service Level Agreements are in place to ensure the quality of service and competitive pricing.

Aside from the abovementioned, below are other services provided to and/or transactions entered into by Vivant with related parties in 2018.

- Vivant issued corporate guarantees for the following transactions:
    - Application for and the issuance of a domestic Standby Letter of Credit (SBLC) in behalf of an investee company relating to its debt service for its long-term project loan;
    - Application for and the issuance of a domestic SBLC by a subsidiary to serve as guarantee for its equity infusion into an investee company that is constructing a 300 MW coal fired power generation plant in Toledo City, Cebu; and
    - Foreign exchange hedging transaction entered into by an investee company that is constructing a 300 MW coal fired power generation plant in Toledo City, Cebu.

- Vivant applied for the issuance of a domestic SBLC to serve as guarantee for the equity infusion by one of its subsidiaries into an investee company that is constructing a 300 MW coal fired power plant in Toledo City, Cebu.

- Vivant applied for the issuance of a domestic SBLC to guarantee the funding of an associate's Debt Service Reserve Account relating to its debt service for its long-term project loan.

- Vivant entered into agreements with Mai-I Resources Corporation (MRC) and JEG Development Corporation (JDC), its stockholders, to perform consultancy services for the company.

- Vivant has an outstanding lease agreement with a certain subsidiary involving rental of its commercial office space.

**(ix) Government Approvals, Patents, Copyrights, Franchises**

**Generation Business**

Under the EPIRA, the power generation business is not considered a public utility operation. However, there are standards, requirements and other terms and conditions set by the ERC that each existing and potential generation company should comply with. Once met, the ERC will issue a Certificate of Compliance (COC) that will allow the operation of the power generation facilities. A COC is valid for a period of five (5) years from the date of issuance.

Hydroelectric power generation facilities, on the other hand, are required to obtain water permits from the NWRB. Said permit would indicate the approved water source and allowable volume of water that can be used by these facilities in generating power. The water permits do not have expiry dates and are usually not terminated as long as the holder of the permit is able to meet the terms indicated.

A generation company that operates a facility connected to the Grid must make sure that the technical design and operational criteria of the Philippine Grid Code and Philippine Distribution Code are met.

Power purchase agreements signed with both private distribution utilities and electric cooperatives are required to be evaluated and approved by the ERC.

Vivant and its subsidiaries and associates involved in the generation business have no pending applications for the registration of intellectual property rights for any trademark associated with its and its subsidiaries' and associates' corporate names and logos.

**Distribution Business**

Electricity distribution is a regulated public utility business under the EPIRA. It requires a franchise that can be granted only by the Congress of the Philippines. A Certificate of Public Convenience and Necessity from the ERC is also needed to operate a public utility.

VECO's franchise is set to expire in 2030.

Given that the cost of purchased power is allowed to be passed on to the end-users, all power purchase agreements signed with power generation companies are required to be evaluated and approved by the ERC.

VECO has no pending application for the registration of intellectual property rights for any trademark associated with its corporate name and logo.

**Supply Business**

With the implementation of the RCOA, the business of supplying electricity is not considered as a public utility operation under the EPIRA. However, proprietors of this business are required to obtain a license from the ERC in accordance with the ERC's rules and regulations. Vivant has two RES companies:

- Prism Energy, which is 40%-owned by Vivant, was awarded its license in May 2012.
- Corenergy, which is a wholly-owned subsidiary, was awarded its license in September 2016.

**(x) Effect of Existing or Probable Governmental Regulations**

Given the changing landscape of the power industry brought about by the enactment of the EPIRA law in 2001, the following have had, will have or may have considerable impact on Vivant's businesses:

**Wholesale Electricity Spot Market (WESM)**

The WESM is a spot market for the buying and selling of electricity. This was established to enable competition to influence the production and consumption of electricity. The mechanism in place allows market forces to determine prices.

The WESM provides another option for power generation companies that have no bilateral contracts on how to sell the energy generated by their power plants. Likewise, the WESM serves as a platform for distribution utilities, suppliers and wholesale consumers to purchase electricity even without a bilateral contract.

The WESM began operations in Luzon in June 2006 and in the Visayas in December 2010.

In December 2013, an amended Joint Resolution No. 2 was issued by Department of Energy (DOE), ERC and Philippine Electricity Market Corporation (PEMC) adjusting the WESM Offer Price Cap from Php 62,000 per MWh to Php 32,000 per MWh. This price cap is provisional and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, ERC issued Resolution No. 8, Series of 2014, to implement an interim secondary price cap of Php 6,245 per MWh, which will be imposed when the rolling average market price over a 72-hour period (3 days) equal to or exceed Php 8,186 per MWh. In December 2014, this was adopted as a permanent pre-emptive mitigating measure where imposition of such will be triggered when the rolling average market price over a 168-hour period (or 7 days) equal to or exceed Php 9,000 per MWh. A Petition for Declaratory Relief with Application for Temporary Restraining Order and Writ of Preliminary Injunction has been filed by the Philippine Independent Power Producers Association, Inc. with the Regional Trial Court of Pasig on the ground that the resolutions made by ERC are invalid and void. The Regional Trial Court of Pasig denied the Application for Temporary Restraining Order. On November 6, 2014, PIPPA withdrew its application for the issuance of a Writ of Preliminary Injunction and submitted the case for decision.

WESM operations in Mindanao was officially launched by the DOE in May 2017 through Department Circular NO. DC2017-05-0009. Effective June 26, 2017, all electric power industry participants in the Mindanao Grid were considered WESM Participants and were required to comply with the WESM registration requirements. Currently, the Mindanao Grid is governed by the Interim Mindanao Dispatch Protocol until the Commercial Operations Date of WESM Mindanao on June 26, 2018.

In July 2017, through the initiative of the DOE, the Transition Committee for PEMC was created through Department Order No. DO2017-07-0010, which was tasked among others to propose a way forward for the WESM. Consistent with the intention of the EPIRA, the Transition Committee formulated a transition proposal for an Independent Market Operator ("IMO") which provides for the formation of an independent entity separate from the PEMC to become the IMO, while PEMC remains the governance arm of the WESM. Before the functions of the market operator can be transferred to the IMO, a joint endorsement of the DOE and the power industry participants is required. Hence, on January 17, 2018, the DOE promulgated policies for the efficient transition of the WESM to the IMO. Thereafter, on February 6, 2018, a Special Membership Meeting was held by PEMC to vote for the endorsement of the Plan for Transition to the IMO of the PEMC and the transfer of the market operations function from PEMC to the IMO.

The Independent Electricity Market Operator of the Philippines Inc. (IEMOP) was thereafter organized as a non-stock, non-profit private corporation that is separate from PEMC. The IEMOP was incorporated to become the IMO, and as such, in September 2018, it formally took over the operations of the WESM from PEMC.

PEMC remains the governing body of the WESM and continues to perform the WESM governance functions.

**Retail Competition and Open Access (RCOA)**

Among the significant mandates under the EPIRA is a system of open access to transmission and distribution wires whereby the National Transmission Corporation (Transco), its concessionaire, the NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. The following are the conditions for the commencement of the RCOA:

- Establishment of the WESM;
- Approval of unbundled transmission and distribution wheeling charges;
- Initial implementation of the cross-subsidy removal scheme;
- Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the Independent Power Producer Administrators (IPPA).

In 2011, the ERC initiated proceedings through the conduct of public hearings to determine whether or not the RCOA may already be declared in Luzon and Visayas. Initially, the ERC declared December 26, 2011 as the date when full operations of the RCOA in Luzon and Visayas should commence. Under this initial phase, all electricity end-users that are certified by the ERC to be Contestable Customers with an average monthly peak demand of 1MW for the 12 months preceding December 26, 2011 were given the right to choose their own electricity suppliers. However, on October 24, 2011, the ERC deferred the implementation of the RCOA in Luzon and Visayas citing the inadequacy of rules, systems, preparations and infrastructure required therefor. This was in response to the request of MERALCO, Private Electric Power Operators Association, and Philippine Rural Electric Cooperatives Association, Inc. for a re-evaluation of the feasibility of the December 26, 2011 RCOA implementation date.

In December 2012, the ERC issued the Transitory Rules to govern the initial implementation of the RCOA. The Transitory Rules were arrived at by the ERC together with the DOE and the PEMC. Under the Transitory Rules, the new implementation date of the RCOA was on December 26, 2012. The period from December 26, 2012 to June 25, 2013 was declared as the Transition Period to allow the following: (1) development and finalization of the required infrastructure for systems, processes and information technology relating to RCOA, and (2) the registration into the WESM database of retail electricity suppliers and Contestable Customers into the WESM database. The initial commercial operations of the RCOA was scheduled during the period from June 26, 2013 to December 25, 2013. Full implementation of the RCOA will then commence from December 26, 2013 onwards. During said time, PEMC will act as the Central Registration Body and will be responsible for the the development and management of the required systems, processes and information technology structure and the settlement of transactions in the WESM relating to the RCOA.

Implementation of the RCOA in Mindanao may take some time given the conditions for a competitive environment has yet to be met. However, the prevailing supply conditions have led to the Interim Mindanao Electricity Market (IMEM) to commence operations in December 2013. To address the supply shortfall in the grid, all registered generating facilities were mandated to fully account for their capacities in the market.

The ERC issued revised regulations involving the issuance of RES licenses in December 2013. Included in the rules change was the non-issuance of RES licenses to generating companies, IPPA and affiliates of distribution utilities during a transition period or until after market condition allows it. Moreover, there were additional licensing restrictions imposed, which are: (1) the inclusion of the RES' contracted capacity in the grid limitations involving total capacity controlled by affiliate generation companies; (2) imposition of a 50% cap on supply by a RES to its affiliate end-users; (3) imposition of a 50% cap on supply from an affiliate generation company to a RES.

As a result of these additional licensing restrictions, the Retail Electricity Suppliers Association of the Philippines, Inc. filed a petition for declaratory relief with an urgent application for an injunction with the Regional Trial Court (RTC) of Pasig City on the ground that the revised rules are unconstitutional and invalid.

In October 2014, the ERC issued Resolution No. 17, Series of 2014, which held in abeyance the evaluation of RES license applications and suspended the issuance of RES licenses pending the promulgation of the amended RES Licensing Rules. Currently, ERC is reviewing the RES Licensing Rules and the Rules for Contestability.

On 12 May 2016, the ERC issued Resolution No. 11, Series of 2016 (ERC Resolution No. 11-16), which disallowed distribution utilities from engaging in the supply of electricity to end-users in the contestable market, unless as a Supplier of Last Resort (SOLR). Local RES are also mandated to wind down business within three (3) years from the effectivity of ERC Resolution No. 11-16. Thus, Retail Supply Contracts (RSC) that have already been executed by a Local RES shall remain valid until their expiration, but no new RSCs can be signed or executed. ERC Resolution No. 11-16 further provided that no RES is allowed to supply more than 30% of the total average monthly peak demand of all Contestable Customers in the Competitive Retail Electricity Market (CREM). Further, RES is not allowed to transact more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers.

In its Resolution No. 10, Series of 2016, the ERC approved the Revised Rules of Contestability, which established the conditions and eligibility requirements for end-users to be part of the contestable market.

On May 27, 2016, MERALCO filed a Petition for Declaratory Relief, docketed as SCA No.4149-PSG, with a prayer for the issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction to (a) enjoin the DOE and the ERC from enforcing and implementing: (i) DOE Circular No. DC2015-06-0010 in connection with the full implementation of RCOA, (ii) Article 1, Sections 2 and 3 of ERC Resolution No. 5, Series of 2016, (iii) ERC Resolution No. 10, Series of 2016 on the Revised Rules for Contestability, and (iv) ERC Resolution No. 11, Series of 2016 regarding restrictions imposed on the operations of DUs and RES in the CREM; and (b) declare the said DOE Circular and ERC Resolutions void.

On 13 July 2016, a Writ of Preliminary Injunction enjoining the implementation of the issuances of the ERC was granted by Branch 157, RTC of Pasig City. The ERC and the DOE, assailed the jurisdiction of the RTC and separately filed Petitions for Certiorari and Prohibition before the Supreme Court on July 5, 2016 (G.R. No. 225141) and on September 27, 2016 (G.R. No. 226800), respectively.

On October 10, 2016, the Supreme Court, acting on the Petition filed by DOE, issued a TRO enjoining Branch 157, RTC of Pasig City from continuing with the proceedings in SCA No. 4149-PSG and from enforcing all orders, resolutions and decisions rendered in SCA No. 4149-PSG.

In December 2016, the Philippine Chamber of Commerce and Industry, San Beda College Alabang, Inc., Ateneo De Manila University, and Riverbanks Development Corporation filed a petition, this time with the Supreme Court, to enjoin the ERC and the DOE from implementing DOE Circular No. 2015-06-0010, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC Resolution No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

On 21 February 2017, the Supreme Court issued a TRO, effective immediately, enjoining the DOE and the ERC from implementing DOE Circular No. DC2015-06-0010, Series of 2015, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

The DOE and the ERC filed a Motion for Reconsideration before the Supreme Court to lift the TRO. Both likewise filed an Omnibus Motion seeking clarification on the scope and coverage of the TRO. To date, both have remained unresolved.

In November 2017, the DOE issued DOE Circular No. DC2017-12-0013 to address policy and regulatory gaps resulting from the abovementioned cases. In the said circular, the DOE provided for voluntary participation of Contestable Customers and lowered the threshold to from 1 MW to 750 kW and 500 kW. Voluntary Demand Aggregation was also permitted by December 2018 allowing electricity End-users within a contiguous area whose average peak demand is not less than 500 kW for the preceding 12-month period to aggregate their demand to be part of the Contestable Market and to enter into retail supply contracts with Aggregators.

**The 2016 Philippine Grid Code**

On October 5, 2016, the ERC through ERC Resolution No. 22, Series of 2016 approved the publication of the approved Philippine Grid Code 2016 Edition (the "2016 Grid Code"). Among the objectives in the 2016 Grid Code are to harmonize the provisions of the existing Philippine Grid Code with the existing issuances of the DOE and ERC and to adopt and fully implement the connection and operational requirements for Variable Renewable Energy (VRE) Generating Facilities consistent with the Renewable Energy Act.

Among the salient points of the proposed 2016 Grid Code are as follows:

The inclusion of the connection and operational requirements for Variable Renewable Energy (VRE) facilities; setting the requirements pertaining to the connection and operational requirements of embedded generators were to be consigned to the Philippine Distribution Code; the provision for changes on frequency controls and responses; the introduction of a new way of classifying reserves from Contingency Reserve, Regulating Reserve and Dispatchable Reserves into Primary Reserve, Secondary Reserve and Tertiary Reserve, respectively; as regards ancillary services, the 2016 Grid Code provided a Frequency Reserve Obligation on the System Operator mandating it to contract for the Reserve or suffer penalty. The drafting of revisions and updates on the Ancillary Service Procurement Plan are on-going in accordance with the new ancillary structures based on the Grid Code.

**The Renewable Energy Act of 2008 (RE Act / RE Law)**

The RE Act was signed into law in December 2008 and became effective in January 2009.

The RE Act was designed to promote and develop the use of the country's RE resources with the intention of reducing the country's dependence on fossil fuels and improving the overall condition of the environment.

The RE Act offers fiscal and non-fiscal incentives to RE developers, subject to a certification issued by the DOE, in consultation with the Board of Investments. These incentives include:

- Income tax holiday for the first seven years of commercial operations
- Duty-free importation of RE machinery, equipment and materials effective within ten years upon issuance of certification, provided said machinery, equipment and materials are directly, exclusively and actually used in RE facilities
- Special realty tax rates on equipment and machinery not exceeding 1.5% of the net book value
- Net operating loss carry over (NOLCO)
- Corporate tax rate of 10% after the 7th year
- Accelerated depreciation
- Zero percent value-added tax on sale of fuel or power generated from emerging energy sources and purchases of local supply of goods, properties and services of RE facilities
- Cash incentives for RE developers for missionary electrification
- Tax exemption on carbon emission credits
- Tax credit on domestic capital requirement and services

All fiscal incentives apply to all RE capacities upon effectivity of the RE Law.

Electricity generated from intermittent RE resources such as wind, solar, ocean, run-of-river hydropower and biomass are considered as 'must dispatch' based on available energy and shall be given priority dispatch.

In a resolution issued in 2012, the ERC adopted the following feed-in-tariff (FIT) for emerging RE resources, namely, wind, solar, run-of-river hydropower and biomass, and corresponding degression rates.

| | FIT Rate (Php/kWh) | Degression Rate |
|---|---|---|
| Wind | 8.53 | 0.5% after 2nd year of FIT effectivity |
| Solar | 9.68 | 6% after 1st year of FIT effectivity |
| Run-of-river hydro | 5.90 | 0.5% after 2nd year of FIT effectivity |
| Biomass | 6.63 | 0.5% after 2nd year of FIT effectivity |

The net metering program for RE was issued by the ERC in 2013, which is designed to, among others, encourage end-users to participate in the RE generation. The distribution utilities are required to enter into a net metering agreement with an end-user with installed RE system, subject to technical considerations.

The guidelines for the collection of the FIT-Allowance (FIT-All) and the disbursement of the FIT-All Fund by Transco were issued by the ERC in early 2014. The FIT-All is a uniform charge that will be collected from end-users by distribution utilities and RES entities. This will comprise the FIT-All Fund, whereby Transco serves as Administrator. The FIT-All Fund is for

the guaranteed payment of the FIT for actual energy delivered by RE generators. In an order dated October 10, 2014 ERC Case No. 2014-109RC, the commission issued a provisional approval for the applied FIT-All of Php 0.0406 per kWh filed by Transco. Collection from end-users shall commence starting January 2015.

In December 2017, the DOE promulgated the rules and guidelines governing the establishment of the Renewable Portfolio Standards for On-Grid Areas through Department Circular No. DC2017-12-0015. The RPS Rules were adopted to mandate electric industry participants to source a portion of their electricity requirements from eligible RE sources in order to develop indigenous and environmentally friendly energy sources. With the minimum annual increment requirement of 1% to be applied to the Net Electricity Sales of the mandated participants, the DOE targets to increase the utilization of RE and reach a 35% RE share in the Energy Mix by 2030.

In July 2018, Department Circular No. DC2018-07-0019 containing the Rules Governing the Establishment of the Green Energy Option Program in the Philippines became effective. General rules and procedures were set out to guide end-users, RE supplier and network service providers in facilitating the options taken by end-users to choose RE Resources for their energy requirements.

In August 2018, the DOE promulgated the rules and guidelines governing the establishment of the Renewable Portfolio Standards for Off-Grid Areas through Department Circular No. DC018-08-0024. The RPS Off-Grid Rules was adopted to contribute to the growth of the RE Industry in the Off-Grid and Missionary Areas by mandating electric power industry participants to source or produce a specified portion of their electricity requirements from eligible RE resources. It was intended to rationalize the efficient use of the Universal Charge – Missionary Electrification and improve the self-sufficiency in power generation through integration of RE in the supply mix in Off-Grid Areas.

**Reduction in Systems Loss**

The ERC issued the Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency (Resolution No. 20, Series of 2017), which set distribution feeder loss cap for private distribution utilities at 6.50% for 2018, 6.25% for 2019, 6% for 2020, and 5.50% for 2021.

Under the new regulations, the actual electricity usage of the distribution company will be treated as an O&M expense in its PBR applications.

**Competitive Selection Process**

In June 2015, the DOE issued Department Circular No. DC2015-06-008 mandating all distribution utilities to undergo a Competitive Selection Process (CSP) in securing PSAs, through a Third-Party expert duly recognized by the DOE and ERC. Under the circular, the CSPs for the procurement of PSAs shall observe the aggregation for the un-contracted demand of the distribution utilities and shall be conducted annually. The terms and conditions of the PSAs shall be in accordance with the template PSA to be issued by the ERC in coordination with the DOE. The ERC and DOE were given one hundred twenty (120) days from the effectivity of the circular to issue the implementing guidelines and procedures for the circular.

In September 2015, the DOE together with the ERC posted for comments the first draft of the implementing guidelines of Department Circular No. DC2015-06-008. After conducting public hearing and receiving opposition from industry stakeholders, the ERC and DOE deferred issuing a decision on the mandatory implementation of the CSP.

Pending the issuance by the ERC of a prescribed CSP, the ERC issued in October 2015 Resolution No. 13 (CSP Resolution) directing all distribution utilities to conduct CSP in the procurement of their supply to the captive market. In the Resolution, a CSP is deemed successful if the distribution utility receives at least two (2) qualified bids. Direct negotiation may be conducted after at least two (2) failed CSPs.

In ERC Resolution No. 1, Series of 2015 dated 15 March 2016, the ERC restated the effectivity of the CSP Resolution to be April 30, 2016.

In February 2018, the DOE finally prescribed the "Policy for the Competitive Selection Process in the Procurement by Distribution Utilities of Power Supply Agreement for the Captive Market" through Department Circular No. DC2018-02-0003. Governing all DUs in both grid and off-grid areas, the policy mandates the procurement of all Power Supply Agreements for the captive market through CSP. In the Circular, the CSP may be conducted by a Third-Party Bids and Awards Committee (TPBAC) composed of 5 members, where 3 members will come from the DU and 2 from the captive customers. In lieu of the TPBAC, the DU may also opt to engage a Third-Party Auctioneer. Direct negotiation with generation companies is allowed after at least 2 failed CSPs and there is no outstanding dispute in the conduct of the CSP.

**(xi) Estimate of Amount Spent for Research and Developmental Activities**

Vivant has not allocated any specific amount of funds for research and developmental activities. Research and development activities are done on a per project basis and allocation of funds may vary depending on the nature of the project.

**(xii) Costs and Effect of Compliance with Environmental Laws**

Vivant's generation and distribution business units are subject to extensive and stringent safety, health and environmental laws and regulations. The Company's subsidiaries and associates have incurred, and expect to incur, operating costs to comply with these laws and regulations. Annual capital expenditures relating to the compliance with safety, health and environmental laws and regulations are expected to be made by Vivant's subsidiaries and associates.

**(xiii) Employees**

At the parent company level, Vivant has a total of ninety (90) employees as of December 31, 2018, composed of executive, supervisory and rank-and-file staff. The table below provides a breakdown of the total employee headcount.

| | Headcount |
|---|---|
| Executive | 13 |
| Supervisors | 20 |
| Rank & File | 57 |
| **Total** | **90** |

The Company has no existing collective bargaining agreement with its employees.

## (xiv) Major Risks Involved in the Business

Below is a brief discussion on the risks that Vivant, through its subsidiaries and associates, might encounter in the businesses in which it is involved in. Certain risks, however, are inherent to the nature of the business that are beyond Vivant's or its subsidiary's or associate's control.

### Competition Risk

The competition landscape in the power generation business has continually evolved since the government started its privatization efforts under the EPIRA law. The following are significant developments:

- Over 70% of NPC's generation assets and IPP contracts have been transferred to the private sector.
- The WESM in the Luzon and Visayas Grids are operational, with Mindanao to follow suit in the coming years.
- Investments in greenfield and brownfield projects continue to pour in
- Implementation of the RCOA
- Implementation of the Competitive Selection Process in securing PSAs

All these have or will have an impact on the availability of and access to power (reliability of plants seen improving and entry of new capacities and new suppliers), which may ultimately influence pricing of electricity.

### Regulatory Risk

The continuing scrutiny of both the regulators and the public has led to the growing challenges faced by the power industry. In its effort to manage any potential fundamental changes in the business environment, Vivant has established good working relations with the regulatory agencies. The Company actively participates in the formulation of new rules and policies covering the power industry. In anticipation of possible changes in the regulatory environment, the Company incorporates these in the formulation of its long-term strategy for its businesses.

### Trading Risk

Spot market price of electricity is determined by several market forces, which are mostly beyond the control of the Company. Increased supply, unforeseen plant outages, transmission constraints, and movement in fuel prices are among the factors that affect the supply condition in the power industry. Weather conditions and economic activities influence the demand patterns in the electricity market. All these have caused and are expected to cause fluctuations in the spot market price of electricity. Vivant intends to mitigate this risk by maintaining a good balance of contracted and spot capacities for its generation portfolio.

**Fuel Supply Risk**

Vivant's fossil-fired generation plants have entered into fuel supply contracts to ensure supply. Pricing, however, is subject to market conditions affecting both demand and supply.

Delta P, CPPC, 1590 EC and CIPC have entered into medium term (2-3 years) contracts with large oil companies and fuel distributors in the Philippines. CEDC and MPC, in the meantime, have medium- to long-term contracts with various coal suppliers.

Delta P, CPPC, CIPC, CEDC and MPC have entered into bilateral contracts that employ a tariff formula allowing recovery of fuel cost. 1590 EC has likewise signed a power supply agreement with a fuel cost recovery mechanism in place.

**Financial Risk**

In the course of normal operations, Vivant, together with its subsidiaries and associates, is exposed to financial risks, including, but not limited to, interest rates that may have an impact on outstanding liabilities, counterparty credit risk, valuation of securities and investments, trade and other receivables, liquidity risk in terms of cash management and foreign exchange risk that may have an impact on outstanding foreign currency denominated placements and liabilities.

**Business Interruption Risk**

Interruption of normal operations brought about by natural calamities, major equipment failures, plant accidents and terrorism are just a few of the serious risks faced by the Company, through its subsidiaries and associates.

For risks that can be mitigated by the Company, particularly those that are plant operations-related, Vivant, through its subsidiaries and associates, implements a regular preventive maintenance program in all of its facilities. In relation to its risk management process, the Company's operating units that could procure business interruption insurance to cover the potential loss in gross profits in the event of a major damage to any of the facilities have done so.

**Project Risk**

Vivant, through its subsidiaries and associates, has projects in the pipeline, involving greenfield and brownfield power plant development projects. Inherent to these projects are risks involving the completion of these projects according to specifications, budget and set timelines.

To ensure the successful implementation of these projects, Vivant, through its subsidiaries and associates, is partnering with well known contractors and suppliers with good track record in the industry. Project monitoring activities are likewise employed to assure adherence to standards, budget and set timelines.

## Item 2. Properties

Vivant's head office is located at Unit 907-908 Ayala Life-FGU Center, Mindanao Ave., cor. Biliran Road, Cebu Business Park, Barangay Luz, Cebu City.

On a consolidated basis, the Company's 2018 total Property, Plant and Equipment were valued at Php 609.6 mn as compared to Php 528.1 mn 2017. The breakdown is as follows:

| | 2017 (Php mn) | 2018 (Php mn) |
|---|---|---|
| Plant Machineries & Equipment | 383.7 | 374.9 |
| Condominium Units, Building, and Improvements | 24.2 | 22.5 |
| Transportation Equipment | 21.4 | 21.7 |
| Office Furniture, Fixtures and Equipment | 12.6 | 18.8 |
| Tools and Other Assets | 4.4 | 3.7 |
| Leasehold & Land Improvements | 11.3 | 41.2 |
| Construction in Progress | 39.9 | 96.1 |
| Land | 30.6 | 30.6 |
| **TOTAL** | **528.1** | **609.6** |

## Item 3. Legal Proceedings

**Material Pending Legal Proceedings**

**I. 1590 EC**

**SC G.R. No. 210245**
**Bayan Muna Representatives NERIC JAVIER COLMENARES, et al., vs. Energy Regulatory Commission, et al.**

**SC G.R. No. 201255**
**National Association of Electricity Consumers for Reforms, et al. vs. Manila Electric Company, et al.**

**SC G.R. No. 210502**
**Manila Electric Company vs. Philippine Electricity Market Corporation, et al.**

On December 19 and 20, 2013, two (2) separate Petitions were filed by Bayan Muna Representatives and National Association of Electricity Consumers for Reforms (NASECORE) against the Energy Regulatory Commission and Manila Electric Company (MERALCO), et al. to enjoin MERALCO from implementing its power rate increase that was approved by the Energy Regulatory Commission (ERC) and to hold certain provisions of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), as unconstitutional. As a result of the Petitions, the Supreme Court en banc ordered several generation companies to be included as additional parties-respondents to the cases, including 1590 Energy Corp., its power rate increases approved by the ERC. Oral Arguments were conducted and the relevant legal pleadings were submitted to the Supreme Court. The Petitions are pending resolutions by the Supreme Court.

**C.A. G.R. No. 138105**
**Petition for Review With Application for Injunction and Temporary Restraining Order**
**1590 Energy Corporation vs. Energy Regulatory Commission And Philippine Electricity Market Corporation**

On November 7, 2017, the Court of Appeals issued a Decision that declared as null and void the March 3, 2014, March 27, 2014, May 9, 2014 and October 15, 2014 Orders of the ERC and reinstated the prices for the November and December 2013 supply months in the WESM (the CA Decision). According to the Court of Appeals, there was simply no justification, legal or factual, to substantiate the ERC's issuance of the March 3, Order which was effectively an intervention of WESM's operations. The ERC and Intervenor Meralco filed their respective Motions for Reconsideration to the CA Decision. Numerous other consumers and organizations also filed their respective Motions for Leave to Intervene in the case for the purpose also of seeking a reconsideration of the CA Decision.

**ERC Case No. 2015-042 MC**
**Violation of Section 45 of Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act No. 2001" (EPIRA), Rule 11, Sections 1 of the Implementing Rules and Regulations (IRR) of the EPIRA (Commission of an Anti-Competitive Behavior, Particularly Economic Withholding ATTY. ISABELO JOSEPH P. TOMAS II vs. 1590 Energy Corporation**

On June 10, 2015, Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the ERC pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013, filed a Complaint against 1590 EC for alleged Anti-Competitive Behavior, particularly, Physical Withholding in relation to the bid offers of 1590 EC at WESM during the November and December 2013 billing months. 1590 EC filed its Answer to the Complaint within the reglementary period. On August 11, 2016 1590 EC received an "Omnibus Motion [(i) to consolidated cases and (ii) Defer Pre-Trial]" from the Investigating Officer, to which 1590 EC filed its "Comment/Opposition to the Omnibus Motion [(i) to consolidated cases and (ii) Defer Pre-Trial]." On June 13, 2017, the ERC denied the Motion for consolidation. In the meantime, the case itself remains pending.

**II. NR**

**SC G.R. No. 210245**
**Bayan Muna Representatives NERIC JAVIER COLMENARES, et al., vs. Energy Regulatory Commission, et al.**

**SC G.R. No. 201255**
**National Association of Electricity Consumers for Reforms, et al. vs. Manila Electric Company, et al.**

**SC G.R. No. 210502**
**Manila Electric Company vs. Philippine Electricity Market Corporation, et al.**

On December 19 and 20, 2013, two (2) separate Petitions were filed by Bayan Muna Representatives and National Association of Electricity Consumers for Reforms (NASECORE) against the Energy Regulatory Commission and Manila Electric Company (MERALCO), et al. to enjoin MERALCO from implementing its power rate increase that was approved by the Energy Regulatory Commission (ERC) and to hold certain provisions of Republic Act No. 9136,

otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), as unconstitutional. As a result of the Petitions, the Supreme Court en banc ordered several generation companies to be included as additional parties-respondents to the cases, including NR, its power rate increases approved by the ERC. Oral Arguments were conducted and the relevant legal pleadings were submitted to the Supreme Court. The Petitions are pending resolutions by the Supreme Court.

**ERC Case No. 2015-071 MC**
**Vivant - Sta. Clara Northern Renewables Generation Corporation[1]**
**vs. Philippine Electricity Market Corporation**

On October 21, 2015, NR filed a Petition for Dispute Resolution with Prayer for Cease and Desist Order against PEMC with the ERC to question the validity of the imposition of penalty on NR in the amount of Three Million Pesos (Php3.0 mn) for alleged violations of the real time dispatch (RTD) schedule for the period December 26, 2010 to June 25, 2011, citing legal and factual issues.

With the termination of the presentation of evidence, NR awaits decision of the ERC.

**Civil Case No. R-CEB17-03542 SP**
**Vivant - Sta. Clara Northern Renewables Generation Corporation**
**Petition for Corporate Rehabilitation[2]**

On May 16, 2017 NR filed a Petition for Corporate Rehabilitation. On May 26, 2017 the Cebu City Regional Trial Court Branch 11 issued a Commencement/Stay Order in favor of NR under Case No. R-CEB17-03542 SP entitled *"In The Matter Of Corporate Rehabilitation Of Vivant - Sta.Clara Northern Renewables Generation Corporation, Petitioner"*. As of date, the court has yet to decide on whether or not it will allow the rehabilitation of NR.

**III. Delta P**
**Civil Case No. 5778**
**Heirs of Laurentino Ylaya represented by Fe Ylaya and Glenn C. Gacott**
**Vs. City Government of Puerto Princesa represented by**
**Mayor Lucilo Bayron and Delat P, Inc.**

On August 31, 2018, DPI received Summons for a Complaint for "Quieting of Title, Recovery of Possession, Declaration of Nullity of Contract of Lease (with Prayer for TRO and Injunction)" filed by Fe Ylaya and Glenn Gacott. The City Government of Puerto Princesa ("CGPP") was made a co-defendant. The Complaint claimed that the expropriation proceedings by CGPP was incomplete because of failure to promptly pay just compensation. The properties subject of the Complaint is the site of DPI's power plant over which DPI signed a Contract of Lease with CGPP. Complainants alleged to be the previous owners of the properties and prayed for CGPP and DPI to peacefully surrender and vacate the properties, declare the CGPP Contract of Lease to be void, demanded payment of rental and damages in the total amount of Php774,413.00.

---

[1] *In October 2018 shareholdings in NR, through VEC and VREC, were entirely sold to NREC.*
[2] *In October 2018 shareholdings in NR, through VEC and VREC, were entirely sold to NREC*

**Item 4. Submission of Matters to A Vote of Security Holders**

During the June 21, 2018 Annual Meeting of Stockholders, the following actions were taken:

(1) Approval and adoption of the minutes of the June 15, 2017 Annual Stockholders' Meeting;
(2) Annual Report of Officers;
(3) Approval of the 2017 Annual Report and Financial Statements
(4) Delegation of authority to appoint External Auditors for 2018 to the Board of Directors
(5) Ratification of all acts and resolutions of the Board of Directors and Management adopted for Fiscal Year 2017
(6) Election of Directors (including Independent Directors) for the year 2018 - 2019

MR. DENNIS A. GARCIA
MR. EMIL ANDRE M. GARCIA
MR. GIL A. GARCIA II
MR. CHARLES SYLVESTRE A. GARCIA
MR. RAMONTITO E. GARCIA
MR. ARLO A. G. SARMIENTO
MR. JOSE MARKO G. SARMIENTO
MR. CARMELO MARIA LUZA BAUTISTA (Independent Director)
MR. ROGELIO Q. LIM (Independent Director)
AMB. RAUL CH. RABE (Independent Director)
ATTY. JESUS B. GARCIA, JR. (Independent Director)

Other than the foregoing, no matter was submitted to a vote of security holders.

The results of the foregoing meeting were timely disclosed to the PSE and SEC in SEC Form 17-C report.

**PART II: OPERATIONAL AND FINANCIAL INFORMATION**

**Item 5. Market for Issuer's Common Equity and Related Stockholder Matters**

**1. Market Information**

The Company's common shares are listed and traded at the Philippine Stock Exchange. The high and low stock prices of Vivant's common shares for each quarter of 2017 and 2018 were as follows:

| | 2017 | 2018 | | |
|---|---|---|---|---|
| | High | High | High | Low |
| First Quarter | 23.00 | 23.00 | 29.95 | 23.05 |
| Second Quarter | 35.90 | 35.90 | 23.90 | 16.00 |
| Third Quarter | 35.00 | 35.00 | 21.20 | 16.00 |
| Fourth Quarter | 34.40 | 34.40 | 20.45 | 15.20 |

As of end-March 2019, the common shares outstanding were 1,023,456,698 shares. The last traded price of Vivant's common shares as of the same period was at Php 16.98 per share.

## 2. Security Holders

As of March 31, 2019, Vivant has 1,423 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). The top 20 shareholders with the number of shares respectively held and the percentage of total shares outstanding held by each are as follows:

| | NAME | NO. OF SHARES | % |
|---|---|---|---|
| 1 | Mai-I Resources Corporation | 464,831,568 | 45.42 |
| 2 | JEG Development Corporation | 311,524,642 | 30.44 |
| 3 | Global Business Power Corporation | 116,555,553 | 11.39 |
| 4 | PCD Nominee Corporation (Filipino) | 68,773,942 | 6.72 |
| 5 | Popsivan Holdings Corporation | 31,498,212 | 3.07 |
| 6 | Malacapas Holdings, Inc. | 27,677,848 | 2.70 |
| 7 | Eulalio C. Arce | 343,750 | 0.04 |
| 8 | PCD Nominee Corporation (Non-Filipino) | 334,232 | 0.03 |
| 9 | Cruz, Alfredo A. | 34,062 | 0.00 |
| 10 | Lavin, Marietta | 27,750 | 0.00 |
| 11 | EBC Securities Corporation | 20,625 | 0.00 |
| 12 | Consortium Industries, Inc | 20,500 | 0.00 |
| 13 | Lopez, Rose Marie R. | 19,687 | 0.00 |
| 14 | Marino Olondriz Y Cia | 16,000 | 0.00 |
| 15 | Rivera, Rosario Paje | 15,625 | 0.00 |
| 16 | Sevilla, Rodulfo | 15,625 | 0.00 |
| 17 | Borres, Jun | 15,000 | 0.00 |
| 18 | Te, Anita &/or Te, Oscar | 15,000 | 0.00 |
| 19 | Martinez, Oscar O. | 13,437 | 0.00 |
| 20 | Hon, Sia Phoa A. | 12,625 | 0.00 |
| | TOTAL NO. OF SHARES | **1,021,765,683** | |

## 3. Dividends

The Company's By-laws allow dividends to be declared and paid out of unrestricted retained earnings, which may be payable in cash, property or stock to all stockholders on the basis of the outstanding stock held by the stockholder, as often and at such times as the Company's Board of Directors may determine and in accordance with the requirements of the Corporation Code and applicable laws.

The cash dividends declared by Vivant to its common shareholders from 2017 to 2018 are shown in the table below.

| Year | Cash Dividend Per Share | | Total Declared | | Record Date |
|---|---|---|---|---|---|
| | Regular | Special | Regular | Special | |
| 2018 | Php 0.2792 | - | Php 285.7 mn | - | June 6, 2018 |
| 2017 | Php 0.1985 | Php 0.0807 | Php 202.8 mn | Php 82.6 mn | May 26, 2017 |

**4. Recent Sales of Unregistered Securities**

On January 29, 2014, the Company signed an agreement to issue Php 3 billion (bn) in Fixed Rate Corporate Notes, which will be issued in two tranches: Php 1 bn on February 3, 2013 and Php 2 bn on March 31, 2014. The net proceeds of the issue will be used for general corporate purposes, including but not limited to, capital expenditures for existing assets and investments in power generation projects.

**Item 6: Management's Discussion and Analysis or Plan of Operation**

**1. Plan of Operation**

For the next twelve (12) months, the Company will continue to oversee its investments in the investee companies.

As a holding company, it shall satisfy its cash requirements through (1) dividends declared and paid by its investee companies and (2) management fees paid by investee companies with management contracts as compensation for consultancy, management and ancillary services provided.

Vivant, through its Business Development Group, is continuously on the lookout for opportunities in the power industry, particularly in the power generation business. The Company has several projects that are in various stages of development.

**2. Management's Discussion and Analysis**

Management uses the following key performance indicators for the Company and its investee companies:

**(i) Equity in Net Earnings (or Loss) of Associates.** Equity in net earnings or (loss) of associates is the Company's share in the income or loss of associates, or investee companies accounted for under the equity method. It indicates the profitability of the associates and measures their contribution to the profitability of the parent.

**(ii) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**. EBITDA is calculated by taking operating income and adding back to it interest, depreciation, and amortization expenses. Since EBITDA eliminates the effects of financing and accounting decisions, it can provide a relatively good comparison of the performance of the Company with other players in the industry. It also provides a good measure of the Company's ability to generate cash from operations to cover financial charges and income taxes.

**iii) Cash Flow Generated**. Cash flow generated indicates the ability of the Company to generate enough cash for operating, investing, and financing activities.

**(iv) Debt-to-Equity Ratio (DER).** DER gives an indication of the Company's leverage position and is computed by dividing total liabilities with total stockholders' equity.

**(v) Current Ratio**. Current ratio is computed by dividing current assets with current liabilities. This indicates the liquidity of the Company in the short term and measures the peso amount of current asset available to cover a peso amount of current liability.

The table below shows the comparative figures of the key performance indicators for the year 2018 and 2017.

| **Key Performance Indicators**<br>*Amounts in Php '000, except for ratios* | **2018** | **2017** |
|---|---|---|
| Equity in Net Earnings of Associates | 1,796,151 | 1,290,173 |
| EBITDA | 1,891,001 | 1,719,807 |
| Cash Flow Generated | (855,233) | 198,556 |
| Net cash flows from operating activities | (443,021) | 51,216 |
| Net cash flows from (used in) investing activities | (103,119) | 758,898 |
| Net cash flows from (used in) financing activities | (309,094) | (611,558) |
| Debt-to-Equity Ratio (x) | 0.37 | 0.40 |
| Current Ratio (x) | 6.33 | 9.47[a] |

*(a) Reported as 4.31x in the SEC 17A FY 2017 report. The adjustment is due to the reclassification of some balance sheet accounts to make it comparable to the FY 2018 classification.*

The Company's share in net earnings of associates and joint ventures as of end-December 2018 amounted to Php 1.8 bn, representing a 39% year-on-year (YoY) increase from Php 1.3bn. This was a result of the following:

- 40%-owned MPC shored in fresh earnings contribution of Php 500.0 mn during the year in review. The company's 3x55 MW coal-fired power plant in Misamis Oriental was completed in 2017 and commenced commercial operations in September 2017.
- 50%-owned, DPI recorded a 127% YoY improvement in its bottomline contribution, from Php 31.4 mn to Php 71.4 mn, resulting from the commercial operations of its new 30-MW oil-fired power generation facility starting May 2017.
- 50%-owned CIPC posted a 107% YoY rise in income contribution, from Php 15.5 mn to Php 32.0 mn. This strong showing was mainly on the back of a 22% YoY expansion in energy sales volume as of end-December 2018.
- 40%-owned AHI saw an 11% YoY improvement in its income contribution during the year in review, from Php 296.9 mn to Php 330.9 mn. This was driven by the enhanced profitability of its associate, CEDC. CEDC's favorable earnings performance for the period was mainly on account of an 8% YoY expansion in energy sales, lower financing and operating expenses and reduced maintenance costs.
- 40%-owned CPPC recorded an 8% YoY increase in income contribution from Php 137.6 mn to Php 148.2 mn, on account of higher capital recovery fees from indexation, income from purchased power, and reduced operating and maintenance costs.
- 40%-owned Prism Energy brought in earnings contributions of Php 16.4 mn, which mainly resulted from the 279% expansion in the volume of energy sales. Prism Energy began its operations as a RES in April 2017.

Below is a table showing the impact of International Accounting Standards (IAS) 28[3] to the Company's financial performance in 2018 and 2017.

| Name of Company | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Actual Share in Losses (Php) | Recognized Share in Losses (Php) | Unrecognized Share in Losses due to IAS 28 (Php) | Actual Share in Losses (Php) | Recognized Share in Losses (Php) | Unrecognized Share in Losses due to IAS 28 (Php) |
| NR | -- | -- | --[(a)] | 255.2[(b)] | -- | 255.2[(c)] |
| Total | -- | -- | -- | 255.2 | -- | 255.2[(d)] |

*(a) In October 2018, shareholdings in NR, through VEC and VREC, were entirely sold to NREC.*

*(b) Reported as Php 257.5 mn in the SEC 17 A FY 2017 report due to typographical error.*

*(c) Reported as Php 252.7 mn in the SEC 17 A FY 2017 report, based on the net income provided by the associate at that time. Out of Php 255.2 mn, Php 16.3 mn pertained to unrealized forex loss from the dollar denominated portion of its liabilities arising from its administration contract with PSALM.*

*(d) Reported as Php 252.9 mn in the SEC 17 A FY 2017 report due to typographical error.*

EBITDA for the period grew by 10% YoY to Php 1.9 bn from Php 1.7bn. This was mainly an outcome of the 22% YoY increase in operating income, which was on the back of:

- A 39% YoY increase in the net earnings of associates and joint ventures brought about by the improved contributions of MPC, DPI, CIPC, AHI, CPPC and Prism Energy;
- 61% YoY increase in interest income from short-term cash investments; and
- 11% YoY drop in total generation costs which significantly came from the 29% reduction in generation cost of 55.2%-owned 1590 EC given lower dispatch and significantly lower depreciation expense as the life of depreciable assets was extended to match the new term of its power plant's lease contract.

The Company ended the period with a net decrease in cash, before considering the effect of changes in the foreign exchange rates, of Php 855.2 mn. This resulted from the use of cash in operating, investing and financing activities. The increase in trade and other receivables, prepayments, offset by the increase in payables, accounted for the use of cash in operating activities. Other uses of cash include payments for interest and taxes, purchase of inventories and 1590 EC's contribution to the pension fund. The use of cash in financing activities was mainly attributed to the payment of dividends during the year in review. Moreover, the Company's investments in TVI, SREC and VECO mainly accounted for the use of cash in investing activities.

Debt-to-Equity ratio slightly improved to 0.37x from 0.40x in 2017. The movement is mainly attributable to the 11% increase in total consolidated equity, which stemmed from the net earnings for the period in review. This expansion outpaced the 4% increase in total consolidated liabilities of the Company, which was driven by the recorded increases in dividends payable, trade and other payable, and income tax payable.

[3] *IAS 28 Losses in Excess of Investments.* If an investor's or joint venturer's share of losses of an associate or joint venture equals or exceeds its interest in the associate or joint venture, the investor or joint venturer discontinues recognizing its share of further losses. If the associate or joint venture subsequently reports profits, the investor or joint venturer resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

The Company's current ratio was lower at 6.33x as of end-December 2018 from year-end 2017 level of 9.47x[4]. Current assets posted a 12% decline (mostly due to slightly lower cash level), while current liabilities grew by 31% (as a result of increased dividends payable, trade and other payables and income tax payable).

*Material Changes in Line Items of Registrant's Income Statement*

At the end of 2018, the Company had consolidated revenue of Php 4.3 bn, recording a 4% increase from the previous year's consolidated revenue of Php 4.1 bn. The topline performance was due to the following:

1. Sale of power, which comprise the bulk of revenues at Php 2.2 bn (or 52% of total), was lower by 15% YoY. 1590 EC mainly accounted for the reduced topline performance as it recorded lower revenues due to a 38% YoY decline in energy sales during the year in review. This was partially offset by the increased energy sales of wholly owned subsidiaries VEC, the administrator of 17 MW of geothermal power, and Corenergy, a retail electricity supplier that commenced commercial operations on December 26, 2017.

2. The Company's share in net earnings of associates and joint ventures as of end-December 2018 amounted to Php 1.8 bn, representing a 39% YoY increase from Php 1.3bn. This was a result of the following:

    - 40%-owned MPC shored in fresh earnings contribution of Php 500.0 mn during the year in review. The company's 3x55 MW coal-fired power plant in Misamis Oriental was completed in 2017 and commenced commercial operations in September 2017.
    - 50%-owned, DPI recorded a 127% YoY improvement in its bottomline contribution, from Php 31.4 mn to Php 71.4 mn, resulting from the commercial operations of its new 30-MW oil-fired power generation facility starting May 2017.
    - 50%-owned CIPC posted a 107% YoY rise in income contribution, from Php 15.5 mn to Php 32.0 mn. This strong showing was mainly on the back of a 22% YoY expansion in energy sales volume as of end-December 2018.
    - 40%-owned AHI saw an 11% YoY improvement in its income contribution during the year in review, from Php 296.9 mn to Php 330.9 mn. This was driven by the enhanced profitability of its associate, CEDC. CEDC's favorable earnings performance for the period was mainly on account of an 8% YoY expansion in energy sales, lower financing and operating expenses and reduced maintenance costs.
    - 40%-owned CPPC recorded an 8% YoY increase in income contribution from Php 137.6 mn to Php 148.2 mn, on account of higher capital recovery fees from indexation and income from purchased power, and reduced operating and maintenance costs.
    - 40%-owned Prism Energy brought in earnings contributions of Php 16.4 mn, which mainly resulted from the 279% expansion in the volume of energy sales. Prism Energy began its operations as a RES in April 2017.

[4] Reported as 4.31x in the SEC 17A FY 2017 report. This is due to the reclassification of some balance sheet accounts to make it comparable to the FY 2018 classification.

Below is a table showing the impact of IAS 28 to the Company's financial performance in 2018 and 2017.

| Name of Company | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Actual Share in Losses (Php) | Recognized Share in Losses (Php) | Unrecognized Share in Losses due to IAS 28 (Php) | Actual Share in Losses (Php) | Recognized Share in Losses (Php) | Unrecognized Share in Losses due to IAS 28 (Php) |
| NR | -- | -- | --[a] | 255.2[b] | -- | 255.2[c] |
| Total | -- | -- | -- | 255.2 | -- | 255.2[d] |

*a) In October 2018, shareholdings in NR, through VEC and VREC, were entirely sold to NREC.*

*b) Reported as Php 257.5 mn in the SEC 17 A FY 2017 report due to typographical error.*

*c) Reported as Php 252.7 mn in the SEC 17 A FY 2017 report, based on the net income provided by the associate at that time. Out of Php 255.2 mn, Php 16.3 mn pertained to unrealized forex loss from the dollar denominated portion of its liabilities arising from its administration contract with PSALM.*

*d) Reported as Php 252.9 mn in the SEC 17 A FY 2017 report due to typographical error.*

3. Management fees dropped by 10% YoY to Php 137.3 mn from Php 151.9 mn. The decline was mainly due to the reduced fees for the management contracts and service level agreements with an associate. Another contributing factor to the drop is the execution of a one-time service level agreement with a joint venture in 2017.

4. Interest income in 2018 significantly rose by 61% to Php 117.1 mn from Php 72.5 mn. The higher interest rates in short term placements and higher gains resulting from the Company's unit investment trust funds (UITF) accounted for the expansion.

Total generation cost and operating expenses for the year 2018 was lower by 7%, from Php 2.6 bn to Php 2.4 bn. Said movement can be accounted for by the following:

1. Generation costs went down by 11% YoY to Php 1.9 bn from Php 2.2 bn. This was due to the 38% YoY decline in 1590 EC's energy sales volume. Moreover, the subsidiary's depreciation expense was also reduced significantly as the life of depreciable assets was extended to match the new term of its power plant's lease contract.

2. Salaries and employee benefits grew by 11% to Php 174.8 mn from Php 157.9 mn. The additional manpower headcount and an upward adjustment in salaries and benefits accounted for the rise. Training costs were also higher during the year in review.

3. Professional fees went up by 44% to Php 103.8 mn from Php 72.2 mn. This was mainly due to the engagement of legal, technical, strategic and business process consultants.

4. Taxes and licenses was lower by 5% to Php 48.3 mn from Php 50.7 mn. 1590 EC incurred a non-recurring expense in 2017.

5. Travel expenses saw a reduction of 5% to Php 30.4 mn from Php 32.1 mn. This can be attributed to travel costs reduction and efficiency measures implemented by the Company during the year in review.

6. Management fees was down by 6% YoY at Php 23.2 mn as a result of a drop in the rate.

7. Outside services[5] was up by 59% YoY to Php 15.2 mn from Php 9.6mn. The movement could be attributed to the license fees for an electronic mailing system, hosting and support fees for the Company's new enterprise resource planning (ERP) system, development fees for the corporate website and receipt of delayed prior year billings for (i) office manpower services and (ii) support services for the Company's old accounting software.

8. Representation expenses were higher by 23% at Php 9.6 mn. Increase in business activities by the Company and its subsidiary accounted for the rise.

9. Communication and utilities were higher by 36% at Php 9.6 mn from Php 7.0 mn. The increase in the Company's manpower headcount, and receipt and booking of delayed prior year billings during the year accounted for the hike in communication expenses. Additional office space and the escalation of rates were factors in the rise of power and water charges incurred as of end-December 2018.

10. Rent and association dues was down by 15% at Php 9.5 mn from Php 11.2 mn. In 2017, the Company entered into another lease contract to facilitate the transfer of its satellite office.

11. Other operating expenses rose by 19% YoY from Php 49.9 mn to Php 59.3 mn. This resulted substantially from:
    (i) higher marketing expenses;
    (ii) higher donations made to Vivant Foundation, Inc. and other expenses related to corporate social responsibility initiatives; and
    (iii) higher cost of supplies, dues and subscriptions and insurance expense.

Vivant booked Php 24.8 mn in other charges in 2018, vis-à-vis previous year's other income of Php 15.7 mn. This was an outcome of the following account movements:

1. The Company recognized a one-off gain of Php 120.0 mn in 2018 resulting from the sale of its 48% shareholdings in NR through wholly-owned subsidiaries, VEC and VREC.

   One-off gains in 2017 amounting to Php 171.7 mn consisted of insurance claims by a subsidiary for damages sustained by its power plant equipment, increase in the fair value of a subsidiary's investment properties, and a net gain from the purchase of additional interest in a subsidiary and the disposal of another subsidiary.

2. An unrealized foreign exchange gain of Php 7.2mn was taken up during the period in review. This pertains to the restatement of the US Dollar and Euro cash balances of the Company and 1590 EC. This was against an unrealized foreign exchange loss of Php 1.2 mn recorded in 2017.

The 52% YoY decline in accrued consolidated tax expense, from Php 94.9 mn to Php 45.1 mn, was a result of the lower taxable income of 1590 EC.

The combined effect of the above account movements resulted to a net income after tax of Php 1.8 bn for the year 2018, a 24% increase from Php 1.4 bn in 2017. Net income attributable to equity holders of the parent recorded a 37% growth to Php 1.7 bn.

---

[5] Includes security and janitorial fees presented as a separate line item in the SEC 17A FY 2017 report

During the period in review, the Company recognized other comprehensive income of Php 6.7 mn, which substantially came from the re-measurement gain on employee benefits of the Company and 1590 EC in compliance with the Philippine Accounting Standards (PAS) 19R and re-measurement gain on the Company's available-for-sale investment (AFS) in compliance with the Philippine Financial Reporting Standards (PFRS) 9. This compares to the Php 270.6 mn other comprehensive income booked in 2017 which was attributed to the Company's share of an associate's revaluation increment and its re-measurement gain on employee benefits, net of tax.

The total comprehensive income as of end-2018 was at Php 1.78 bn. Out of the said amount, Php 1.74 bn was attributable to the equity holders of the parent, which was 13% higher compared to last year's Php 1.5 bn.

*Changes in Registrant's Resources, Liabilities, and Shareholders' Equity*

The Company's consolidated total assets as of year-end 2018 expanded by 9% to Php 17.2 bn from Php 15.8 bn in 2017. The significant movements in the assets of the Company are discussed below.

1. Cash and cash equivalents dropped by 18% to Php 3.8 bn as of end-2018 from last year's Php 4.6 bn. The decrease is attributed to the use of cash in operating, investing and financing activities.

2. Trade and other receivables was higher by 32% YoY at Php 705.1 mn. The increase can be attributed to the energy sales of two subsidiaries, and a subsidiary's receivable arising from dividends declared by CIPC and CPPC during the year. The increase was tempered by the collection of cash dividends declared by MPC, CPPC and CIPC in 2017, and collection of intercompany advances.

3. Advances to associates and stockholders went down by 6% to Php 78.8 mn from Php 83.7 mn, which was mainly a result of the collection of advances from an associate. This is offset by the advances by two subsidiaries to two associates during the year and a reclassification of a cash infusion made in 2017.

4. Prepayments and other current assets increased by 30% to Php 66.6 mn as of end-December 2018 from Php 51.3[6] mn in 2017. This is attributed to the accumulation of input VAT on purchases and creditable withholding taxes on revenues during the year in review, and the security deposit of a subsidiary's power supply contract.

5. Investments in and advances to associates and joint ventures grew by 24% to Php 10.4 bn as of end-2018 from Php 8.4 bn as of end-2017. The growth is substantially attributed to the additional investments in TVI, SREC and VECO. The dividends declared by VECO, AHI, CPPC, CIPC, DPI and Prism Energy, VEC's redemption of preferred shares in DPI and a reclassification of an infusion to an associate to advances to related parties, offset the recorded equity share in net earnings from associates and joint ventures.

[6] Reported as Php 913.4 mn in the SEC 17A FY 2017 report. Assets consisting of advances to a supplier, creditable withholding taxes and input value-added tax (VAT) were reclassified as other noncurrent assets from prepayments and other current assets to make it comparable to the end-December 2018 classification in accordance with PAS 1, *Presentation of Financial Statements.*

6. The 15% rise in property, plant and equipment to Php 609.6 mn was mainly a result of the construction cost for a rooftop solar project by 60%-owned ET-Vivant, through 100%-owned ET Energy Island Corporation (ETEI), and leasehold improvements in 1590 EC. The Company's purchase of fixed assets also contributed to the increase.

7. Deferred income tax assets - net was 31% higher at Php 20.9 mn due to the deferred tax adjustment recognized in relation to the pension liability of the Company and 1590 EC.

8. Pension asset of Php 5.7 mn was booked as of end-2018, which came from the funded retirement plan of 1590 EC. There was no such booking in 2017.

9. Other noncurrent assets rose by 4% to Php 935.3 mn as of end-2018 from Php 895.4[7] mn in 2017. This can be attributed to the increase in noncurrent creditable withholding taxes and input VAT, and the fair value increase in the AFS investments of the Company.

Total consolidated liabilities rose by 4% to Php 4.6 bn as of end-2018 from end-2017's Php 4.5 bn.

1. Trade and other payables recorded a 47% growth to Php 685.9 mn as of end- 2018 from Php 465.0[8] mn in 2017. The increase was driven by the 72% growth in 1590 EC's dividends payable and deferred output VAT during the year in review. Rise in the accrued expenses of VEC, ETEI and ET-Vivant, dividends payable of HDFE and the trade and other payables of Corenergy also contributed to the increase.

2. Advances from related parties posted a 75% decline, from Php 72.4 mn to Php 18.4 mn, which was mainly a result of the settlement of advances from an associate.

3. Income tax payable recorded a 127% increase to Php 22.9mn from Php 10.1 mn, which mainly resulted from the income taxes due of 1590 EC from revenues earned in the fourth quarter of the year in review. The income tax payable of 100%-owned Vivant Realty Ventures Corporation (VRVC) also contributed to the increase.

4. Pension liability was up by 8%, on account of the accrual of pension expense by the Company and 1590 EC.

Other components of equity dropped by 5% to Php 1.3 bn as of end-December 2018, which can be attributed to the significant movements discussed below.

1. The Company's share in the revaluation increment of VECO dropped by 5% to Php 1.4 bn from Php 1.5 bn.

---

[7] Reported as Php 33.3 mn in the SEC 17A FY 2017 report. Accounts from prepayments and other current assets were reclassified to other noncurrent assets in order to be comparable to the classification as of end-December 2018 in accordance with PAS 1, *Presentation of Financial Statements.*

[8] Reported as Php 1.4 bn in the SEC 17A FY 2017 report. Advances to supplier as of end-2017 was reclassified to other noncurrent liabilities in order to be comparable to the classification as of end-December 2018 in accordance with PAS 1, *Presentation of Financial Statements.*

2. The Company recognized an unrealized valuation gain on AFS investments in compliance with PFRS 9 amounting to Php 1.3 mn.

3. In compliance with PAS 19R, the Company and 1590 EC recorded re-measurement gains on the employee benefits resulting to a significant increase to Php 7.0 mn from Php 0.05 mn in 2017.

4. The Company's share in the re-measurement losses on employee benefits of four associates and a joint venture increased by 5% to Php 78.2 mn during the year in review vis-à-vis Php 74.6 mn in 2017.

As a result of the net income generated during the period in review, the total stockholders' equity increased by 11% to Php 12.6 bn as of end-2018 from Php 11.3 bn as of end-2017. Meanwhile, equity attributable to parent ended higher by 13% at Php 12.1 bn as of end-2018.

*Material Changes in Liquidity and Cash Reserves of Registrant*

Cash and cash equivalents were lower by 18% from Php 4.6 bn as of end-2017 to Php 3.8 bn as of end-2018.

For the period ending December 31, 2018, the net cash used in the Company's operations amounted to Php 443.0 mn, recording a reversal of last year's net cash generation of Php 51.2 mn. This is substantially attributed to the increase in trade and other receivables and prepayments, offset by the increase in payables. Other uses of cash include payments for interest and taxes, purchase of inventories and 1590 EC's contribution to the pension fund.

Net cash used in investing activities as of end-2018 amounted to Php 103.1 mn, vis-à-vis previous year's cash generation of Php 758.9 mn. The additional investments made into TVI, SREC and VECO, purchase of fixed assets and construction costs for a solar rooftop project of ETEI mainly accounted for the usage. This is tempered by dividends received from VECO, AHI, MPC, CPPC, DPI, CIPC and Prism Energy, proceeds from the sale of the shareholdings in NR, proceeds from the redemption of preferred shares in DPI and the spike in interest income.

As of end-December 2018, the Company used cash of Php 309.1 mn for financing activities, recording a decrease from last year's usage of Php 611.6 mn. Cash usage stemmed from the payment of cash dividends by the Company and HDFE, principal amortization of the Company's FRCN and the advances of VIGC to an associate. This is offset by the receipt of additional investment for future stock subscription and advances from the minority shareholder of ETEI for its rooftop solar project.

*Financial Ratios*

The Company's current ratio was lower at 6.33x as of end-December 2018 from year-end 2017 level of 9.47x[9]. Current assets posted a 12% decline (mostly due to slightly lower cash level), while current liabilities grew by 31% (as a result of increased dividends payable, trade and other payables and income tax payable).

[9] Reported as 4.31x in the SEC 17 A FY 2017 report. This is due to the reclassification of a balance sheet account to make it comparable to the FY 2018 classification.

Debt-to-Equity ratio slightly improved to 0.37x from 0.40x in 2017. The movement is mainly attributable to the 11% increase in total consolidated equity, which stemmed from the net earnings for the period in review. This expansion outpaced the 4% increase in total consolidated liabilities of the Company, which was driven by the recorded increases in dividends payable, trade and other payable and income tax payable.

**Item 7. Financial Statements**

The audited financial statements of the Company for the years ended December 31, 2018, December 31, 2017, and December 31, 2016 are attached hereto as Exhibits "B", "C" and "D", respectively.

**Item 8. Information on Independent Accountant and other Related Matters**

**1. External Audit Fees and Services**

Following the Annual Stockholders Meeting last June 21, 2018 where the authority to confirm or appoint the external auditors was delegated to the Board of Directors, the Board of Directors confirmed the appointment of SyCip Gorres Velayo & Co. (SGV) as its external auditor for fiscal year 2018.

The table below sets forth the aggregate fees billed to the Company for professional services rendered by SGV in fiscal year 2018.

| Fee Type | 2018 |
|---|---|
| Audit Fees | Php 567,978 |
| Tax Fees* | 216,000 |
| All Other Fees** | 801,545 |
| **Total** | PhP 1,585,523 |

** Tax Consultancy*

*** Trainings on Philippine Data Privacy Assessment Project and trainings on Taxation and Philippine Financial Reporting Standards*

Both management and the Audit Committee evaluated the audit fee of SGV. This was recommended to and approved by the Board of Directors.

**2. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There was no event in the past year where Vivant and SGV or the handling partner had any disagreement with regard to any matter relating to accounting principles or practices, financial disclosures or auditing scopes or procedures.

## PART III: CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

**1. Directors, Independent Directors and Executive Officers**

The following are the directors who have held offices as such since their election last June 21, 2018:

MR. DENNIS A. GARCIA
MR. EMIL ANDRE M. GARCIA
MR. GIL A. GARCIA II
MR. CHARLES SYLVESTRE A. GARCIA
MR. RAMONTITO E. GARCIA
MR. ARLO A. G. SARMIENTO
MR. JOSE MARKO ANTON G. SARMIENTO
MR. CARMELO MARIA LUZA BAUTISTA (Independent Director)
MR. ROGELIO Q. LIM (Independent Director)
AMB. RAUL CH. RABE (Independent Director)
ATTY. JESUS B. GARCIA, JR. (Independent Director)

They shall serve as directors for a term of one (1) year and until their successors are duly elected and qualified.

After the election of the Board of Directors, the following persons were elected as officers:

| Name | Position |
|---|---|
| Dennis N.A. Garcia | Chairman of the Board and CEO |
| Ramontito E. Garcia | President |
| Minuel Carmela N. Franco | Treasurer |
| Atty. Jess Anthony N. Garcia | Corporate Secretary |
| Atty. Joan A. Giduquio-Baron | Assistant Corporate Secretary |

The Board also confirmed the following to their respective positions:

| Name | Position |
|---|---|
| Arlo A.G. Sarmiento[10] | Executive Vice President and Chief Operating Officer |
| Emil Andre M. Garcia[11] | VP - Operations and Business Development |
| Minuel Carmela N. Franco[12] | VP - Finance, Chief Finance Officer, Compliance Officer |
| Atty. Jess Anthony N. Garcia[13] | General Counsel, Corporate Secretary & Chief Information Officer |

[10] In a disclosure dated February 8, 2019, Mr. Arlo A.G. Sarmiento's position was changed from Executive Vice President and Chief Operating Officer to Executive Vice President.
[11] In a disclosure dated February 28, 2019, Mr. Emil Andre M. Garcia transferred from Vivant to VEC effective March 1, 2019
[12] In a disclosure dated February 8, 2019, Ms. Minuel Carmela N. Franco was promoted to Senior VP - Corporate and Shared Services; Chief Finance Officer; Compliance Officer.
[13] In a disclosure dated February 8, 2019, Atty. Jess Anthony N. Garcia was promoted to Senior VP-Business Development for Infrastructure and Innovation; General Counsel; Corporate Secretary and Chief Information Officer.

| | |
|---|---|
| Engr. Mark D. Habana[14] | VP - Commercial Affairs and Marketing |
| Maria Victoria E. Sembrano | Senior AVP - Controllership |
| Atty. Macario C. Padullo, Jr.[15] | Senior AVP - Corporate Management Services |
| Engr. Cris C. Fernandez[16] | AVP - Technical Operations |
| Grant Clark[17] | AVP - Corporate Services Group; Data Protection Officer |
| Atty. Catherine S. Bringas | AVP - Legal |
| Erickson B. Omamalin[18] | AVP - Business Development |
| Brigette Cecile N. Garcia | AVP - Corporate Planning |
| Shem Jose S. Garcia[19] | AVP - Corporate Communications |
| Joseph A. Lua, Jr. [20] | AVP - Regulatory and Industry Affairs |

The term of office of all officers shall be for one (1) year and until their successors are duly elected and qualified. The above officers of the Issuer shall serve only for the unexpired term of their predecessors and until their successors are duly elected/appointed.

**(i) Information on Directors and Officers**

**Dennis N. A. Garcia**, 69 years old, Filipino, has been the Chairman and a member of the Executive Committee of the Company since December 20, 2002. Mr. Garcia is also the Chairman of the Finance Committee and a member of the Audit Committee and the Board Risk Oversight Committee of the Company. Other positions currently held are as follows: CEO – Vivant Corporation; Chairman - Vivant Energy Corporation, Vivant Geo Power Corporation, Vivant Integrated Diesel Corp., Vivant Integrated Generation Corporation, Corenergy, Inc. , Vivant Integrated Diesel Corporation, 1590 Energy Corp., Vivant Enercore Integrated, Inc., Vivant Powercore Active, Inc., Southern Powercore Holding Corp., Vivant Realty Ventures Corporation, Vivant Corporate Center, Inc., and Amberdust Holding Corporation; Chairman and President - Hijos de F. Escaño, Inc., Vivant Foundation, Inc., MAI-I Resources Corporation, and EMAG Resources and Development Corporation; Director and Vice President - Abovant Holdings, Inc.; Director – Vivant Isla Inc., Vivant-Malogo Hydropower Inc., Vivant Renewable Energy Corporation, and Minergy Power Corporation; Chairman, CEO and President – JEGVEG Realty, Inc;

---

[14] In a disclosure dated February 28, 2019, Mr. Mark D. Habana transferred from Vivant to VEC effective March 1, 2019.

[15] In a disclosure dated February 28, 2019, Mr. Macario C. Padullo, Jr. transferred from Vivant to VEC effective March 1, 2019.

[16] In a disclosure dated February 8, 2019, Mr. Cris C. Fernandez was promoted to Senior AVP - Technical Operations. In a disclosure dated February 28, 2019, he transferred from Vivant to VEC effective March 1, 2019.

[17] In a disclosure dated February 8, 2019, Mr. Grant Clark's position was changed from AVP - Corporate Services Group to AVP - Information Technology, Administration and Business Development Innovation; Data Protection Office.

[18] In a disclosure dated February 28, 2019, Mr. Erickson B. Omamalin transferred from Vivant to VEC effective March 1, 2019.

[19] In a disclosure dated February 8, 2019, Mr. Shem Jose W. Garcia's position was changed from AVP – Corporate Communications to AVP - Corporate Communications and Business Development Innovation.

[20] In a disclosure dated February 8, 2019, Mr. Joseph A. Lua, Jr. was promoted to AVP - Regulatory and Industry Affairs. In a disclosure dated February 28, 2019, he transferred from Vivant to VEC effective March 1, 2019.

**Ramontito E. Garcia**, 61 years old, Filipino, has been the President of the Company since December 20, 2002. Mr. Garcia is a Director and Member of the Executive Committee of the Company since 2003. He is also a member of the Finance Committee and the Audit Committee of the Company. Other positions currently held are as follows: Chairman – Visayan Electric Company, Inc., Vivant – Malogo Hydropower Inc., Vivant Isla Inc., Vivant Renewable Energy Corporation, and Minergy Power Corporation; Vice Chairman – Cebu Private Power Corporation,; Chairman and President - JEG Development Corporation; Vice-President and Director - Hijos de F. Escaño, Inc.; and Director – Vivant Integrated Generation Corporation, Vivant Energy Corporation, Vivant Isla Inc., Vivant Geo Power Corporation, Vivant Foundation, Inc., Abovant Holdings, Inc., 1590 Energy Corporation and JEGVEG Realty, Inc.

**Arlo A. G. Sarmiento**, 42 years old, Filipino, has been the Executive Vice President and Chief Operating Officer of the Company since 2003, until taking up the position of Executive Vice President in February 8, 2019. He is also a member of the Audit Committee and Executive Committee of the Company. Mr. Sarmiento concurrently holds the following positions: Chairman - Delta P, Inc.; Vice-Chairman – Lunar Powercore Inc. and Global Luzon Energy Development Corporation; Director and President & CEO - Vivant Energy Corporation, 1590 Energy Corp.,; Vivant Integrated Generation Corporation, Vivant Integrated Diesel Corporation, Vivant Geo Power Corporation, Vivant Renewable Energy Corporation, Vivant Enercore Integrated, Inc., Vivant Powercore Active Inc., Southern Powercore Holding Corp., Vivant Realty Ventures Corporation, Vivant Corporate Center, Inc., and Amberdust Holding Corporation; Director and Executive Vice President for External Relation and Monitoring of Visayan Electric Company, Inc.; Director and Treasurer - Abovant Holdings, Inc. and JEGVEG Realty, Inc.; Director and Vice-President - Cebu Private Power Corporation and Vivant Foundation, Inc.; Director and Chief Executive Officer - JEG Development Corporation; Director - ET-Vivant Solar Corp., Vics-Amlan Holdings Corp., Amlan Hydroelectric Power Corporation, Vivant-Malogo Hydropower Inc., Vivant Isla Inc., Therma Visayas, Inc., Hijos De F. Escaño, Inc., Cebu Energy Development Corporation, Minergy Power Corporation and Calamian Islands Power Corporation. Mr. Sarmiento holds a degree in Bachelor of Arts in Social Sciences from the Ateneo de Manila University.

**Charles Sylvestre A. Garcia,** 57 years old, Filipino, is a Director of the Company and Member of the Company's Executive Committee since September 30, 2004. Mr. Garcia also sits in the board of Visayan Electric Company, Inc. since 2007.

**Gil A. Garcia II**, 65 years old, Filipino, has been a Director of the Company and a member of the Executive Committee since September 30, 2004. He is also a member of the Finance Committee. Mr. Garcia was the Treasurer of the Company from 2004 to 2014. Other positions presently held include: Director - Visayan Electric Company, Inc. and Director, Chief Finance Officer and Treasurer of MAI-I Resources Corporation.

**Jose Marko G. Sarmiento,** 40 years old, Filipino, has been a Director and Member of the Executive Committee of the Company since 2008. Mr. Sarmiento is also a member of the Board Risk Oversight Committee and Finance Committee of the Company. Other positions currently held are as follows: Vice-President - Vivant-Malogo Hydropower, Inc. Mr. Sarmiento is also a Director (since 2005) and is the Chief Operating Officer of JEG Development Corporation (since 2009) and of JEGVEG Realty, Inc. (since 2009). Prior to this, he was the Treasury Manager of JEG Development Corporation and was the Vice President for Manufacturing at Detalia Aurora, Inc. Mr. Sarmiento holds a degree in Bachelor of Science in Business Administration from Methodist University in North Carolina, USA. He obtained his Advanced Professional Training in Innovation Management in Product Development from Inwent in Bonn, Germany in 2004.

**Emil Andre M. Garcia**, 41 years old, Filipino, has been a Director of the Company since 2009. Mr. Garcia is also the Vice President for Operations of the Company since January 2012. Prior to this, he held the Assistant Vice President position for Corporate Planning and Development of the Company from February 2011 to December 2011. Other positions currently held are as follows: Vice President, Treasurer and Director of Visayan Electric Company, Inc. since 2010; Chairman - Calamian Islands Power Corporation, ET-Vivant Solar Corp., Culna Renewable Energy Corp. and Sabang Renewable Energy Corp.; Director - Delta P, Inc., Vivant Geo Power Corporation, Amlan Hydroelectric Power Corporation, Hijos de F. Escaño Inc., 1590 Energy Corp., Vivant Enercore Integrated, Inc., Vivant Powercore Active, Inc., Southern Powercore Holding Corp., Vivant Integrated Diesel Corporation, Minergy Power Corporation, Vivant Realty Ventures Corporation, , Vivant Corporate Center, Inc., and Amberdust Holding Corporation; Director and President - Vivant-Malogo Hydropower Inc., VICS-Amlan Holdings Corporation, and Vivant Isla Inc.; Director and Vice President - Vivant Energy Corporation, Vivant Integrated Generation Corp., , Vivant Renewables Energy Corporation, , Global Luzon Energy Development Corporation and Lunar Powercore Inc.; Director and Treasurer – Cebu Private Power Corporation; Director and Chief Finance Officer of EMAG Resources and Development Corporation. He was also the President of Christ Company in 2009 to 2011. Mr. Garcia graduated from Velez College in 1998 with the degree in Bachelor of Science in Medical Technology.

**Jesus B. Garcia, Jr.**, 73 years old, Filipino, has been the Independent Director and concurrently, has been the Chairman of the Audit Committee and a member of the Finance Committee of the Company since 2004. Mr. Garcia was the Secretary of the Department of Transportation and Communications of the Republic of the Philippines for the period 1992 to 1996. Other positions currently held are as follows: Chairman - SunStar Publishing, Inc., Pan Arts Corporation, SunStar Management, Inc.; President, Jesever Realty Corporation, and Madre Realty Corporation.

**Rogelio Q. Lim**, 77 years old, Filipino, has been the Independent Director of the Company since June 2017. He is also the Chairman of the Corporate Governance Committee and the Related Party Transaction Committee, and a member of the Board Risk Oversight Committee and Audit Committee of the Company. Other positions held in the past are the following: Director, President and CEO – East Asia Utilities Corp.; Senior Vice President and General Manager – Cebu Private Power Corp.; Senior Vice President - Aboitiz Power Corp. (Oil Group); Director and Vice Chairman – Metro Cebu Water District; Director – Mactan Cebu International Airport Authority, American Chamber of Commerce Cebu Chapter; President and Director - Cebu Business Club; Manufacturing and Operations Consultant - Hercules and Ultramarine; Director Digital Products Engineering – Timex Corp.; Far East Manufacturing Manager – Timex F E; President and General Manager - TMX Philippines, Inc.; Vice President for Manufacturing – Comptronics Philippines, Inc.; Vice President and General Manager – Intron Industries Sinderian Berhad; Asst. Corp Q/A Manager and head of Applications Engineer – Union Carbide Philippines, Inc.; Project Engineer – US Army Topographic Command Department of Geodesy ; Airways Engineer – Civil Aeronautics Administration; Director and Private Sector Representative - Regional Tripartite Wage and Productivity Board; Private Sector and Committee Chair – Regional Development Council, Region VII.

**Carmelo Maria Luza Bautista,** 60 years old, Filipino, has been the Independent Director of the Company since 2017. He assumed the role of Director and President of GT Capital in 2011. Prior to his election, Mr. Bautista joined FMIC in April of 2008 as Executive Director and was appointed as Chairman of the Risk Management Committee. He later assumed the position of Head of its Investment Banking Group in 2009. Mr. Bautista has been in the Banking and Financial Services sector for 39 years. Some highlights of his previous scope of responsibilities over this period include: Program Director at Citibank Asia Pacific Banking Institute; Vice President and Head of the Local Corporate and Public Sector Groups Citibank-Manila; Vice President-Real Estate Finance Group, Citibank N.A.-Singapore branch; Vice President-Structured Finance, Citibank N.A.-Singapore Regional Office; Country Manager, ABN AMRO Bank-Philippines; and President and CEO, Philippine Bank of Communications. Mr. Bautista has a Masters Degree in Business Management from the Asian Institute of Management where he graduated in the Dean's Citation List. He also has a Bachelor's degree, Major in Economics, from the Ateneo de Manila University. Mr. Bautista has no directorships in other listed companies aside from GT Capital, however, he is currently serving as Director of Federal Land, TMP, PCFI, GT Capital Auto Dealership Holdings, Inc. ("GTCAD") and Toyota Subic, Inc. ("TSI"). He is also an Adviser to the Board of Trustees of GT Foundation, Inc.

**Raul Ch. Rabe,** 78 years old, Filipino, has been the Independent Director of the Company since 2003. He is the Chairman of the Board Risk Oversight Committee and a member of the Audit Committee and the Corporate Governance Committee. Other positions currently held or held in the past are the following: Director, CEPALCO (Cagayan de Oro), up to present; Director, MINERGY (Cagayan de Oro), up to present; Counsel of the Law Firm of Rodrigo, Berenguer & Guno (Makati City); Corporate Secretary - Manila Economic & Cultural Office (MECO) since 2001; Director - the Bank of Commerce, KGL-Negros Navigation, Pet Plans, Inc. (Makati City); Foreign Service Officer of the Department of Foreign Affairs (1968 to 1999); Third to Second Secretary in London (1972 to 1975); First Secretary in Bucharest (1975 to 1979); Chief Deputy of Protocol of the Department of Foreign Affairs (1979 to 1981); Minister Counselor in Jeddah (1981 to 1982); Minister and later Deputy Chief of Mission in Washington D.C., (1982 to 1984 and 1986 to 1989, respectively); Consul General in Honolulu (1984 to 1986); Assistant Secretary of the American Affairs (1989 to 1992); Ambassador to Seoul (1992 to 1993); Ambassador to the United States (1993 to 1999); Special Envoy of the President of the Philippines for the Americas and OIC Countries in 2001.

**Atty. Jess Anthony N. Garcia,** 47 years old, Filipino, has been the Corporate Secretary and Corporate Information Officer of the Company since 2003. He is the General Counsel and concurrently holds the position of Senior VP-Business Development for Infrastructure and Innovation since February 8, 2019. Atty. Garcia is the Corporate Secretary of Visayan Electric Company, Inc., Delta P, Inc., VICS – Amlan Holdings Corporation, Vivant Geo Power Corporation, Vivant Integrated Generation Corp., 1590 Energy Corp., Vivant-Malogo Hydropower Inc., Vivant Renewable Energy Corporation, Calamian Islands Power Corporation, Vivant Energy Corporation, Vivant Isla, Inc., Vivant Foundation, Inc., and SunStar Publishing, Inc.; Director and Corporate Secretary of Amlan Hydroelectric Power Corporation, Vivant Integrated Diesel Corporation, Southern Powercore Holding Corp., Vivant Realty Ventures Corporation, Vivant Enercore Integrated, Inc., Vivant Powercore Active Inc., Amberdust Holding Corporation and Vivant Corporate Center, Inc. He is the Assistant Corporate Secretary of Abovant Holdings, Inc. and Hijos De F. Escaño. He obtained his *Juris Doctor* degree from the Ateneo de Manila University School of Law and has been a member of the California Bar since 2002 and of the Philippine Bar since 1998.

**Minuel Carmela N. Franco**, 47 years old, Filipino, has been the Vice President for Finance since May 2013, until taking up the position of Senior VP - Corporate and Shared Services in February 8, 2019, and concurrently as Treasurer, Chief Operating Officer and Compliance Officer. Ms. Franco also currently holds the following positions: Chairman – Southern Grove Properties and Development Corp.; Director and Treasurer & CFO – Vivant Energy Corporation, Vics-Amlan Holdings Corporation, Vivant Renewables Energy Corporation, Vivant Integrated Generation Corporation, Vivant Integrated Diesel Corporation, Vivant Isla Inc., Vivant Geo Power Corporation, Vivant Enercore Integrated, Inc., Vivant Powercore Active Inc., Southern Powercore Holding Corp., Vivant Realty Ventures Corporation, Vivant Corporate Center, Inc. and Amberdust Holding Corporation; Director and CFO – ET-Vivant Solar Corp.; Director and Treasurer – Prism Energy, Inc., Calamian Islands Power Corporation, and Delta P, Inc.; Treasurer and CFO – Vivant Malogo Hydropower Inc., 1590 Energy Corp., Global Luzon Energy Development Corporation; Treasurer – Culna Renewable Energy Corp.; Member of the Board of Advisors - VECO Past positions held are as follows: Trader, Associate and Credit Analyst at Multinational Investment Bancorporation and Capital One Equities Corporation from 1992 to 1994; Investment Analyst at Kim Eng Securities Inc. and ING Barings (Phils.), Inc. from 1994 to 1997; Investment Officer at Standard Chartered Bank's Investment Services Group from 1998 to 2000; Project Analyst at Newgate Management, Inc. from 2000 to August 2002, Investor Relations Officer and Senior Project Analyst (Corporate Planning Group) at San Miguel Corporation from September 2002 to June 2007; Head of Investor Relations at Aboitiz Equity Ventures, Inc. and Aboitiz Power Corporation from July 2007 to December 2012. Ms. Franco holds a degree in Bachelor of Science in Business Economics (Cum Laude) from the University of the Philippines.

**Atty. Joan A. Giduquio-Baron,** 48 years old, Filipino, has been the Assistant Corporate Secretary of the Company since 2003. Ms. Baron also holds other positions: Acting Corporate Secretary of VECO; Assistant Corporate Secretary of Vivant Energy Corporation, Vivant Renewable Energy Corporation, VICS – Amlan Holdings Corporation, Vivant Isla Inc., Vivant Integrated Generation Corporation, Vivant-Malogo Hydropower, Inc., and Sun Star Publishing, Inc.; Corporate Secretary - JEGVEG Realty, Inc., and JEG Development Corporation, JDC Tomodachi, Inc. She obtained her *Juris Doctor* from the Ateneo de Manila University School of Law in 1996 and her Master in Management degree from the Asian Institute of Management (AIM) in 2001. Ms. Baron has been a member of the Philippine Bar since 1997 and a Director of the Alumni Association of the Asian Institute of Management-Cebu Chapter. She is a Partner at J.P. Garcia and Associates. Prior to this, she was an Associate Attorney at Puno and Puno Law Offices from 1997 until 2001.

**Mark D. Habana,** 41 years old, Filipino, has been the Vice President for Commercial Affairs since April 17, 2017. Mr. Habana holds currently holds the position of Director of Prism Energy, Inc. and Culna Renewable Energy Corp.; Director and President & CEO – Corenergy, Inc.; Chief Operating Officer – ET-Vivant Solar Corp. Before joining the Company, he was AVP at Energy Development Corporation (EDC) since May 2014. He ran Operations of the BacMan Geothermal Business Unit and led EDC's Technology Innovation efforts. Prior to this, he was in the oil & gas industry from March 2007 to April 2014 as Manager of Business Development for Occidental Petroleum and Venoco Inc.; both in Denver, Colorado. From September 2002 to March 2007, he took on risk management and deal structuring roles at energy trading firms: Sempra Energy Solutions in California and Constellation Energy in Maryland. He graduated from the University of the Philippines with a Bachelor of Science degree in Mechanical Engineering (Cum Laude). In June 2002, Mr. Habana earned his Master of Science in Petroleum Engineering from Stanford University in California, and, in January 2009, he completed the Executive Management Program from the Harvard Business School in Massachusetts.

**Maria Victoria E. Sembrano**, 56 years old, Filipino, has been the Senior Assistant Vice President for Controllership of the Company since February 7, 2018. Prior to this, she was the Assistant Vice President for Controllership since 2012. Concurrently, Ms. Sembrano also holds the following positions: Director and Treasurer & CFO - Southern Grove Properties and Development Corp. and Corenergy Inc. Before joining the Company, Ms. Sembrano was the Corporate Services Director of the Marsman Drysdale Agribusiness Group. Prior to this, other positions held in the Marsman Drysdale Agribusiness Group starting 1992 include positions in Finance, Logistics and Administration. Ms. Sembrano holds a degree in Bachelor of Science in Commerce, Major in Accounting (Magna Cum Laude) from the University of San Carlos.

**Atty. Macario C. Padullo, Jr.,** 41 years old, Filipino, has been the Senior Assistant Vice President for the Corporate Management Services since February 7, 2018. Prior to this he was the Assistant Vice President for Corporate Management Services of the Company since February 2011. He is also a member of the Board of Advisors of Visayan Electric Company, Inc. Atty. Padullo held the following positions in the Company: Finance Manager from 2009 to 2011 and Finance Officer from 2003 to 2009. Atty. Padullo, Jr. also holds the position ofPresident and CEO of Southern Grove Properties and Development Corp. He is a member of the Integrated Bar of the Philippines and the Philippine Institute of Certified Public Accountants. Mr. Padullo holds a degree in Bachelor of Science in Accountancy from the University of San Carlos. He obtained his degree in Bachelor of Laws (Class Valedictorian) from the University of Cebu in 2009.

**Cris C. Fernandez**, 40 years old, Filipino, has been the Senior Assistant Vice President for Technical Operations of the Company since February 8, 2019. He is also a member of the Board of Advisors of Visayan Electric Company, Inc.. He joined the Company on October 2012 as Senior Technical Manager and is a licensed Electrical Engineer. He used to work as an Electrical Engineer in Australia and has been an accredited Professional Engineer of Engineers Australia.

**Grant Clark,** 40 years old, Australian, has been the Assistant Vice President for Business Development of the Company since October 2015 until taking up the position as AVP for the new Corporate Services Group in January 2017, and AVP - Administration and Business Development Innovation in February 8, 2019. He has been the Data Privacy Officer of the Company since 2018. Mr. Clark currently holds the following positions: Director – Southern Grove Properties and Development Corp., Vivant Foundation, Inc. and Corenergy Inc. Prior to joining the Company, Mr. Clark worked for 12 years in the Government in Australia (Victoria), his last position being the Director of Economics at the Department of Sustainability and Environment (2010-2013). He moved to the Philippines in 2013 and worked briefly as a Director in KPMG Philippines (2013-2014). He has a Bachelor of Commerce degree with First Class Honors in Economics from Deakin University in Melbourne, Australia.

**Erickson B. Omamalin,** 33 years old, Filipino, has been the Assistant Vice President for Business Development since January 2017. Mr. Omamalin joined the Company in September 2009 as Finance Officer and has been the Senior Manager for Business Development for five years since January 2012. Prior to Vivant, Mr. Omamalin worked at Smart Communications, Inc. as Finance Analyst for 3 years. Mr. Omamalin holds a degree in Bachelor of Science in Accountancy from the University of San Jose-Recoletos and is a Certified Public Accountant.

**Atty. Catherine S. Bringas,** 35 years old, Filipino, has been the Assistant Vice President for Legal since January 2017. Prior to this, she was the Legal Senior Manager of the Company from 2013 to 2016. Concurrently, Ms. Bringas holds the following positions: Corporate Secretary – Corenergy Inc., ET-Vivant Solar Corp., and Southern Grove Properties and Development Corp.; Assistant Corporate Secretary – 1590 Energy Corp., Amlan Hydroelectric Power Corporation, Vivant Enercore Integrated Inc., Vivant Powercore Active Inc., Vivant Isla Inc., Vivant Geo Power Corp., Souther Powercore Holding Corp., Vivant Realty Ventures Corporation, Vivant Corporate Center, Inc., and Amberdust Holding Corporation. She holds a degree in Legal Management from De La Salle University and obtained her Juris Doctor from the Ateneo de Manila University School of Law in 2008. She has been a member of the Philippine Bar since 2009. Prior to Vivant, Ms. Bringas worked at the Power Sector Assets and Liabilities Management Corporation as a Corporate Attorney under the Office of the President and CEO.

**Brigette Cecile N. Garcia,** 32 years old, Filipino, has been the Assistant Vice President for Corporate Planning since February 7, 2018. Prior to this, she was the Corporate Planning Senior Manager of the Company from 2016 to 2017. Before joining Vivant, she worked for a year as a Management Trainee for Utility Economics at Visayan Electric Company Inc. and for 3 years as an Investment Consultant for Family Offices Private Banking at Credit Suisse AG in Singapore. Ms. Garcia graduated from Singapore Management University (SMU) with a double degree (Summa Cum Laude) in Bachelor of Science in Economics and Bachelor of Business Management in 2009. She was also the school Salutatorian and recipient of the Top Student of the School of Economics Award and the Monetary Authority of Singapore Academic Excellence Award. She obtained a Master's of Science degree in Accounting and Finance from London School of Economics (LSE) in 2013.

**Shem Jose W. Garcia,** 39 years old, Filipino, has been the Assistant Vice President for Corporate Communications since February 7, 2018 until taking up the position of AVP - Corporate Communications and Business Development Innovation in February 8, 2019. He also serves as the Executive Director of the Vivant Foundation. He previously served as a Director of Vivant Corporation from 2005-2008. He joined as a full-time employee of Vivant as the Senior Manager for Corporate Social Responsibility in 2014. He has a Bachelor Degree with Honors from the London College of Communications, University of the Arts London. He previously served as the Business Development Officer for JEG Development Corporation, where he currently serves in the Board of Advisors. He also serves as the President of the Board of Trustees for the Dominus Pascit Me Foundation and Corporate Secretary for Mon Y Liza Holdings.

**Joseph A. Lua, Jr.,** 39 years old, Flipino, has been the Assistant Vice President - Industry Affairs and Regulatory since February 8, 2019. He joined the company on September 17, 2013, as Regulatory Senior Manager under External Affairs Department. -Prior to joining the company, he worked in Cotabato Light and Power Company of the Aboitiz Group as Regulatory and Finance Manager where he pioneered the performance-based regulation rate methodology and implemented Oracle financial and customer billings for the company. He obtained his degree of BS accountancy from the University of San Carlos in 2001.

**(ii) Nominees for Election as Members of the Board of Directors**

The following served as members of the Board of Directors in 2018 and will continue to serve until the 2019 Regular Stockholders' Meeting during which their successors will be elected and qualified:

MR. DENNIS A. GARCIA
MR. EMIL ANDRE M. GARCIA
MR. GIL A. GARCIA II
MR. CHARLES SYLVESTRE A. GARCIA
MR. RAMONTITO E. GARCIA
MR. ARLO A. G. SARMIENTO
MR. JOSE MARKO ANTON G. SARMIENTO
MR. CARMELO MARIA LUZA BAUTISTA (Independent Director)
MR. ROGELIO Q. LIM (Independent Director)
AMB. RAUL CH. RABE (Independent Director)
ATTY. JESUS B. GARCIA, JR. (Independent Director)

**(iii) Procedure for Nomination**

In accordance with the Manual on Corporate Governance, the Nomination Committee had pre-screened the list of candidates nominated to become a member of the Board of Directors in accordance with the procedures, qualifications, disqualifications and guidelines specified in the said Manual.

In consonance with SEC Memorandum Circular No. 16, Series of 2002, no nominations for independent director shall be accepted at the floor during the stockholders' meeting during which such nominee is to be elected. However, independent directors shall be elected in the stockholders' meeting during which other members of the Board are to be elected.

**(iv) Term of Office of a Director**

Pursuant to the Company By-laws, the directors are elected at each regular annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election and until his successor is duly elected unless he resigns, dies or is removed prior to such election.

The eleven (11) directors, who should be stockholders of the Company, shall be elected annually by the stockholders during the annual stockholders' meeting, where at least a majority of the outstanding capital stock should be present in person or by proxy. The Directors shall serve for a term of one (1) year and until the election and qualification of their successors.

Any vacancy occurring in the Board of Directors may be filled by the remaining members of the Board, if they still constitute a quorum, by a majority vote; and the director so chosen shall serve for the unexpired term or until his successor is duly elected and qualified.

**2. Significant Employees**

The Company considers its entire work force as significant employees. Everyone is expected to work together as a team to achieve the Company's goals and objectives.

**(i) Family Relationships**

Messrs. Dennis N. A. Garcia, Charles Sylvestre A. Garcia and Gil A. Garcia, II are relatives within the second civil degree by consanguinity (brothers).

Mr. Ramontito E. Garcia is a relative within the fourth civil degree by consanguinity (cousin) of Messrs. Dennis N. A. Garcia, Charles Sylvestre A. Garcia and Gil A. Garcia, II.

Messrs. Arlo A. G. Sarmiento and Jose Marko Anton G. Sarmiento are relatives within the second civil degree of consanguinity (brothers) and relatives within the third civil degree by consanguinity (nephews) of Mr. Ramontito E. Garcia.

Mr. Emil Andre M. Garcia is the son of Dennis N. A. Garcia, and a relative within the third civil degree by consanguinity (nephew) of Messrs. Charles Sylvestre A. Garcia and Gil A. Garcia.

**(ii) Involvement in Certain Legal Proceedings**

To the knowledge and/or information of Vivant, the above-named Directors and Executive Officers are not, or have not, during the last five (5) years, been involved in criminal, bankruptcy or insolvency investigations or proceedings. There is also no bankruptcy petition filed by or against any business of which they were general partners or executive officers at the time of the bankruptcy or within two years prior to that time.

To the knowledge and/or information of the Issuer, the said persons have not been convicted by final judgment or any offense punishable by the laws of the Republic of the Philippines or of the laws of any other nation/country, including being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities.
To the knowledge and/or information of the Company, the said persons have not been found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation.

Vivant believes that in addition to the aforementioned officers, the entire workforce will contribute to its success.

## Item 10. Executive Compensation

### 1. Compensation of top five (5) executive officers

Information as to the aggregate compensation paid and accrued during the last two calendar years to the Company's President and the four (4) most highly compensated executive officers and directors are as follows:

**SUMMARY COMPENSATION TABLE**

Annual Compensation

| Name and Principal Position | Year | Salary | Bonus | Other Compensation |
|---|---|---|---|---|
| Top Five Highly Compensated Executives<br><br>1. Ramontito E. Garcia – President<br>2. Arlo A.G. Sarmiento – EVP and COO<br>3. Emil Andre M. Garcia – VP Operations<br>4. Minuel Carmela N. Franco – Treasurer, VP Finance, CFO, Compliance Officer<br>5. Jess Anthony N. Garcia – General Counsel, Corporate Secretary, CIO | | | | |
| All above-named officers as a group | 2018 | Php 26.1 mn | Php 13.3 mn | |
| | 2017 | Php 24.9 mn | Php 13.5 mn | |
| All other directors and officers as a group unnamed | 2018 | Php 27.0 mn | Php 7.0 mn | Php 10.8 mn |
| | 2017 | Php 21.4 mn | Php 6.1 mn | Php 11.3 mn |

### 2. Compensation of Directors

Other than honoraria for meetings attended, there are no standard arrangements pursuant to which directors of the Issuer are compensated, or are to be compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments for the last completed fiscal year and the ensuing year.

Other than the indirect compensation of two directors via consultancy contracts that were in place during the Company's last fiscal year, there are no arrangements, including consulting contracts, pursuant to which any director of the registrant was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided by such director. Aforementioned consultancy contracts involving indirect compensation of the registrant's two directors will be in place in the ensuing year.

**3. Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

Vivant has no existing compensation plan or arrangement with any of its executives in case of resignation or any other termination of employment or from a change in the management control of the Company.

**4. Warrants and Options Outstanding: Repricing**

There are no outstanding warrants or options held by the named executive officers, and all officers and directors as a group, as identified in Part III, Item 9. Moreover, at no time during the last completed fiscal year did the Company adjust or amend the exercise price of stock warrants or options previously awarded to the aforementioned officers and directors.

**Item 11. Security Ownership of Certain Beneficial Owners and Management**

**1. Security Ownership of Certain Record and Beneficial Owners (more than 5%)**

As of the date of preparation of this report, the following are the persons known to the Company to be the direct or indirect record or beneficial owner of more than 5% of any class of the Issuer's voting securities:

| Title of class | Name and address of record owner and relationship with issuer | Name of Beneficial Owner and Relationship with Record Owner | Citizenship | No. of Shares Held | Percent Held |
|---|---|---|---|---|---|
| Common Shares | Mai-I Resources Corporation 375-G Acacia St., Lahug, Cebu City / Stockholder | Mai-I Resources Corporation** | Filipino | 464,831,568 | 45.42% |
| Common Shares | JEG Development Corporation Advent Business Center Lahug, Cebu City / Stockholder | JEG Development Corporation* | Filipino | 311,524,642 | 30.44% |
| Common Shares | Global Business Power Corporation / Stockholder | Global Business Power Corporation*** | Filipino | 116,555,553 | 11.39% |
| Common Shares | PCD Nominee (Filipino) Participants are stockholders of the Company | Various PCD participants | Filipino | 68,773,942 | 6.70% |
| Common Shares | All directors (as a group) | All directors | Filipinos | 1,236,923 | 0.00% |

**Either Mr. Dennis N. A. Garcia or Mr. Gil A. Garcia, II or Mr. Charles Sylvestre A. Garcia, Directors of MAI-I Resources Corporation (MRC) will vote for the shares of MRC in Vivant in accordance with the directive of the MRC Board of Directors.*

***Either Mr. Ramontito E. Garcia or Mr. Jose Marko G. Sarmiento, Chairman and Chief Operating Officer of JEG Development Corporation (JDC), respectively, will vote for the shares of JDC in Vivant in accordance with the directive of the JDC Board of Directors.*

**** Carmelo Maria Luza Bautista. is expected to vote for the shares of Mirant Global Corporation (MGC) in Vivant in accordance with the directive of the MGC Board of Directors.*

## 2. Security Ownership of Management

As of the date of preparation of this report, the following are the amount and nature of ownership of each member of the Board of Directors and Officers[21]:

| Title of Class | Name of Beneficial Owners and Position | # of Shares and Nature of Ownership | | Citizenship | % Own |
|---|---|---|---|---|---|
| Common Shares | Dennis N.A. Garcia<br>Chairman of the Board and CEO | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 1,121,514 | | 0.1% |
| Common Shares | Emil Andre M. Garcia<br>Director/VP – Operations | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Gil A. Garcia II<br>Director | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Charles Sylvestre A. Garcia<br>Director | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Arlo A. G. Sarmiento<br>Director, EVP, COO | Direct | 86,800 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Ramontito E. Garcia<br>Director/President | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Jose Marko Anton G. Sarmiento<br>Director | Direct | 28,501 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Carmelo Maria Luza Bautista<br>Independent Director | Direct | 100 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Rogelio Q. Lim<br>Independent Director | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Raul Ch. Rabe<br>Independent Director | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Jesus B. Garcia, Jr.<br>Independent Director | Direct | 1 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Minuel Carmela N. Franco<br>Treasurer, SVP-Corporate and Shared Services, CFO, and Compliance Officer | Direct | 0 | Filipino | 0.0% |
| | | Indirect | 0 | | 0.0% |
| Common Shares | Atty. Jess Anthony N. Garcia<br>General Counsel, SVP-Business Development and Innovation, Corporate Secretary, and CIO | Direct | 12,200 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Atty. Joan A. Giduquio-Baron<br>Assistant Corporate Secretary | Direct | 0 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Mark D. Habana<br>VP – Commercial Affairs | Direct | 0 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Maria Victoria E. Sembrano<br>Senior AVP - Controllership | Direct | 0 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Atty. Macario C. Padullo Jr.<br>Senior AVP - Corporate Management Services | Direct | 11,700 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Cris C. Fernandez<br>Senior AVP-Technical Operations | Direct | 0 | Filipino | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Grant Clark<br>AVP-Corporate Services Group | Direct | 0 | Australian | 0% |
| | | Indirect | 0 | | 0% |
| Common Shares | Atty. Catherine S. Bringas<br>AVP-Legal | Direct | 0 | Filipino | 0% |
| | | Indirect | 0 | | 0% |

[21] Please refer to the footnotes on page 48 of the Report.

| Title of Class | Name of Beneficial Owners and Position | # of Shares and Nature of Ownership | | Citizenship | % Own |
|---|---|---|---|---|---|
| Common Shares | Erickson B. Omamalin | Direct | 0 | Filipino | 0% |
| | AVP-Business Development | Indirect | 300 | | 0% |
| Common Shares | Shem Jose W. Garcia | Direct | 0 | Filipino | 0% |
| | AVP- | Indirect | 0 | | 0% |
| Common Shares | Brigette Cecille N. Garcia | Direct | 0 | Filipino | 0% |
| | AVP- | Indirect | 0 | | 0% |
| Common Shares | Joseph A. Lua | Direct | 0 | Filipino | 0% |
| | AVP- | Indirect | 0 | | 0% |
| **TOTAL** | | **Direct** | **139,309** | | **0.0%** |
| | | **Indirect** | **1,121,814** | | **0.1%** |

**Item 12. Certain Relationships and Related Transactions**

During the last two (2) years there was no transaction with or involving the Company or any of its subsidiaries in which a director, executive officer, or stockholder owns ten percent (10%) or more of total outstanding shares and members of their immediate family had or is to have a direct or indirect material interest.

## PART IV – CORPORATE GOVERNANCE

The Company has adopted the Corporate Governance Self-Rating Form of the Securities and Exchange Commission (SEC), the criteria and the rating system therein as a means of measurement or determination of the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance.

The Company issued its Revised Manual on Corporate Governance (the Manual) in 2014 and has substantially complied with the provisions, and the same has been disclosed to the Commission. It has plans to improve corporate governance by adopting good corporate practice recognized in more progressive corporations and incorporating the same in its Manual.

In its continuing efforts to update its directors and executive officers with the best practices in corporate governance, the members of the board of directors and top-level management are encouraged to attend trainings and seminars. In 2016, the Company's directors and executive officers attended the Advanced Corporate Governance Training conducted by the Institute of Corporate Directors (ICD).

In compliance with the full disclosure rules on the Code of Corporate Governance, the Manual, and the reportorial requirement of the Commission on the extent of compliance by the company with its Manual, the undersigned hereby certifies that the company has substantially complied with the provisions thereof.

As of the date of this Report, there are no changes in the corporate governance structure and practice.

Please refer to the attached Integrated Annual Corporate Governance Report for 2017, which was filed with the SEC in 2018.

**Compliance with The Minimum Public Ownership Requirement**

The Company is compliant with the Rule on Minimum Public Ownership, as amended. Based on information that is publicly available to the Company and within the knowledge of its directors it has 12.6333% public float as of March 31, 2019, which is the latest practicable date.

## PART V - EXHIBITS AND SCHEDULES

### Item 13. Exhibits and Reports on SEC Form 17-C

**1. Exhibits**

Index of Exhibits

| Exhibit | Description |
|---|---|
| A | Vivant's Corporate Structure |
| B | Audited Financial Statements as of December 31, 2018 |
| C | Audited Financial Statements as of December 31, 2017 |
| D | Audited Financial Statements as of December 31, 2016 |
| | |

**2. Reports on SEC Form 17-C**

Reports filed by Vivant on SEC Form 17-C from March 2018 to March 2019 are as follows:

(1) Announcement of the date, time, and venue of the 2018 Annual Stockholders' Meeting dated April 20, 2018
(2) Declaration of Regular and Cash Dividends dated May 22, 2018
(3) Results of the 2018 Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors dated June 21, 2018
(4) Sale of shares in NR by VREC and VEC to North Renewable Energy Corp. dated October 16, 2018
(5) Promotions and changes in designations of certain executive officers of Vivant dated February 6, 2019
(6) Abolition of certain positions in Vivant dated February 28, 2019

**SIGNATURES**

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Cebu on the ____ day of April 2019.

APR 0 4 2019

By:

**DENNIS A. GARCIA**
Principal Executive Officer

**ARLO A.G. SARMIENTO**
Principal Operating Officer

**MINUEL CARMELA N. FRANCO**
Principal Finance Officer

**MARIA VICTORIA E. SEMBRANO**
Principal Accounting Officer

**JOAN A. GIDUQUIO-BARON**
Assistant Corporate Secretary

Republic of the Philippines)
City of Cebu )S.S.

APR 0 4 2019

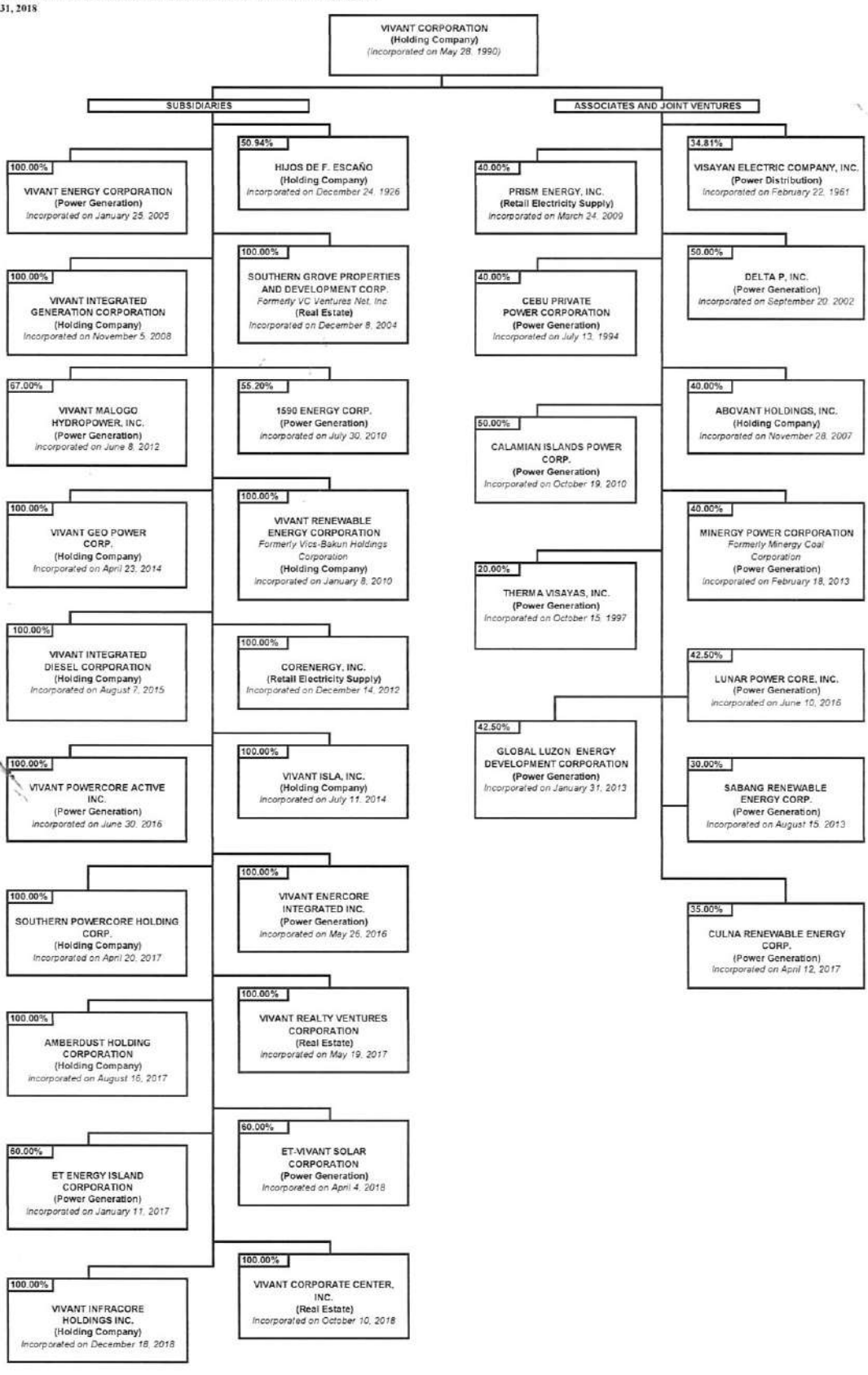
**SUBSCRIBED AND SWORN** to before me this _____ affiants exhibiting to me their Drivers' License or Passport details as follows:

| Names | Passport Number | Expiry Date |
|---|---|---|
| Dennis A. Garcia | P8023854A | 20 Jul 2028 |
| Arlo G. Sarmiento | P6592337A | 27 Mar 2028 |
| Minuel Carmela N. Franco | P2168178A | 5 Mar 2022 |
| Maria Victoria E. Sembrano | P4254944A | 03 Sept 2022 |
| Joan A. Giduquio-Baron | P0333694A | 21 Sept 2021 |

Doc. No. 299;
Page No. 61;
Book No. 51;
Series of 2019.

EVELYN T. NUÑEZ
Notarial Commission No. 7508
Notary Public for Cebu City, Carcar City and Municipality of San Fernando, Cebu
Until December 31, 2019
7th Floor, Ayala Life-FGU Center
Cebu Business Park, Cebu City
Tel. No. (6332)232-2375/232-2359
Roll No. 36733
PTR No. 1659911, 1-3-2019, Cebu City
IBP No. 68292, 1-10-2019, Cebu City
MCLE V-0005006, 12-18-14, Pasig City
TIN 123-820-222-000

**VIVANT CORPORATION AND SUBSIDIARIES**
**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP**
**DECEMBER 31, 2018**



VIVANT

## 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, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative 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 APR 0 4 2019 day of _____, 2019.

**Headquarters Cebu office**
9th floor | Ayala Life-FGU Center | Mindanao Avenue corner Biliran Road
Cebu Business Park | Cebu City | Philippines 6000 | T: +63 (32) 2342256

**SUBSCRIBED AND SWORN TO BEFORE ME,** a Notary Public for and in the City of Cebu, this 4th day of April, 2019. Affiants personally appeared **DENNIS N.A. GARCIA** with his Philippine Passport with No. P8023865A issued on July 21, 2018 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. 398;
Page No. 80;
Book No. XXVII;
Series of 2019.

ATTY. JOAN A. GIDUQUIO-BARON
ROLL NO. 41829 NOTARY PUBLIC
CEBU, PHILIPPINES

ATTY. JOAN A. GIDUQUIO-BARON
NOTARIAL COMMISSION NO. 018-19
NOTARY PUBLIC
UNTIL DEC. 31, 2020
UNITS 1501-1502 AYALA LIFE-FGU CENTER
CEBU BUSINESS PARK, CEBU CITY
ROLL NO. 41829
PTR NO. 0177135 - CEBU CITY - 1-9-2019
IBP LIFETIME NO. 019431 - CEBU CITY

# COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| | | | | | 1 | 7 | 5 | 2 | 2 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

VIVANT CORPORATION AND SUBSIDIARIES

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

Unit 907-908, Ayala Life-FGU Center, Mindanao Ave. Cor. Biliran Rd, Cebu Business Park, Bgy. Luz, Cebu City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | CRMD | N/A |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| vivant@vivant.com.ph | (032) 234-2256 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,425 | 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

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road,
Cebu Business Park, Cebu City

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

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

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

# INDEPENDENT AUDITOR'S REPORT

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

## 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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

## Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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.***

As disclosed in Notes 1 and 10 to the consolidated financial statements, the Group owns 34.81% of Visayan Electric Company, Inc. (VECO), an associate engaged in power distribution services, as at December 31, 2018 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 15% of the consolidated total assets and contributed 41% to the consolidated net income of the Group as at and for the year ended December 31, 2018. VECO's net income is significantly affected 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. In addition, VECO adopted PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, which involves the accounting for the sale of electricity which qualifies as a series of distinct services which is accounted for as one performance obligation that will be satisfied over the period when the services are expected to be provided.

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, 2018. We evaluated the design and tested the controls over VECO's billing and revenue process. These include 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 performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, then compared them with the rates used in the billing statements.

On PFRS 15 adoption, we obtained an understanding of the VECO's implementation process and tested the relevant controls. We reviewed the PFRS 15 adoption documentation and the updated accounting policies as prepared by management, including revenue streams identification and scoping, and contract analysis. We obtained sample contracts and reviewed the performance obligation identified to be provided by VECO, the determination of transaction price, and the timing of the revenue recognition based on the period when services are to be rendered.

**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, 2018, 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, 2018 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.

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 Ma. Genalin Q. Arevalo.

SYCIP GORRES VELAYO & CO.

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
SEC Accreditation No. 1613-A (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 224-024-926
BIR Accreditation No. 08-001998-123-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 7332522, January 3, 2019, Makati City

April 4, 2019

# VIVANT CORPORATION AND SUBSIDIARIES
# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | 2018 | 2017 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | ₱3,787,016,107 | ₱4,635,082,495 |
| Trade and other receivables (Note 7) | 705,129,504 | 532,943,339 |
| Advances to associates and stockholders (Note 16) | 78,792,412 | 83,736,329 |
| Inventories - at cost (Note 8) | 125,498,946 | 122,863,321 |
| Prepayments and other current assets (Note 9) | 66,557,561 | 51,336,670 |
| **Total Current Assets** | 4,762,994,530 | 5,425,962,154 |
| **Noncurrent Assets** | | |
| Investments in associates and joint ventures (Note 10) | 10,360,015,772 | 8,385,408,898 |
| Property, plant and equipment (Note 11) | 609,633,701 | 528,096,174 |
| Investment properties (Note 12) | 502,711,090 | 502,711,090 |
| Deferred income tax assets (Note 20) | 20,895,450 | 15,974,331 |
| Pension asset (Note 19) | 5,720,225 | – |
| Other noncurrent assets (Note 13) | 935,337,903 | 895,385,056 |
| **Total Noncurrent Assets** | 12,434,314,141 | 10,327,575,549 |
| **TOTAL ASSETS** | ₱17,197,308,671 | ₱15,753,537,703 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 14) | ₱685,926,061 | ₱465,048,687 |
| Advances from related parties (Note 16) | 18,411,063 | 72,406,345 |
| Income tax payable | 22,933,075 | 10,083,687 |
| Current portion of long-term notes payable (Note 15) | 25,428,019 | 25,616,946 |
| **Total Current Liabilities** | 752,698,218 | 573,155,665 |
| **Noncurrent Liabilities** | | |
| Long-term notes payable - net of current portion (Note 15) | 2,844,726,970 | 2,870,154,989 |
| Pension liability (Note 19) | 34,452,922 | 31,825,980 |
| Deferred income tax liabilities (Note 20) | 109,362,283 | 107,174,550 |
| Other noncurrent liabilities (Notes 14 and 23) | 885,604,321 | 885,470,311 |
| **Total Noncurrent Liabilities** | 3,874,146,496 | 3,894,625,830 |
| **Total Liabilities** | 4,626,844,714 | 4,467,781,495 |
| **Equity Attributable to Equity Holders of the Parent** | | |
| Capital stock - ₱1 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) | 1,398,039,947 | 1,472,399,497 |
| Remeasurement gain on employee benefits (Note 19) | 6,999,009 | 51,576 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2018** | 2017 |
| Share in remeasurement losses on employee benefits of associates and a joint venture (Note 10) | **(₱78,172,323)** | (₱74,564,481) |
| Unrealized valuation gain (loss) on financial assets at fair value through other comprehensive income (FVOCI) or available-for-sale (AFS) investments | **1,289,709** | (5,291) |
| Equity reserve | **(43,845)** | (43,845) |
| Retained earnings (Notes 10 and 21): | | |
| Appropriated for business expansion | **3,972,397,789** | 3,422,808,228 |
| Unappropriated | **5,802,739,051** | 4,850,457,874 |
| **Equity Attributable to Equity Holders of the Parent** | **12,135,045,487** | 10,702,899,708 |
| **Equity Attributable to Non-controlling Interests** (Note 21) | **435,418,470** | 582,856,500 |
| **Total Equity** | **12,570,463,957** | 11,285,756,208 |
| **TOTAL LIABILITIES AND EQUITY** | **₱17,197,308,671** | ₱15,753,537,703 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **REVENUE** | | | |
| Sale of power (Note 23) | | | |
| Generation | ₱1,508,376,403 | ₱2,616,758,725 | ₱2,365,257,193 |
| Ancillary services | 654,346,322 | 3,629,740 | – |
| Retail electricity supply | 67,066,411 | – | – |
| Equity in net earnings of associates and joint ventures (Note 10) | 1,796,151,495 | 1,290,172,769 | 1,288,333,002 |
| Management fees (Note 16) | 137,262,570 | 151,921,967 | 157,242,224 |
| Interest income (Note 6) | 117,057,368 | 72,537,322 | 59,249,869 |
| | 4,280,260,569 | 4,135,020,523 | 3,870,082,288 |
| **GENERATION COSTS** (Notes 17 and 23) | 1,938,813,443 | 2,187,471,307 | 1,792,937,494 |
| **OPERATING EXPENSES** | | | |
| Salaries and employee benefits (Note 18) | 174,759,438 | 157,851,176 | 134,616,326 |
| Professional fees (Note 16) | 103,823,911 | 72,216,680 | 53,886,293 |
| Taxes and licenses | 48,260,680 | 50,650,520 | 28,671,551 |
| Travel | 30,384,580 | 32,058,796 | 24,514,349 |
| Management fees (Note 16) | 23,234,666 | 24,789,731 | 25,565,790 |
| Depreciation and amortization (Notes 11 and 13) | 19,492,188 | 19,718,279 | 20,837,177 |
| Outside services | 15,241,219 | 9,593,470 | 5,914,874 |
| Representation | 9,559,710 | 7,754,481 | 5,392,548 |
| Communication and utilities | 9,554,682 | 7,039,981 | 5,777,843 |
| Rent and association dues | 9,528,118 | 11,212,411 | 7,809,735 |
| Other operating expenses (Note 17) | 59,255,901 | 49,941,108 | 66,169,841 |
| | 503,095,093 | 442,826,633 | 379,156,327 |
| **INCOME FROM OPERATIONS** | 1,838,352,033 | 1,504,722,583 | 1,697,988,467 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance costs (Note 15) | (173,176,699) | (176,224,968) | (177,545,814) |
| Gain on disposal of a joint venture and subsidiary (Notes 1 and 10) | 119,961,701 | 12,068,717 | – |
| Foreign exchange gains (losses) - net | 7,167,097 | (1,249,454) | 1,541,433 |
| Insurance claims (Note 7) | – | 87,129,498 | 43,499,170 |
| Gain on fair value measurement of investment properties (Note 12) | – | 72,501,133 | – |
| Other income - net (Notes 12 and 17) | 21,263,589 | 21,439,195 | (4,925,382) |
| | (24,784,312) | 15,664,121 | (137,430,593) |
| **INCOME BEFORE INCOME TAX** | 1,813,567,721 | 1,520,386,704 | 1,560,557,874 |
| **PROVISION FOR INCOME TAX** (Note 20) | 45,102,782 | 94,877,898 | 131,975,187 |
| **NET INCOME** | 1,768,464,939 | 1,425,508,806 | 1,428,582,687 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Remeasurement gain (loss) on employee benefits (Note 19) | **₱12,867,279** | (₱7,642,270) | ₱3,041,578 |
| Income tax effect | **(3,860,184)** | 1,942,528 | (418,665) |
| | **9,007,095** | (5,699,742) | 2,622,913 |
| Unrealized valuation gain on financial assets at FVOCI (Note 13) | **1,850,000** | – | – |
| Income tax effect | **(555,000)** | – | – |
| | **1,295,000** | – | – |
| Share in the remeasurement gains (losses) on employee benefits of associates, net of tax (Note 10) | **(3,607,842)** | (15,669,037) | 277,480 |
| Share in revaluation increment of an associate, net of tax (Note 10) | – | 291,996,394 | – |
| Item that will be reclassified to profit or loss: | | | |
| Unrealized valuation loss on AFS investments | – | – | (385,500) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | **6,694,253** | 270,627,615 | 2,514,893 |
| **TOTAL COMPREHENSIVE INCOME** | **₱1,775,159,192** | ₱1,696,136,421 | ₱1,431,097,580 |
| **NET INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | **₱1,730,807,717** | ₱1,259,926,428 | ₱1,293,430,993 |
| Non-controlling interests | **37,657,222** | 165,582,378 | 135,151,694 |
| | **₱1,768,464,939** | ₱1,425,508,806 | ₱1,428,582,687 |
| **TOTAL COMPREHENSIVE INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | **₱1,735,442,308** | ₱1,531,685,794 | ₱1,294,538,940 |
| Non-controlling interests | **39,716,884** | 164,450,627 | 136,558,640 |
| | **₱1,775,159,192** | ₱1,696,136,421 | ₱1,431,097,580 |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22) | **₱1.691** | ₱1.231 | ₱1.264 |

*See accompanying Notes to Consolidated Financial Statements.*

# VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

**FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016**

| | Equity Attributable to Equity Holders of the Parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 21) | Additional Paid-in Capital | Share in Revaluation Increment of an Associate | Remeasurement Gain on Employee Benefits | Share in Remeasurement Losses on Employee Benefits of Associates and a Joint Venture | Equity Reserve | Unrealized Valuation Gain (Loss) on AFS Investments | Retained Earnings (Note 21) Appropriated | Retained Earnings (Note 21) Unappropriated | | Equity Attributable to Non-Controlling Interests (Note 21) | Total Equity |
| Balances at January 1, 2018 | ₱1,023,456,698 | ₱8,339,452 | ₱1,472,399,497 | ₱51,576 | (₱74,564,481) | (₱43,845) | (₱5,291) | ₱3,422,808,228 | ₱4,850,457,874 | ₱10,702,899,708 | ₱582,856,500 | ₱11,285,756,208 |
| Effect of adoption of PFRS 9 (Note 7) | – | – | – | – | – | – | – | – | (17,547,419) | (17,547,419) | – | (17,547,419) |
| Balances at January 1, 2018 (restated) | 1,023,456,698 | 8,339,452 | 1,472,399,497 | 51,576 | (74,564,481) | (43,845) | (5,291) | 3,422,808,228 | 4,832,910,455 | 10,685,352,289 | 582,856,500 | 11,268,208,789 |
| Total comprehensive income (loss) | – | – | – | 6,947,433 | (3,607,842) | – | 1,295,000 | | 1,730,807,717 | 1,735,442,308 | 39,716,884 | 1,775,159,192 |
| Appropriation for business expansion | – | – | – | – | – | – | – | 1,700,000,000 | (1,700,000,000) | – | – | – |
| Reversal of appropriation for business expansion | – | – | – | – | – | – | – | (1,150,410,439) | 1,150,410,439 | – | – | – |
| Additional investments of non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | – | 9,474,009 | 9,474,009 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (74,359,550) | – | – | – | – | – | 74,359,550 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | – | (285,749,110) | (285,749,110) | (196,628,923) | (482,378,033) |
| Balances at December 31, 2018 | ₱1,023,456,698 | ₱8,339,452 | ₱1,398,039,947 | ₱6,999,009 | (₱78,172,323) | (₱43,845) | ₱1,289,709 | ₱3,972,397,789 | ₱5,802,739,051 | ₱12,135,045,487 | ₱435,418,470 | ₱12,570,463,957 |
| Balances at January 1, 2017 | ₱1,023,456,698 | ₱8,339,452 | ₱1,207,387,400 | ₱4,652,158 | (₱58,895,444) | ₱– | (₱5,291) | ₱2,778,783,261 | ₱4,493,321,226 | ₱9,457,039,460 | ₱570,305,733 | ₱10,027,345,193 |
| Total comprehensive income (loss) | – | – | 291,996,394 | (4,567,991) | (15,669,037) | – | – | | 1,259,926,428 | 1,531,685,794 | 164,450,627 | 1,696,136,421 |
| Appropriation for business expansion | – | – | – | – | – | – | – | 1,250,000,000 | (1,250,000,000) | – | – | – |
| Reversal of appropriation for business expansion | – | – | – | – | – | – | – | (605,975,033) | 605,975,033 | – | – | – |
| Additional investments of non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | – | 3,894,000 | 3,894,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (26,984,297) | – | – | – | – | – | 26,984,297 | – | – | – |
| Purchase of 1590's NCI and deconsolidation of VAHC | – | – | – | (32,591) | – | (43,845) | – | – | – | (76,436) | (13,893,860) | (13,970,296) |
| Cash dividends | – | – | – | – | – | – | – | – | (285,749,110) | (285,749,110) | (141,900,000) | (427,649,110) |
| Balances at December 31, 2017 | ₱1,023,456,598 | ₱8,339,452 | ₱1,472,399,497 | ₱51,576 | (₱74,564,481) | ₱(43,845) | (₱5,291) | ₱3,422,808,228 | ₱4,850,457,874 | ₱10,702,899,708 | ₱582,856,500 | ₱11,285,756,208 |
| Balances at January 1, 2016 | ₱1,023,456,598 | ₱8,339,452 | ₱1,234,371,697 | ₱3,625,317 | (₱59,172,924) | ₱– | ₱191,083 | ₱2,493,584,261 | ₱3,726,045,896 | ₱8,430,441,480 | ₱507,623,093 | ₱8,938,064,573 |
| Total comprehensive income (loss) | – | – | – | 1,026,841 | 277,480 | | (196,374) | | 1,293,430,993 | 1,294,538,940 | 136,558,640 | 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 | – | – | – | – | – | – | – | – | – | – | 12,210,000 | 12,210,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (26,984,297) | – | – | – | – | – | 26,984,297 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | – | (267,940,960) | (267,940,960) | (86,086,000) | (354,026,960) |
| Balances at December 31, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱1,207,387,400 | ₱4,652,158 | (₱58,895,444) | ₱– | (₱5,291) | ₱2,778,783,261 | ₱4,493,321,226 | ₱9,457,039,460 | ₱570,305,733 | ₱10,027,345,193 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | ₱1,813,567,721 | ₱1,520,386,704 | ₱1,560,557,874 |
| Adjustments for: | | | |
| Equity in net earnings of associates and joint ventures (Note 10) | (1,796,151,495) | (1,290,172,769) | (1,288,333,002) |
| Finance costs (Note 15) | 173,176,699 | 176,224,968 | 177,545,814 |
| Gain on disposal of a joint venture and subsidiary (Notes 1 and 10) | (119,961,701) | (12,068,717) | – |
| Interest income (Note 6) | (117,057,368) | (72,537,322) | (59,249,869) |
| Depreciation and amortization (Notes 11 and 13) | 31,385,096 | 106,515,695 | 108,249,891 |
| Pension expense (Note 19) | 12,271,812 | 8,838,915 | 8,838,434 |
| Unrealized foreign exchange losses (gains) | (7,167,097) | 1,249,454 | (2,501,097) |
| Loss (gain) on disposal of property and equipment (Note 17) | (508,480) | 5,045,198 | 24,623,822 |
| Gain on fair value remeasurement of investment properties (Note 12) | – | (72,501,133) | – |
| Operating income (loss) before working capital changes | (10,444,813) | 370,980,993 | 529,731,867 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (243,335,973) | (135,642,345) | (93,592,673) |
| Prepayments and other current assets | (61,072,335) | 13,573,919 | (223,116,310) |
| Inventories | (2,635,625) | (26,017,562) | (7,749,820) |
| Increase (decrease) in trade and other payables | 85,423,701 | 90,429,279 | (218,084,752) |
| Net cash generated from (used in) operations | (232,065,045) | 313,324,284 | (12,811,688) |
| Interest paid | (169,056,021) | (172,300,087) | (176,758,688) |
| Income taxes paid | (39,401,964) | (87,310,681) | (124,073,920) |
| Contributions to the retirement fund (Note 19) | (2,497,815) | (2,497,815) | (2,724,889) |
| Net cash flows from (used in) operating activities | (443,020,845) | 51,215,701 | (316,369,185) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additional investments and advances to associates and joint ventures (Note 10) | (1,524,709,815) | (558,842,078) | (558,071,005) |
| Dividends received from associates and joint ventures (Note 10) | 1,314,503,825 | 1,178,759,551 | 1,392,332,133 |
| Additions to property, plant and equipment (Note 11) | (114,274,889) | (27,853,213) | (48,543,697) |
| Interest received | 113,959,756 | 69,700,628 | 59,591,550 |
| Proceeds from: | | | |
| Redemption of preferred shares (Note 10) | 50,000,000 | – | – |
| Sale of an equity interest in a joint venture (Note 10) | 48,000,000 | – | – |
| Disposal of property and equipment | 1,927,269 | 53,855,824 | 210,729,493 |
| Sale of investment properties (Note 12) | – | 53,960,000 | – |
| Decrease (increase) in: | | | |
| Other noncurrent assets | 7,475,096 | (9,994,912) | 15,118,638 |
| Intangible assets (Note 13) | – | – | (1,645,533) |
| Net cash outflow from disposal of a subsidiary (Note 1) | – | (688,002) | – |
| Net cash flows from (used in) investing activities | (103,118,758) | 758,897,798 | 1,069,511,579 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2018** | 2017 | 2016 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments of: | | | |
| Cash dividends (Note 21) | **(₱346,320,996)** | (₱427,288,549) | (₱412,048,495) |
| Loans (Note 15) | **(30,000,000)** | (133,500,000) | (166,500,000) |
| Net proceeds (payments) in advances from related parties (see Note 25) | **57,753,105** | (54,663,263) | (26,814,535) |
| Additional investments and deposits for future stock subscriptions of non-controlling interests of a subsidiary (Note 21) | **9,474,009** | 3,894,000 | 12,210,000 |
| Proceeds from availment of notes payable - net of transaction costs (Note 15) | – | – | 207,000,000 |
| Net cash flows used in financing activities | **(309,093,882)** | (611,557,812) | (386,153,030) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **(855,233,485)** | 198,555,687 | 366,989,364 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **7,167,097** | (1,249,454) | 2,501,097 |
| **TOTAL CASH AT BEGINNING OF YEAR** | | | |
| Cash and cash equivalents (Note 6) | **4,635,082,495** | 4,437,776,262 | 4,068,285,801 |
| Restricted cash (Notes 9 and 13) | **650,000** | 650,000 | 775,000 |
| | **4,635,732,495** | 4,438,426,262 | 4,069,060,801 |
| **TOTAL CASH AT END OF YEAR** | | | |
| Cash and cash equivalents (Note 6) | **3,787,016,107** | 4,635,082,495 | 4,437,776,262 |
| Restricted cash (Notes 9 and 13) | **650,000** | 650,000 | 650,000 |
| | **₱3,787,666,107** | ₱4,635,732,495 | ₱4,438,426,262 |

*See accompanying 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. Vivant is the ultimate parent of the Group.

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 75.84%. 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 at December 31, 2018 and 2017:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | **Direct** | **Indirect** | Direct | Indirect |
| **Subsidiaries** | | | | |
| Hijos De F. Escaño (HDFE) | **50.94** | – | 50.94 | – |
| Southern Grove Properties and Development Corp. (SGPDC) [o] | **100.00** | – | 100.00 | – |
| Vivant Realty Ventures Corporation (VRVC) | – | **100.00** [r] [s] | – | 100.00 [r] [s] |
| Vivant Corporate Center, Inc. (VCCI) | – | **100.00** [x] | – | – |
| Vivant Infracore Inc. (VIHI) | 100.00 [w] | – | – | – |
| Vivant Energy Corporation (VEC) | **100.00** | – | 100.00 | – |
| Vivant Integrated Generation Corporation (VIGC) | – | **100.00** [a] | – | 100.00 [a] |
| Vivant Geo Power Corp. (VGPC) | – | **100.00** [b] [g] | – | 100.00 [b] [g] |
| Vivant Isla, Inc. (VII) | – | **100.00** [a] [h] | – | 100.00 [a] [h] |
| Vivant Renewable Energy Corporation (VREC) [f] | – | **100.00** [a] | – | 100.00 [a] |
| Corenergy Inc. (Core) | – | **100.00** [a] | – | 100.00 [a] |
| Vivant Integrated Diesel Corporation (VIDC) | – | **100.00** [a] [i] | – | 100.00 [a] [i] |
| Vivant Enercore Integrated Inc. (VEII) | – | **100.00** [a] [m] | – | 100.00 [a] [m] |
| Vivant Powercore Active Inc. (VPAI) | – | **100.00** [a] [n] | – | 100.00 [a] [n] |
| Southern Powercore Holding Corp. (SPHC) | – | **100.00** [b] [t] | – | 100.00 [b] [t] |
| Amberdust Holding Corporation (AHC) | – | **100.00** [b] [u] | – | 100.00 [b] [u] |
| Vivant-Malogo Hydropower, Inc. (VMHI) | – | **67.00** [a] | – | 67.00 [a] |
| 1590 Energy Corp. (1590 EC) | – | **55.20** [a] | – | 55.20 [a] |
| ET-Vivant Solar Corporation (ET Vivant) | – | **60.00** [a] [x] | – | – |
| ET Energy Island Corporation (ETEI) | – | **60.00** [a] [d] | – | – |

(Forward)

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | Direct | Indirect | Direct | Indirect |
| **Associates** | | | | |
| Visayan Electric Company, Inc. (VECO) | 34.81 (e) | – | 34.81 (e) | – |
| Prism Energy, Inc. (PEI) | 40.00 | – | 40.00 | – |
| Abovant Holdings, Inc. (AHI) | – | 40.00 (c) | – | 40.00 (c) |
| Cebu Private Power Corporation (CPPC) | – | 40.00 (a) | – | 40.00 (a) |
| Minergy Power Corporation (MPC) | – | 40.00 (c) | – | 40.00 (c) |
| Therma Visayas, Inc. (TVI) | – | 20.00 (c) | – | 20.00 (c) |
| Lunar Power Core Inc. (LPCI) | | 42.50 (c) (l) | | 42.50 (c) (l) |
| Global Luzon Energy Development Corporation (GLEDC) | – | 42.50 (c) (p) | – | 42.50 (c) (p) |
| Sabang Renewable Energy Corporation (SREC) | – | 30.00 (b) (q) | – | 30.00 (b) (q) |
| Culna Renewable Energy Corp. (CREC) | – | 35.00 (b) (v) | – | 35.00 (b) (v) |
| **Joint Ventures** | | | | |
| Calamian Islands Power Corp. (CIPC) | – | 50.00 (a) | – | 50.00 (a) |
| Vivant Sta. Clara Northern Renewables Generation Corporation (VSNRGC) | – | – | – | 47.64 (b) (j) |
| Delta P, Inc. (Delta P) | – | 50.00 (a) (k) | – | 50.00 (a) (k) |

*a. Indirect ownership through VEC*
*b. Indirect ownership through VREC*
*c. Indirect ownership through VIGC*
*d. Incorporated January 11, 2017. Ownership interest in ETEI is through ET Vivant*
*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*
*w. Incorporated December 18, 2018*
*x. Incorporated October 10, 2018*
*y. Incorporated April 4, 2018*

*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 and VCCI, both real estate company.

On March 5, 2015, during the Special Stockholders' Meeting and Special Board Meeting, the stockholders and BOD approved that one of 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 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 (until its disposal on October 12, 2018), 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).

VIHI

VIHI was incorporated on December 18, 2018 and its primary purpose is to engage in real estate business in all its branches and ramifications, to hold, construct, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, all kinds of real property such as lands, buildings, commercial centers, housing projects, mixed-use property, or to act as real estate broker, for itself or for others, for such fees as may be legal and proper. As of December 31, 2018, VIHI is still in the pre-operating stage.

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, 2018, 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, 2018, 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, 2018, Core has entered into Retail Supply Contract with two customers, Lafargeholcim Aggregate, Inc. and Tesoro Alegre Inc.

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, 2018, 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, 2018, 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, 2018, 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. On July 3, 2017, VRVC purchased from Hijos de F. Escaño, Inc. (HDFE), a company under common control, a parcel of land located at M.J. Cuenco Ave., Tinago Central, Barangay San Roque, Cebu City amounting to ₱27.9 million, with the intention of holding the land for capital appreciation. As of December 31, 2018, VRVC has recognized rental income from the purchased investment property (see Note 12).

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, 2018, 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, 2018, 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 Renewables Holdings, Inc. (ICS), among others. The principal place of business is located in Brgy. Luz, Cebu City, Philippines

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 in 2017 (see Note 14) which was subsequently collected in 2018.

VCCI
VCCI was incorporated on October 10, 2018 and its primary purpose is to engage in the real estate business. As of December 31, 2018, VCCI has not yet started its operations.

ET-Vivant
ET-Vivant Solar Corporation (ET Vivant) was incorporated on April 4, 2018. Its primary purpose is to engage in the business of owning, acquiring, commissioning, operating, maintaining, evaluating, developing, and constructing solar power generation and related facilities for lighting and power purposes and whole-selling the electric power to the wholesale electricity spot market, private distribution utilities, private electric cooperatives and other off-takers and selling and/or trading electricity for light, heat and power purposes within the cities, municipalities and provinces of the Philippines, as the Corporation may determine and 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. It has direct equity shareholdings in ETEI, entity engaged in the solar power generation business.

ETEI
ET Energy Island Corporation (ETEI) was incorporated on January 11, 2017 with the primary purpose to explore, develop, build, construct, install, commission, rehabilitate, maintain, own, manage, operate and invest in, bid for or otherwise acquire power generating plants and related facilities and to engage in the business of generating, marketing, selling and supplying electricity generated from solar photovoltaic systems and components; planning and construction of photovoltaic power plants and to provide consulting services associated with photovoltaic power plants, provided that it shall not operate a public utility. As of December 31, 2018, ETEI is still in its pre-operating stage.

*Associates.* VECO, PEI, AHI, CPPC, MPC, 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.

The registered office address of VECO is at J. Panis Street, Banilad, Cebu City, Philippines.

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.

PEI's registered principal office address is at Aboitiz Corporate Center, Gov. Manuel A. Cuenco Ave., Kasambagan, Cebu City, Philippines.

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.

Its principal place of business is located at Aboitiz Corporate Center, Gov. Manuel Cuenco Avenue, Kasambagan, Cebu City, Philippines.

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.

The registered office address of CPPC, which is also its principal place of business, is Old VECO Compound, Barangay Ermita, Carbon, Cebu City.

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.

The registered office of MPC is at Brgy. Mandangoa, Balingasag, Misamis Oriental.

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 2019.

The registered principal office of TVI is at Barangay Bato, Toledo City, Cebu.

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, 2018, LPCI has not yet started its commercial operations.

The registered office of LPCI is at 22F GT Tower International 6813 Ayala Avenue cor. H.V. dela Costa St, Makati City 1227.

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, 2018, GLEDC has not started its commercial operations.

The registered office of GLEDC is at 22nd Flr GT Tower International, Ayala Avenue Corner H.V. Dela Costa St. Bel-air, Makati City.

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, 2018, SREC has not yet started its commercial operations.

The registered principal office of SREC is at Km. 13 North National Highway, Sta. Lourdes, Puerto Princesa City, Palawan.

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, 2018, CREC has not yet started its commercial operations.

The registered principal office of CREC is at Sitio Lilibutin, Barangay Guadalupe, Coron, Palawan 5316.

*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 Busuanga, respectively.

The registered principal office of CIPC is at Sitio Lilibutin, Barangay Guadalupe Coron, Palawan, Philippines 5316.



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 of 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.

In October 2018, VEC and VREC sold to North Renewable Energy Corp. (NREC) their entire shareholdings in VSNRGC, representing 48% ownership, for a total consideration of ₱172.7 million. As of December 31, 2018, the investment in VSNRGC amounted to nil (see Note 10).

The registered principal office of VSNRGC is at Unit 907-908, Ayala Life-FGU Center, Mindanao Avenue Corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City, Philippines 6000.

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).

The registered principal office of Delta P is at Km. 13 North National Highway, Sta. Lourdes, Puerto Princesa City, Palawan.

*Authorization to Issue the Consolidated Financial Statements.* The consolidated financial statements of the Group as of and for the years ended December 31, 2018, 2017 and 2016 were approved and authorized for issuance by the Board of Directors (BOD) on April 4, 2019.

## 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 financial assets at FVOCI or 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.

## 3. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting 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. Entities are required to apply the amendments to: (1) share-based payment transactions that are unvested or vested but unexercised as of January 1, 2018, (2) share-based payment transactions granted on or after January 1, 2018 and to (3) modifications of share-based payments that occurred on or after January 1, 2018. Retrospective application is permitted if elected for all three amendments and if it is possible to do so without hindsight.

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

- 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 applied PFRS 9 using modified retrospective approach, and chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

  - The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures requirements in PFRS 7 are retained for the comparative period. Accordingly, the information presented for the comparative period does not reflect the requirements of PFRS 9.

- The Group discloses the accounting policies for both the current and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as at December 31, 2017.

- The difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application is recognized in the opening retained earnings or other component of equity, as appropriate.

- As comparative information is not restated, the Group is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*.

As at January 1, 2018, the Group has reviewed and assessed all its existing financial assets.

- *Classification and Measurement.* PFRS 9 requires debt instruments to be classified either at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVPL). Classification under PFRS for debt instruments depends on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI).

  An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity either from collecting contractual cash flows, selling financial assets, or both. If a debt instrument is held to collect contractual cash flows, it is classified as at amortized cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect the assets' contractual cash flows and to sell the assets are classified as FVOCI.

  Under the new model, FVPL is the residual category - financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost. Regardless of the business model assessment, an entity can elect to classify a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

  The Group's debt instruments which consist of trade and other receivables have contractual cash flows that are solely payments of principal and interest and accordingly measured at amortized cost under PFRS 9. There is no significant impact arising from measurement of these instruments under PFRS 9. PFRS 9 requires all equity instruments to be carried at FVPL, unless an entity chooses, on an instrument-by-instrument basis on initial recognition, to present fair value changes in other comprehensive income.

  Equity investments in non-listed companies previously classified as AFS financial assets are now classified and measured as equity instruments designated at FVOCI. The Group elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future. A net remeasurement gain was recognized for the increase in the fair value of these equity instruments as at December 31, 2018 amounting to ₱1.3 million net of income tax effect recognized in other comprehensive (see Note 13).

  The Group has assessed which business model apply to the financial assets held by the Group at the date of initial application of PFRS 9 and has classified its financial instruments into the appropriate PFRS 9 categories.



Summarized below is the effect of adoption of PFRS 9 in the classification of the Group's financial assets at January 1, 2018:

| Financial Instruments | Under PAS 39 Classification | Under PAS 39 Amount | Remeasurements/ Reclassifications | Under PFRS 9 Classification | Under PFRS 9 Amount |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Cash | Loans and receivables (measured at amortized cost) | ₱4,635,082,495 | ₱– | Financial assets measured at amortized cost | ₱4,635,082,495 |
| Trade and other receivables | Loans and receivables (measured at amortized cost) | 532,943,339 | (17,547,419) | Financial assets measured at amortized cost | 515,395,920 |
| AFS investments | AFS investments (measured at cost less any impairment) | 3,700,000 | – | Financial assets at FVOCI | 3,700,000 |
| Other receivables and restricted cash included under "Other noncurrent assets" | Loans and receivables (measured at amortized cost) | 702,858,356 | – | Financial assets measured at amortized cost | 702,858,356 |

There were no changes to the classification and measurement of financial liabilities. As at December 31, 2018 and 2017, the Company does not hold financial liabilities designated at FVPL.

- *Impairment.* The new impairment model for financial assets requires the recognition of allowance of impairment losses on financial assets based on expected credit losses, rather than only incurred credit losses as under current PAS 39. The main impact for the Group relates to trade receivables that do not contain a significant financing component, and as allowed by PFRS, the Group uses a simplified approach whereby the loss allowance will be measured at the initial recognition and throughout the life of the receivable at an amount equal to its lifetime expected credit losses. In calculating the expected credit loss rates, the Group considers the customers' ability to fulfill their obligations based on historical performance, current condition and credit evaluations, and adjusted for forward-looking factors specific to the debtors and the economic environment.

  The adoption of new impairment model under PFRS 9 resulted in an adjustment of ₱17.5 million to the opening balance of retained earnings.

In conclusion, the effect of adoption of PFRS 9 has no material impact on the Group's financial statements.

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

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 does not have activities that are predominantly connected with insurance or issue insurance contracts.

- 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.

While the Group elected to apply the modified retrospective approach in the adoption of PFRS 15, it did not result to a cumulative adjustment in the retained earnings as at January 1, 2018 based on the Group's evaluation.

The first step was to evaluate whether the existing contracts meet the definition of contracts with customers as per PFRS 15. The relevant attributes of contracts under PFRS 15 are: approval of the contracts by the parties to the contract, ability to identify each party's rights regarding the services to be rendered, clear payment terms, commercial substance of the contract and expectation that the consideration can be collected from the customer. The Group's customer contracts can be clearly identified based on the customer requirements with clear terms and individual pricing and thus no significant changes in the identification of contracts compared to existing revenue recognition practices were noted.

The second step was to identify the performance obligations included in revenue contracts. The Group's revenue mainly comprises of sale of services, where performance obligations are satisfied at the time services are rendered to the customer. No additional separate performance obligations have been identified in the contracts with customers that would materially impact the revenue recognition under PFRS 15 standard compared to the prior revenue recognition practices. No contracts were identified where the Group would act as an agent on behalf of another party. The adoption of PFRS 15 did not significantly change the timing or amount of revenue recognized under these arrangements.

The third and fourth steps relate to determining and allocating the transaction price. Transaction price is the amount the Group expects to receive in exchange for a fulfilled performance obligation. The prices received by the Group are fixed and do not include significant financing components. The contracts signed have no multiple performance obligations and there is no variable consideration over time. Accordingly, PFRS 15 does not materially change the principles applied by the Group regarding the determination and allocation of the transaction price.

The fifth step is about recognizing revenue in the period during which the services transfers to the customers. The terms applied by the Group in its revenue contracts determine the period, at which the services are to be rendered to the customer. As such, the revenue recognition principles did not change the timing or amount of revenue recognized. In addition, the timing of revenue recognition does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time.

In conclusion, the adoption had no significant impact on the substance of the principles applied by the Group to the amount and timing of revenue recognition.

- Amendments to PAS 28, *Investments in Associates and Joint Ventures, 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. Retrospective application is required.

  The amendments are not applicable to the Group since it is not a venture capital organization or an investment entity, nor does the Group have associates or joint ventures that are investment entities.

- 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. Retrospective application of the amendments is not required and is only permitted if this is possible without the use of hindsight.

  The Group's current practice is in line with the clarifications issued and does not have any effect on its consolidated financial statements.

- 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 non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transaction for each payment or receipt of advance consideration. Retrospective application of this interpretation is not required.

  The Group's current practice is in line with the clarifications issued and does not have any effect on its consolidated financial statements.

New Standards and Interpretation Issued and Effective after December 31, 2018
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 its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective Beginning On or After January 1, 2019*

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

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

  These amendments have no impact on the consolidated financial statements of the Group.

- 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.

  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 plans to apply the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Group also elects to use the exemptions provided by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

Moving forward, the Group's cash flows from operating activities will increase and cash flows from financing cash flows will decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The accounting for the lease arrangements where the Group acts as the lessor is not expected to significantly change under PFRS 16.

The Group is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date.

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

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

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

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

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

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its 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, *Income Taxes,* 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 plans to adopt the interpretation on the required effective date and does not expect it to have a significant impact on the consolidated financial statements.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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



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

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

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

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

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

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted.

  These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
  The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

  An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

  Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

*Effective Beginning On or After January 1, 2020*

- Amendments to PFRS 3, *Definition of a Business*

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

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

These amendments will apply to future business combinations of the Group.

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

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

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

  The Group plans to apply these amendments on the required effective date.

*Effective Beginning On or After January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

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

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

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

  The new standard has no impact on the consolidated financial statements of the Group because it is not engaged in the insurance business.

*Deferred Effectivity*

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

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

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

  These amendments have no impact on the financial statements of the Group.

## 4. Summary of Significant Accounting Policies

Current and Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or,
- Cash and cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or,
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Certain accounts in the financial statements as of December 31, 2017 were reclassified to conform with the presentation in the financial statements as of December 31, 2018.

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, financial assets at FVOCI or 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.

Financial Assets and Financial Liabilities

*Financial Instruments - Initial Recognition and Subsequent Measurement Prior to January 1, 2018.* 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, 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, 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, 2018 and 2017, 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.

*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 Group 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 Group 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 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.

*Financial Instruments - Initial Recognition and Subsequent Measurement Effective January 1, 2018*

- *Classification of Financial Assets.* Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing the financial assets. The Group classifies its financial assets into the following measurement categories:
  - Financial assets measured at amortized cost;
  - Financial assets measured at FVPL;
  - Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss
  - Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss

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

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

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

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

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

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

  As at December 31, 2018, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, advances to associate and stockholders, and other receivables included under "Other noncurrent assets" such as advances to a supplier, due from RFM Corporation, and security deposits and restricted cash under "Other current assets" (see Notes 6, 7 and 13).

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

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

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

  As at December 31, 2018, the Group has no equity instruments at FVPL.

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

from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

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

Dividends are recognized in profit or loss only when:
- the Group's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Group; and,
- the amount of the dividend can be measured reliably.

As at December 31, 2018, the Group has AFS investments at FVOCI amounting to ₱5.6 million and is presented as part of "Other noncurrent assets" account in Group's consolidated statement of financial position (see Note 13).

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

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

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

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

  The Group's financial liabilities include trade and other payables, notes payable and advances from related parties.

- *Impairment of Financial Assets.* Upon adoption of PFRS 9, the standard introduces the single, forward-looking "expected loss" impairment model, replacing the "incurred loss" impairment model under PAS 39.

  The Group recognizes ECL on debt instruments that are measured at amortized cost.

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

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

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

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.

- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.

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

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

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

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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



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

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

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

*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.

*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.

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

As at December 31, 2018 and 2017, the Group has investments in associates and joint ventures and property, plant and equipment which are classified as nonfinancial assets subject to impairment.

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

*Prior to the Adoption of PFRS 15.* Revenue is recognized based on the transfer of risks and rewards and 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.

*Upon Adoption of PFRS 15.* Revenue is measured based on the consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before these goods or services are transferred to the customer.

The following specific recognition criteria must also be met before revenue is recognized:

*Revenue from Contracts with Customers*

- *Sale of Power.* For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

  Revenue from power generation and ancillary services is recognized in the period actual capacity is delivered. Revenue is to be recognized over time since the customer simultaneously receives and consumes the benefits as the seller supplies power.

  Under PAS 18, revenue from power generation is recognized in the period actual capacity is generated. Under PFRS 15, the Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power which resulted to the same revenue recognition under PAS 18.

  Power retail supply also qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue should be recognized over time and will continue to recognize revenue based on amounts billed.

- *Management Fees.* Revenue from management fees, arising from services involving consultancy, management, technical, and services covered by Service Level Agreements (SLAs), are recognized over time under PFRS 15 when the related services are rendered based on the terms of the management and service contracts which is consistent under PAS 18.

For the year ended December 31, 2018, the Group has no variable consideration and the timing of revenue recognition currently does not result in any contract assets or liabilities and there are no unfulfilled performance obligations at any point in time.

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

*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.

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.

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-denominated 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 stock dividends 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, 2018 and 2017, the Group does not have dilutive common stock equivalents.

## 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, 2018 and 2017, the fair values of the Group's long-term notes payable amounted to ₱2,808.2 million and ₱3,011.1 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, 2018 and 2017, the carrying value of the Group's investment properties amounted to ₱502.7 million (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 and associates as of December 31, 2018 and 2017, the Group has the ability to exercise control or 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 organized as corporations under Philippine laws. 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 21.

*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.

*Revenue Recognition of an Associate.* The Group accounts for its investment in VECO under the equity method. VECO's net income is significantly affected by power distribution revenue which requires complex revenue recognition process wherein the revenue will depend on the electric consumption captured, the propriety of rates computed and applied across various customer groups and the systems involved in the billing process. Further in 2018, VECO adopted PFRS 15 which involves the application of judgment in the assessment of its revenue recognition process.

Group's share in net income of VECO amounted to ₱720.2 million, ₱725.4 million and ₱659.2 million in 2018, 2017 and 2016, respectively. Carrying amount of the investment amounted to ₱2,566.6 million and ₱2,613.0 million as of December 31, 2018 and 2017, respectively.

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 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 estimates 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.

As a result of the new lease agreement with PGLU for the use of BDPP, the Company assessed to extend the useful lives of its plant machineries and equipment and leasehold improvements by five (5) years effective January 1, 2018. In 2018, depreciation expense on plant machineries and equipment and leasehold improvements amounted to 9.9 million. Had there been no change in the estimated useful lives, depreciation expense on plant machineries and equipment and leasehold improvements in 2018 would have amounted to 54.7 million.

The carrying value of the property, plant and equipment amounted to ₱609.6 million and ₱528.1 million as of December 31, 2018 and 2017, respectively (see Note 11). The carrying value of intangible assets (relating to software costs under "Other noncurrent assets") amounted ₱12,520 and ₱0.3 million as of December 31, 2018 and 2017, 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:

| | **2018** | 2017 |
|---|---|---|
| Property, plant and equipment (see Note 11) | **₱609,633,701** | ₱528,096,174 |
| Investment properties (see Note 12) | **502,711,090** | 502,711,090 |
| Intangible assets (see Note 13) | **12,520** | 286,020 |

There were no impairment indicators on the Group's nonfinancial assets in 2018, 2017 and 2016.

*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 ₱26.8 million and ₱25.1 million as of December 31, 2018 and 2017, respectively (see Note 20).

Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of ₱740.1 million and ₱673.6 million as of December 31, 2018 and 2017, respectively, and minimum corporate income tax (MCIT) of ₱2.4 million and ₱1.4 million as of December 31, 2018 and 2017, 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.

## 6. Cash and Cash Equivalents

| | 2018 | 2017 |
|---|---|---|
| Cash on hand and in banks | **₱131,456,495** | ₱284,111,486 |
| Short-term investments | **3,655,559,612** | 4,350,971,009 |
| | **₱3,787,016,107** | ₱4,635,082,495 |

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 ₱117.1 million, ₱72.5 million and ₱59.2 million in 2018, 2017 and 2016, respectively.

## 7. Trade and Other Receivables

| | 2018 | 2017 |
|---|---|---|
| Trade receivables: | | |
| Third parties | **₱337,276,315** | ₱165,022,934 |
| Related parties (see Notes 16 and 23) | **265,080,128** | 127,608,462 |
| Dividends receivable (see Notes 10 and 16) | **47,500,000** | 104,200,000 |
| Advances to shareholders of a joint venture | **16,173,188** | 17,792,000 |
| Accounts receivable (see Note 16) | **53,606,943** | 28,858,278 |
| Accrued interest (see Note 6) | **8,455,867** | 6,736,241 |
| Advances to officers and employees | **2,260,639** | 3,097,115 |
| Insurance claims receivable | – | 87,080,666 |
| Others | **29,177,032** | 27,005,689 |
| | **759,530,112** | 567,401,385 |
| Less allowance for impairment losses | **54,400,608** | 34,458,046 |
| | **₱705,129,504** | ₱532,943,339 |

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. These also include Ancillary Services Procurement Agreement (ASPA) with National Grid Corporation of the Philippines (NGCP) and bilateral sales contracts with other parties which are noninterest-bearing and generally have credit terms of 30 days (see Note 23).

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 ₱87.1 million were subsequently collected in 2018.

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 are 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". In 2018, management has recognized ₱17.5 million allowance for impairment losses from Vics-Amlan's receivables as part of PFRS 9 transition adjustment.

The following table shows the movement in the allowance for impairment losses of receivables:

| | **2018** | 2017 |
|---|---|---|
| At January 1, as previously reported | **₱34,458,046** | ₱34,458,046 |
| PFRS 9 transition adjustment | **17,547,419** | – |
| At January 1, as restated | **52,005,465** | 34,458,046 |
| Provision | **2,395,143** | – |
| At December 31 | **₱54,400,608** | ₱34,458,046 |

Significant portion of the impairment losses pertains to individually impaired accounts.

## 8. **Inventories** - at Cost

| | **2018** | 2017 |
|---|---|---|
| Spare parts | **₱81,918,974** | ₱77,445,823 |
| Heavy fuel oil | **38,382,557** | 38,186,921 |
| Light fuel oil | **2,650,941** | 2,775,364 |
| Lube oil | **2,546,474** | 4,455,213 |
| | **₱125,498,946** | ₱122,863,321 |

The total cost of inventories recognized under "Generation costs" in the consolidated statements of comprehensive income amounted to ₱388.8 million, ₱846.7 million and ₱348.0 million in 2018, 2017 and 2016, respectively (see Note 17).

## 9. Prepayments and Other Current Assets

| | 2018 | 2017 |
|---|---|---|
| Prepaid expenses | **₱32,762,283** | ₱28,267,386 |
| Input VAT - current | **21,206,727** | 7,694,620 |
| Creditable withholding taxes - current | **4,948,707** | 3,811,585 |
| Advances to suppliers and other parties | **4,657,714** | 6,225,706 |
| Others | **2,982,130** | 5,337,373 |
| | **₱66,557,561** | ₱51,336,670 |

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.

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

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.

Advances to suppliers and other parties include advance payments to suppliers for purchases of goods and services for the succeeding year.

"Others" include cash restricted amounting to ₱0.7 million 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:

| | | Percentage of Ownership | | |
|---|---|---|---|---|
| | Nature of Business | **2018** | 2017 | 2016 |
| Associates: | | | | |
| VECO | Power distribution | **34.81** | 34.81 | 34.81 |
| LPCI | Power generation | **42.50** | 42.50 | 42.50 |
| CPPC | Power generation | **40.00** | 40.00 | 40.00 |
| PEI | Power generation | **40.00** | 40.00 | 40.00 |
| AHPC | Power generation | – | – | 30.00 |
| AHI | Holding company | **40.00** | 40.00 | 40.00 |
| MPC | Power generation | **40.00** | 40.00 | 40.00 |
| TVI | Power generation | **20.00** | 20.00 | 20.00 |
| GLEDC | Power generation | **42.50** | 42.50 | 42.50 |
| SREC | Power generation | **30.00** | 30.00 | 30.00 |
| CREC | Power generation | **35.00** | 35.00 | – |
| Joint ventures: | | | | |
| VSNRGC | Power generation | **–** | 47.64 | 47.64 |
| CIPC | Power generation | **50.00** | 50.00 | 50.00 |
| Delta P | Power generation | **50.00** | 50.00 | 50.00 |

| | 2018 | 2017 |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | ₱6,385,506,194 | ₱5,758,516,616 |
| Additions | 1,524,709,815 | 519,552,078 |
| Redemption of preferred shares | (50,000,000) | – |
| Disposal of a joint venture and associate | (334,848,001) | (13,062,500) |
| Deposits converted to equity | 72,584,007 | 120,500,000 |
| At December 31 | 7,597,952,015 | 6,385,506,194 |
| Deposit for future stock subscription: | | |
| At January 1 | 107,426,776 | 190,042,976 |
| Additions | – | 39,290,000 |
| Disposal of an associate | – | (1,406,200) |
| Transfer to advances (see Note 25) | (34,842,769) | – |
| Deposits converted to equity | (72,584,007) | (120,500,000) |
| At December 31 | – | 107,426,776 |
| Accumulated share in net earnings: | | |
| At January 1 | ₱494,640,912 | ₱349,371,397 |
| Equity in net earnings of associates and joint ventures | 1,796,151,495 | 1,290,172,769 |
| Cash dividends received and receivable | (1,257,803,825) | (1,183,387,551) |
| Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment | 74,359,550 | 26,984,297 |
| Accumulated losses in disposed investment in a joint venture and an associate | 334,848,001 | 11,500,000 |
| At December 31 | 1,442,196,133 | 494,640,912 |
| Accumulated share in other comprehensive income: | | |
| Share in revaluation increment: | | |
| At January 1 | 1,472,399,497 | 1,207,387,400 |
| 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 | (74,359,550) | (26,984,297) |
| At December 31 | 1,398,039,947 | 1,472,399,497 |
| Share in remeasurement losses on employee benefits of associates and a joint venture: | | |
| At January 1 | 74,564,481 | 58,895,444 |
| Share in the remeasurement losses on employee benefits | 3,607,842 | 15,669,037 |
| At December 31 | 78,172,323 | 74,564,481 |
| | 1,319,867,624 | 1,397,835,016 |
| | ₱10,360,015,772 | ₱8,385,408,898 |

The Group has unrecognized share in losses from results of operations of its investments in an associate and a joint venture amounting to nil, ₱255.2 million and ₱364.0 million in 2018, 2017 and 2016, respectively. Total cumulative unrecognized losses amounted to nil and ₱987.7 million, as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱1,123.5 million and ₱494.6 million, respectively, are not available for distribution to the stockholders unless declared by the associates and joint ventures.

LPCI
In 2017, VIGC made additional advances for future stock subscription to LPCI amounting to ₱81.2 million.

On May 21, 2018, LPCI's application for the increase in authorized capital stock was approved by the SEC and ₱72.6 million of the advances for future stock subscription was subsequently converted to investment in LPCI. As of December 31, 2018 and 2017, total carrying amount of investment in LPCI amounted to ₱114.2 million and ₱149.0 million, respectively.

AHI
Total carrying amount of investment in AHI amounted to ₱1,542.5 million and ₱1,526.1 million as of December 31, 2018 and 2017, respectively.

MPC
As of December 31, 2018 and 2017, the carrying amount of the Group's investment in MPC amounted to ₱3,373.6 million and ₱2,873.6 million, respectively.

TVI
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. In 2018, VEC made additional infusion to TVI amounting to ₱1,345.4 million.

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. In 2018, VIGC made additional investments in TVI which consists of 1,440,771 common stock with a par value of ₱100 per share amounting to ₱144.1 million.

The carrying amount of the Group's investment in TVI amounted to ₱2,230.6 million and ₱750.8 million as of December 31, 2018 and 2017, respectively.

SREC
In 2018, VEC and VREC made additional infusions to SREC amounting to ₱26.3 million and ₱8.8 million, respectively. VREC also assigned its preferred shared to VEC amounting to ₱3.8 million. As of December 31, 2018 and 2017, the carrying amount of investment in SREC amounted to ₱38.4 million and ₱4.8 million, respectively.

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 carrying amount of the Group's investment in CREC amounted to ₱1.7 million and ₱1.9 million as of December 31, 2018 and 2017, respectively.

VSNRGC

In October 2018, VEC and VREC sold their shareholdings in VSNRGC consisting of 272,842,751 preferred shares and 61,982,247 common shares with a carrying value of nil, respectively, for a total consideration of ₱172.8 million. VREC's advances from VSNRGC were also settled upon the disposal of the investment in VSNRGC. The Group recognized a net gain amounting to ₱120.0 million as a result of the sale.

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. In 2018, VEC redeemed 50,000,000 preferred shares at 1 per share amounting to ₱50.0 million. The redemption and additional investment did not change the Group's ownership interest in Delta P as of December 31, 2018 and 2017, respectively.

Total carrying amount of investment in Delta P amounted to ₱253.1 million and ₱309.1 million as of December 31, 2018 and 2017, respectively.

AHPC

In 2017, the Group sold to ICS its entire shareholdings in Vics-Amlan (AHPC's parent company), representing 60% common ownership in December 2017. As a result, AHPC ceased to be an associate of the Group. The total consideration on the sale consists of cash amounting to ₱0.6 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 following are selected financial information of the material associates of the Group as of and for the years ended December 31, 2018, 2017 and 2016:

MPC

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total current assets | **₱6,810,187,968** | ₱5,253,556,771 | ₱4,137,173,423 |
| Total noncurrent assets | **18,844,793,106** | 19,550,172,005 | 18,405,379,004 |
| Total current liabilities | **3,763,785,276** | 3,062,725,290 | 1,514,605,133 |
| Total noncurrent liabilities | **13,466,971,860** | 14,606,943,308 | 13,993,655,309 |
| Total equity | **8,424,223,938** | 7,134,060,178 | 7,034,291,985 |
| Gross revenue | **6,460,257,152** | 1,442,431,898 | 69,152,840 |
| Operating profit | **2,364,087,068** | 330,065,445 | 51,358,036 |
| Net income | **1,290,163,571** | 249,768,193 | 47,594,367 |
| Total comprehensive income | **1,249,885,979** | 249,768,193 | 47,594,367 |
| Group's share in net income | **499,954,392** | 99,907,277 | 19,037,747 |
| Proportion of Group's ownership | **40.00%** | 40.00% | 40.00% |
| Group's share in equity of associate | **3,369,689,575** | 2,853,624,071 | 2,813,716,794 |
| Goodwill and other adjustments | **20,003,133** | 20,003,209 | 20,003,209 |
| Carrying amount of investment | **3,373,581,671** | 2,873,627,280 | 2,833,720,003 |
| Dividends received from MPC | – | 60,000,000 | – |

VECO

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total current assets | **₱5,516,842,215** | ₱3,011,070,128 | ₱2,832,322,877 |
| Total noncurrent assets | **15,377,842,395** | 15,294,983,259 | 13,549,932,843 |
| Total current liabilities | **8,653,918,654** | 5,525,417,060 | 4,306,718,828 |
| Total noncurrent liabilities | **4,849,374,355** | 5,247,912,930 | 5,565,555,738 |
| Total equity | **7,391,391,601** | 7,532,723,397 | 6,509,981,154 |
| Gross revenue | **22,872,102,010** | 21,106,780,542 | 22,419,251,099 |
| Operating profit | **2,610,553,829** | 2,560,731,237 | 2,414,608,430 |
| Net income | **2,069,010,466** | 2,083,884,256 | 1,893,721,319 |
| Other comprehensive income (loss) | **(13,695,488)** | 792,152,621 | (5,071,030) |
| Total comprehensive income | **2,055,314,978** | 2,876,036,877 | 1,888,650,289 |
| Group's share in net income | **720,222,543** | 725,400,110 | 659,204,391 |
| Proportion of Group's ownership | **34.81%** | 34.81% | 34.81% |
| Group's share in equity of associate | **2,572,943,416** | 2,622,141,014 | 2,266,124,440 |
| Other adjustments | **(6,297,551)** | (9,183,113) | (9,124,100) |
| Carrying amount of the investment | **2,566,645,865** | 2,612,957,901 | 2,257,000,340 |
| Dividends received from VECO | **761,827,180** | 645,190,876 | 713,260,234 |

AHI

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total current assets | **₱663,293,192** | ₱795,592,070 | ₱751,610,593 |
| Total noncurrent assets | **3,192,609,002** | 3,019,191,652 | 3,070,016,416 |
| Total equity | **3,855,902,194** | 3,814,783,722 | 3,821,610,678 |
| Gross revenue | **827,694,289** | 742,400,726 | 1,120,522,589 |
| Operating profit | **827,280,645** | 742,279,413 | 1,120,278,753 |
| Net income | **827,276,646** | 742,251,648 | 1,120,271,955 |
| Other comprehensive income (loss) | **5,841,826** | (1,078,604) | 3,162,634 |
| Total comprehensive income | **833,118,472** | 741,173,044 | 1,123,434,589 |
| Group's share in net income | **330,910,658** | 296,900,659 | 448,108,782 |
| Proportion of Group's ownership | **40.00%** | 40.00% | 40.00% |
| Group's share in equity of associate | **1,542,360,878** | 1,525,913,489 | 1,528,644,271 |
| Goodwill and other adjustments | **165,628** | 165,628 | 165,503 |
| Carrying amount of the investment | **1,542,526,506** | 1,526,079,117 | 1,528,809,774 |
| Dividends received from AHI | **316,800,000** | 299,199,875 | 527,999,899 |

TVI

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total current assets | **₱9,070,767,989** | ₱1,479,200,068 | ₱5,850,442,436 |
| Total noncurrent assets | **33,964,848,628** | 32,765,223,175 | 23,447,825,163 |
| Total current liabilities | **997,639,695** | 1,156,472,362 | 626,115,211 |
| Total noncurrent liabilities | **31,257,472,322** | 29,643,442,033 | 27,332,069,060 |
| Total equity | **10,780,504,600** | 3,444,508,848 | 1,335,852,172 |
| Gross revenue | **701,944,853** | 683,215 | 1,181,892 |
| Operating income (loss) | **(46,961,311)** | (58,037,579) | 41,996,851 |
| Net income (loss) | **(46,961,311)** | (58,037,579) | 41,996,851 |
| Other comprehensive income (loss) | **(1,485,679)** | 678,853 | – |
| Total comprehensive income (loss) | **(48,446,990)** | (57,358,726) | 41,996,851 |
| Group's share in net income (loss) | **(9,392,262)** | (11,607,516) | 8,399,370 |
| Proportion of Group's ownership | **20.00%** | 20.00% | 20.00% |
| Group's share in equity of associate | **2,156,100,920** | 688,901,770 | 267,170,434 |
| Goodwill and other adjustments | **33,926,358** | 21,265,094 | 20,209,941 |
| Carrying amount of the investment | **2,190,027,278** | 710,166,863 | 287,380,376 |
| Dividends received from TVI | **–** | – | – |

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:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Income from continuing operations | **₱229,876,533** | ₱241,484,049 | ₱138,463,960 |
| Net income | **254,456,164** | 179,572,022 | 153,582,712 |
| Other comprehensive income (loss) | **(880,037)** | 874,700 | 755,652 |
| Total comprehensive income | **253,576,127** | 180,446,722 | 154,338,364 |
| Aggregate carrying amounts | **687,234,451** | 662,577,737 | 539,512,452 |

The associates and joint ventures had no contingent liabilities or capital commitments as of December 31, 2018 and 2017.

## 11. Property, Plant and Equipment

| | 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | | |
| At January 1 | ₱30,631,600 | ₱590,052,875 | ₱45,977,395 | ₱47,338,032 | ₱45,382,264 | ₱9,753,477 | ₱18,587,779 | ₱39,874,660 | ₱828,198,08 |
| Additions | – | 1,081,018 | – | 10,202,583 | 13,537,638 | 1,230,419 | 25,988,516 | 62,234,715 | 114,274,889 |
| Reclassification | – | – | – | – | 500,803 | | 5,464,961 | (5,965,764) | – |
| Disposal (see Note 16) | – | – | – | (5,209,023) | (169,642) | – | – | – | (5,378,665) |
| At December 31 | 30,631,600 | 591,133,893 | 45,977,395 | 52,331,592 | 59,851,063 | 10,983,896 | 50,041,256 | 96,143,611 | 937,094,306 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| At January 1 | – | 206,331,876 | 21,815,672 | 25,895,347 | 33,397,734 | 5,378,176 | 7,283,103 | – | 300,101,908 |
| Depreciation | – | 9,887,536 | 1,635,690 | 8,279,547 | 7,782,948 | 1,920,659 | 1,605,216 | – | 31,111,596 |
| Disposal | – | – | – | (3,583,257) | (169,642) | – | – | – | (3,752,899) |
| At December 31 | – | 216,219,412 | 23,451,362 | 30,591,637 | 41,011,040 | 7,298,835 | 8,888,319 | – | 327,460,605 |
| **Net Book Value** | ₱30,631,600 | ₱374,914,481 | ₱22,526,033 | ₱21,739,955 | ₱18,840,023 | ₱3,685,061 | ₱41,152,937 | ₱96,143,611 | ₱609,633,701 |

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | | |
| At January 1 | ₱– | ₱648,898,491 | ₱45,977,395 | ₱43,060,037 | ₱37,505,325 | ₱8,368,111 | ₱18,239,350 | ₱32,588,780 | ₱834,637,489 |
| 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 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| 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 |
| **Net Book Value** | ₱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 |

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 was 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 ₱40.2 million and ₱29.3 million as of December 31, 2018 and 2017, respectively, are still being used by the Group.

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Generation costs (see Note 17) | **₱11,892,908** | ₱86,797,416 | ₱87,412,714 |
| Operating expenses | **19,218,688** | 18,876,409 | 18,345,528 |
| | **₱31,111,596** | ₱105,673,825 | ₱105,758,242 |

## 12. Investment Properties

| | **2018** | | |
|---|---|---|---|
| | **Land** | **Buildings** | **Total** |
| At January 1 and December 31 | **₱502,711,090** | **₱–** | **₱502,711,090** |

| | 2017 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| At January 1 | ₱511,423,557 | ₱3,378,000 | ₱514,801,557 |
| 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 | ₱502,711,090 | ₱– | ₱502,711,090 |

Some of the Group's properties are leased out to outside parties to earn rental income, for a lease period of three years. Total rental income amounting to ₱1.8 million, ₱1.0 million, ₱2.1 million in 2018, 2017 and 2016, respectively, were recorded as part of "Other income" in the consolidated statements of comprehensive income.

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 in a fair value change amounting to ₱72.5 million.

In 2018, the Group did not obtain an updated valuation report since there is no significant change in the fair value of the Group's investment properties from the last valuation date until December 31, 2018. There were no significant developments to the properties and within its vicinity in 2018.

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 nil, ₱72.5 million and nil in 2018, 2017 and 2016, respectively.

Real property taxes pertaining to the land amounting to ₱0.6 million in 2018 and ₱0.8 in 2017 and 2016, are included under "Taxes and licenses" account in the consolidated statements of comprehensive income. No other direct operating costs were incurred relating to investment properties in 2018, 2017, and 2016.

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.

## 13. Other Noncurrent Assets

| | 2018 | 2017 |
|---|---|---|
| Advances to suppliers and other parties | **₱701,135,323** | ₱701,146,923 |
| Creditable withholding taxes - noncurrent | **177,422,849** | 131,774,695 |
| Input VAT – noncurrent | **40,692,878** | 40,389,120 |
| Financial assets at FVOCI | **5,550,000** | – |
| Software cost – net | **12,520** | 286,020 |
| AFS investments | – | 3,700,000 |
| Others - net of allowance for impairment loss of ₱48.05 million | **10,524,333** | 18,088,298 |
| | **₱935,337,903** | ₱895,385,056 |

Advances to Suppliers and Other Parties

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 and to parties to comply with certain contractual obligations.

Financial Assets at FVOCI/AFS Investments

On January 1, 2018, the Group reclassified its AFS investments amounting to ₱3.7 million to financial assets at FVOCI. These investments were irrevocably designated at FVOCI as the Group intends to hold these investments in the foreseeable future (see Note 3).

As of December 31, 2018 and 2017, the carrying values of the financial assets at FVOCI and AFS investments, respectively, are as follows:

| | 2018 | 2017 |
|---|---|---|
| Cost: | | |
| Cebu Country Club, Inc. | **₱3,400,000** | ₱3,400,000 |
| Tower Club, Inc. | **300,000** | 300,000 |
| | **3,700,000** | 3,700,000 |
| Fair value remeasurement gain (loss): | | |
| Cebu Country Club, Inc. | **2,100,000** | – |
| Tower Club, Inc. | **(250,000)** | – |
| | **1,850,000** | – |
| | **₱5,550,000** | ₱3,700,000 |

*Cebu Country Club, Inc.* In 2012, the Group acquired proprietary ownership shares in the Cebu Country Club, Inc. The non-listed equity security is stated at fair value based on the published buying and selling prices of these shares.

*Tower Club, Inc.* In 2014, the Group acquired proprietary ownership shares in the Tower Club, Inc. The non-listed equity security is stated at fair value based on the published buying and selling prices of these shares.

Fair value hierarchy disclosures for the Group's financial assets at FVOCI and AFS investments are provided in Note 24.

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:

| | 2018 | 2017 |
|---|---|---|
| **Cost** | | |
| At January 1 and December 31 | **₱7,473,524** | ₱7,473,524 |
| **Accumulated Amortization** | | |
| At January 1 | **7,187,504** | 6,345,634 |
| Amortization for the year | **273,500** | 841,870 |
| At December 31 | **7,461,004** | 7,187,504 |
| **Net Book Value** | **₱12,520** | ₱286,020 |

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, 2018 and 2017. 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

| | 2018 | 2017 |
|---|---|---|
| Trade payables | **₱1,189,402,584** | ₱1,171,275,513 |
| Deferred output VAT | **157,972,574** | 64,412,092 |
| Dividends payable | **140,876,292** | 4,819,251 |
| Output VAT | **24,127,148** | 59,531,435 |
| Accrued interest (see Note 15) | **25,188,025** | 25,450,401 |
| Accounts payable | **12,641,294** | 9,869,523 |
| Accrued expenses | **6,644,574** | 5,641,040 |
| Accrued taxes payable | **3,171,177** | 5,009,714 |
| Refundable deposits | **1,791,977** | – |
| Others | **9,714,737** | 4,510,029 |
| | **1,571,530,382** | 1,350,518,998 |
| Less noncurrent portion | **885,604,321** | 885,470,311 |
| | **₱685,926,061** | ₱465,048,687 |

Trade payables significantly consist of liabilities for a subsidiary's purchases of inventories from its suppliers and advances from a supplier. 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 HDFE. Dividends declared relating to non-controlling interests amounted to ₱134.4 million, ₱141.9 million and ₱86.1 million in 2018, 2017 and 2016, 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

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 and were settled on March 17 and April 12, 2017, respectively, bear an interest of 2.75% per annum. These were further renewed for another 6 months which matured on September 13 and October 5, 2017, respectively. The loans were unsecured.

On January 19, 2018, the Company obtained a local bank loan amounting to ₱85.0 million which bears an interest at 3.40% per annum. The Company settled the loan on April 19, 2018.

Interest expense recognized in the consolidated statements of comprehensive income on these loans in 2018, 2017 and 2016, amounted to ₱0.7 million, ₱2.2 million and ₱2.6 million, respectively.

Long-term Notes Payable

| | 2018 | 2016 |
|---|---|---|
| Fixed Rate Corporate Notes (FRCN): | | |
| ₱1.0 billion at 5.7271% interest per annum | **₱960,000,000** | ₱970,000,000 |
| ₱2.0 billion at 5.4450% interest per annum | **1,920,000,000** | 1,940,000,000 |
| | **2,880,000,000** | 2,910,000,000 |
| Less unamortized debt issue costs | **9,845,011** | 14,228,065 |
| | **2,870,154,989** | 2,895,771,935 |
| Less current portion - net of unamortized debt issue costs of ₱4.4 million in 2018 and ₱4.2 million in 2017 | **25,428,019** | 25,616,946 |
| | **₱2,844,726,970** | ₱2,870,154,989 |

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:

| | 2018 | 2017 |
|---|---|---|
| Within one year | **₱30,000,000** | ₱30,000,000 |
| More than one year but not more than five years | **2,850,000,000** | 2,880,000,000 |
| | **₱2,880,000,000** | ₱2,910,000,000 |

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, 2018 and 2017.

Interest expense recognized in the consolidated statements of comprehensive income related to these notes payable amounted to ₱172.4 million, ₱174.0 million and ₱175.0 million in 2018, 2017 and 2016, respectively, and the related accrued interest expense as of December 31, 2018 and 2017 amounted to ₱25.2 million and ₱25.5 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:

| | | 2018 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| **Associates** | | | | | |
| Sale of power (see Note 16g): | | | | | |
| VECO | **₱908,693,009** | **₱162,768,166** | **₱–** | 30 days; noninterest-bearing | Unsecured; no impairment |
| PEI | **238,889,868** | **102,311,962** | **50** | 30 days; Noninterest-bearing | Unsecured; no impairment |
| Management fees (see Note 16d): | | | | | |
| CPPC | **35,303,624** | **22,604,516** | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | 2018 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| Service income (see Note 16d): | | | | | |
| CPPC | ₱17,631,353 | ₱19,219,749 | ₱– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | 1,665,690 | 616 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SREC | 3,982,500 | 3,825,195 | – | 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 |
| CREC | 350,440 | 350,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances to (see Note 16h): | | | | | |
| LPCI | 74,480,907 | 75,189,495 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| GLEDC | 1,529,683 | 831,869 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Dividends (see Note 16f): | | | | | |
| VECO | 761,827,180 | – | – | noninterest-bearing | Unsecured |
| PEI | 4,104,769 | – | – | noninterest-bearing | Unsecured |
| AHI | 316,800,000 | – | – | noninterest-bearing | Unsecured |
| CPPC | 87,571,875 | 40,000,000 | – | noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| Management fees (see Note 16d): | | | | | |
| Delta P | 9,057,012 | 1,464,217 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CIPC | 3,721,320 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Service income (see Note 16d): | | | | | |
| CIPC | 250,820 | 54,472 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Delta P | 4,321,191 | 4,735,468 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances to (see Note 16a): | | | | | |
| Delta P | 509,694 | 530,938 | – | noninterest-bearing | Unsecured; no impairment |
| CIPC | 64,204 | 315,034 | – | noninterest-bearing | Unsecured; no impairment |
| Dividends (see Note 16f): | | | | | |
| CIPC | 10,000,000 | 7,500,000 | – | noninterest-bearing | Unsecured; no impairment |
| Delta P | 77,500,000 | – | – | noninterest-bearing | Unsecured; no impairment |
| Advances from (see Note 16b): | | | | | |
| Delta P | 326 | – | 326 | payable on demand; noninterest-bearing | Unsecured |
| **Stockholders with Significant Influence** | | | | | |
| Management fees expense (see Note 16e) | | | | | |
| JDC | 5,513,866 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 8,270,799 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Service fee (see Note 16d) | | | | | |
| JDC | 77,500 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| **Stockholders with No Significant Influence** | | | | | |
| Advances to (see Note 16c): | | | | | |
| JGS | – | 42,676 | – | payable on demand; noninterest-bearing | Unsecured; no impairment |

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| **Associates** | | | | | |
| 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 |
| 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 16f): | | | | | |
| VECO | 645,190,876 | – | – | noninterest-bearing | Unsecured |
| AHI | 299,199,875 | – | – | noninterest-bearing | Unsecured |
| CPPC | 120,996,800 | 29,200,000 | – | noninterest-bearing | Unsecured; no impairment |
| MPC | 60,000,000 | 60,000,000 | – | noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| 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 |
| 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 |
| Dividends (see Note 16f): | | | | | |
| 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 |

(Forward)

| Category | Volume | 2017 Outstanding Balance Receivables | Payables | Terms | Conditions |
|---|---|---|---|---|---|
| **Stockholders with Significant Influence** | | | | | |
| Management fees expense (see Note 16e) | | | | | |
| JDC | ₱6,135,893 | ₱– | ₱– | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 9,203,839 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| **Stockholders with No Significant Influence** | | | | | |
| Advances to (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 |

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 October 2018, these advances were settled upon disposal of the investment in VSNRGC (See Note 10). As of December 31, 2018, carrying amount of advances from VSNRGC amounted to nil.

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

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 amounting to ₱69.5 million, ₱90.9 million and ₱75.4 million in 2018, 2017, and 2016, respectively.

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, 2018 and 2017 amounted to ₱51.9 million and ₱14.0 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. In 2018, VECO, PEI, AHI, CIPC, CPPC, and DPI declared additional dividends amounting to ₱761.8 million, ₱4.1 million, ₱316.8 million, ₱10.0 million, ₱87.6 million, and ₱77.5 million, respectively. 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).

g. 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 ₱908.6 million and ₱807.6 million in 2018 and 2017, respectively. As of December 31, 2018 and 2017, the Group's trade receivables from VECO for the sale of power amounted to ₱162.8 million and ₱76.8 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 ₱238.9 million and ₱61.0 million in 2018 and 2017, respectively. As of December 31, 2018, the Group's trade receivables from PEI for the sale of power amounted to ₱102.3 million (see Note 7).

h. 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.

GLEDC paid its outstanding advances from VIGC amounting to ₱77.2 million on December 17, 2018.

As of December 31, 2018 and 2017, VIGC recognized a receivable from GLEDC amounting to ₱0.8 million and ₱76.5 million, respectively.

i. In 2017, HDFE sold investment properties to VECO amounting to ₱54.0 million (see Note 12).

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 ₱37.9 million and ₱34.4 million as of December 31, 2018 and 2017, respectively (see Note 19). Other than the contributions to the Fund, the Group does not have any other transactions with the Fund in 2018 and 2017.

Compensation and Benefits of Key Management Personnel

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

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Short-term employee benefits | **₱88,162,681** | ₱81,133,487 | ₱64,896,506 |
| Post-employment pension benefits (see Note 19) | **6,016,720** | 4,851,293 | 3,964,194 |
| | **₱94,179,401** | ₱85,984,780 | ₱68,860,700 |

## 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, 2018:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Purchased power (see Notes 23c, 23f and 23g) | **₱1,117,734,415** | ₱888,118,045 | ₱937,236,875 |
| Heavy fuel oil (see Notes 8 and 23b) | **327,518,653** | 680,654,465 | 314,834,946 |
| Rent (see Note 23d) | **171,358,716** | 166,367,686 | 161,522,025 |
| Salaries, wages and employee benefits (see Note 18) | **62,103,280** | 56,487,184 | 53,414,742 |
| Contractual and outside services | **46,240,919** | 22,439,298 | 80,399,590 |
| Supply and metering charges | **41,083,815** | 22,687,577 | 26,481,857 |
| Materials and supplies (see Note 8) | **33,818,940** | 123,250,984 | 6,982,993 |
| Insurance | **29,351,305** | 29,038,389 | 24,522,116 |
| Professional fees (see Note 16e) | **28,350,000** | 28,385,000 | 28,718,707 |
| Repairs and maintenance | **19,822,008** | 14,252,055 | 20,828,591 |
| Light fuel oil (see Note 8) | **16,314,377** | 16,416,871 | 11,032,325 |
| Depreciation (see Note 11) | **11,892,908** | 86,797,416 | 87,412,714 |
| Lube oil (see Note 8) | **11,182,659** | 26,354,148 | 15,167,289 |
| Royalty fees (see Note 23c) | **10,255,790** | 14,623,386 | 15,816,036 |
| Market fees (see Notes 23c and 23f) | **2,117,263** | 2,781,941 | 2,395,880 |
| Light and power | **1,044,646** | 1,146,048 | 1,504,463 |
| Taxes and licenses | **979,468** | 1,217,285 | 436,242 |
| Transportation | **857,812** | 660,222 | 701,132 |
| Others | **6,786,469** | 5,793,307 | 3,528,971 |
| | **₱1,938,813,443** | ₱2,187,471,307 | ₱1,792,937,494 |

Other Operating Expenses

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Corporate social responsibility | **₱16,385,988** | ₱3,280,772 | ₱2,352,179 |
| Office supplies | **7,464,349** | 5,729,590 | 5,544,422 |
| Marketing expenses | **7,332,293** | 7,399,504 | 1,200,000 |
| Stand-by letter of credit | **6,577,791** | 9,855,418 | 11,055,353 |
| Directors' per diem (see Note 18) | **4,864,300** | 6,621,650 | 4,014,968 |
| Repairs and maintenance | **3,538,646** | 3,296,682 | 3,537,743 |
| Regulatory expenses | **2,511,631** | 2,446,335 | 2,104,086 |
| Stockholders' meeting expenses | **928,992** | 817,847 | 744,503 |
| Project costs written-off | **–** | – | 21,172,701 |
| Others | **9,651,911** | 10,493,310 | 14,443,886 |
| | **₱59,255,901** | ₱49,941,108 | ₱66,169,841 |

Regulatory expenses represent payments of administrative fees charged by the PSE and SEC and other charges.

Project costs written-off pertains to advances that have been written off in 2016 since management does not expect any economic benefits from pursuing the related projects.

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

Other Income - net

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Intercompany services | **₱7,340,278** | ₱10,913,274 | ₱6,910,796 |
| Rent income | **838,665** | 5,254,068 | 8,719,587 |
| Gain (loss) in disposal of property, plant and equipment (Note 11) | **508,480** | (5,045,198) | (24,623,622) |
| Others | **12,576,166** | 10,317,051 | 4,068,057 |
| | **₱21,263,589** | ₱21,439,195 | (₱4,925,182) |

Others include billings to associates for the technical services rendered other than management fees, reimbursements from third parties for equipment station use, and billings to related parties for the shared expenses initially paid by the Group on behalf of related parties (Note 16).

## 18. Personnel Expenses

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Salaries, wages and employee benefits | **₱238,862,718** | ₱205,499,445 | ₱179,192,634 |
| Directors' compensation and benefits (see Note 17) | **4,864,300** | 6,621,650 | 4,014,968 |
| Pension expense (see Note 19) | **12,271,812** | 8,838,915 | 8,838,434 |
| | **₱255,998,830** | ₱220,960,010 | ₱192,046,036 |

## 19. Retirement Plans

The Group has a funded, noncontributory, defined benefit pension plan covering all regular, permanent employees of the Parent Company, 1590 EC and VEC. 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:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Current service cost | **₱11,040,307** | ₱7,939,720 | ₱8,111,854 |
| Net interest cost | **1,231,505** | 899,195 | 726,580 |
| Pension expense | **₱12,271,812** | ₱8,838,915 | ₱8,838,434 |

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

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Remeasurement gain (loss) on defined benefit plan | **₱13,996,176** | (₱6,097,031) | ₱3,290,367 |
| Return on assets excluding amount included in net interest cost | **(1,128,896)** | (1,545,239) | (248,789) |
| | **₱12,867,280** | (₱7,642,270) | ₱3,041,578 |

The pension liability pertaining to the Parent Company's funded retirement plan and VEC's unfunded retirement plan as of December 31, 2018 and 2017 follows:

| | **2018** | 2017 |
|---|---|---|
| Present value of defined benefit obligation | **₱48,992,064** | ₱45,956,101 |
| Fair value of plan assets | **(14,539,142)** | (14,198,052) |
| Pension liability | **₱34,452,922** | ₱31,758,049 |

The pension liability (asset) pertaining to 1590 EC's funded retirement plan as of December 31, 2018 and 2017 follows:

| | 2018 | 2017 |
|---|---|---|
| Present value of defined benefit obligation | **₱17,628,040** | ₱20,306,854 |
| Fair value of plan assets | **(23,348,265)** | (20,238,923) |
| Pension liability (asset) | **(₱5,720,225)** | ₱67,931 |

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

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱66,262,955** | ₱49,918,115 |
| Current service cost | **11,040,307** | 7,939,720 |
| Interest cost on defined benefit obligation | **3,313,018** | 2,308,089 |
| Remeasurement loss (gain) due to: | | |
| Experience adjustments | **(2,615,146)** | 4,210,177 |
| Changes in demographic assumptions | **(1,946,310)** | 991,134 |
| Changes in financial assumptions | **(9,434,720)** | 895,720 |
| At December 31 | **₱66,620,104** | ₱66,262,955 |

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

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱34,436,975** | ₱32,075,505 |
| Contributions to the retirement fund | **2,497,815** | 2,497,815 |
| Interest income included in net interest cost | **2,081,513** | 1,408,894 |
| Return on assets excluding amount included in net interest cost | **(1,128,896)** | (1,545,239) |
| At December 31 | **₱37,887,407** | ₱34,436,975 |

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

| | 2018 | 2017 |
|---|---|---|
| At January 1 | **₱31,825,980** | ₱17,842,610 |
| Pension expense for the year | **12,271,812** | 8,838,915 |
| Remeasurement loss (gain) recognized for the year | **(12,867,280)** | 7,642,270 |
| Contributions to retirement fund | **(2,497,815)** | (2,497,815) |
| At December 31 | **₱28,732,697** | ₱31,825,980 |

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

| | 2018 | 2017 |
|---|---|---|
| Fixed income securities: | | |
| Unitized investment trust funds | **34.96%** | 41.00% |
| Time certificate of deposit | **47.37%** | 20.74% |
| Savings deposit | **0.06%** | 0.09% |
| Investment in government securities | **17.26%** | 37.99% |
| Accrued interest receivable | **0.35%** | 0.18% |
| Total plan assets | **100.00%** | 100.00% |

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

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:

| | **2018** | 2017 |
|---|---|---|
| Discount rate | **7.35%-7.43%** | 5.79%–5.80% |
| Future salary increase rate | **7.00%** | 7.00% |

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, 2018 and 2017, assuming all other assumptions were held constant:

| | Increase (Decrease) | Present Value Change of Defined Benefit Obligation | |
|---|---|---|---|
| | | **2018** | 2017 |
| Discount rate | +100 basis points | **(₱5,208,831)** | (₱6,547,905) |
| | −100 basis points | **6,139,555** | 7,950,905 |
| Future salary increase rate | +100 basis points | **6,476,776** | 8,141,099 |
| | −100 basis points | **(5,588,521)** | (6,833,684) |

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the defined benefit obligation at the reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date), while all other assumptions remained unchanged.

The average duration of the defined benefit obligation as of December 31, 2018 and 2017 is 18.7–20.4 years and 20.4–24.2 years, respectively.

The Group does not expect to contribute to the defined benefit plan in 2019.

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, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Less than one year | **₱22,976,131** | ₱20,890,173 |
| More than one year to five years | **11,747,471** | 8,932,877 |
| More than five years to 10 years | **26,325,047** | 14,395,465 |
| More than 10 years to 15 years | **74,453,914** | 66,126,037 |
| More than 15 years to 20 years | **160,745,528** | 151,427,202 |
| More than 20 years | **219,812,220** | 352,750,122 |
| Total | **₱516,060,311** | ₱614,521,876 |

## 20. Income Taxes

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current | **₱39,679,470** | ₱90,407,602 | ₱115,629,566 |
| Final | **12,571,882** | 6,532,901 | 8,744,210 |
| | **52,251,352** | 96,940,503 | 124,373,776 |
| Deferred | **(7,148,570)** | (2,062,605) | 7,601,411 |
| | **₱45,102,782** | ₱94,877,898 | ₱131,975,187 |

The reconciliation of income tax expense computed at the applicable statutory rates to income tax expense follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Income before income tax | **₱1,813,567,721** | ₱1,520,386,704 | ₱1,560,557,874 |
| Tax calculated at 30% statutory rate | **₱544,070,316** | ₱456,116,011 | ₱468,167,362 |
| Adjustments for the tax effects of: | | | |
| Equity in net earnings of associates and joint ventures | **(538,845,449)** | (387,051,831) | (386,499,901) |
| Unrecognized deferred income tax assets on NOLCO and MCIT | **89,271,807** | 81,576,654 | 56,341,026 |
| Gain on sale of an associate subjected to capital gains tax | **(35,988,510)** | – | – |
| Interest income subject to final tax | **(32,379,988)** | (10,408,119) | (7,282,461) |
| Non-deductible expenses | **7,846,227** | 11,598,309 | 5,143,800 |
| Difference of OSD over deductible expenses | – | (22,146,917) | 4,312,599 |
| Realized gain on change in fair value of investment properties | – | (14,894,907) | – |
| Non-deductible impairment loss | – | (6,391,855) | – |
| Others | **11,128,379** | (13,519,447) | (8,207,238) |
| | **₱45,102,782** | ₱94,877,898 | ₱131,975,187 |

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

| | 2018 | 2017 |
|---|---|---|
| Deferred income taxes recognized in profit or loss: | | |
| Deferred income tax assets on: | | |
| Allowance for impairment losses | **₱13,923,328** | ₱13,923,328 |
| Net pension liability | **12,738,887** | 10,567,846 |
| | **26,662,215** | 24,491,174 |
| Deferred income tax liabilities on: | | |
| Unamortized debt issue costs | **2,953,503** | 4,268,419 |
| Unrealized gain on changes in unitized investment in trust fund | **–** | 3,889,466 |
| Unrealized foreign exchange gain | **37,916** | 28,456 |
| | **2,991,419** | 8,186,341 |
| Deferred income tax liabilities recognized in other comprehensive income: | | |
| Defined benefit obligation | **2,220,346** | 330,502 |
| Unrealized valuation gain at FVOCI | **555,000** | – |
| | **2,775,346** | 330,502 |
| Net deferred income tax assets | **₱20,895,450** | ₱15,974,331 |

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

| | 2018 | 2017 |
|---|---|---|
| Deferred income taxes recognized in profit or loss: | | |
| Deferred income tax liabilities on: | | |
| Unrealized fair value gain on investment property | **₱106,595,700** | ₱106,595,700 |
| Unrealized foreign exchange gain | **1,258,612** | 1,141,411 |
| Accrued rent | **9,774** | – |
| | **107,864,086** | 107,737,111 |
| Deferred income tax asset on net pension liability | **185,984** | 276,402 |
| | **107,678,102** | 107,460,709 |
| Deferred income tax liability (asset) related to defined benefit obligation recognized as other comprehensive income | **1,684,181** | (286,159) |
| | **₱109,362,283** | ₱107,174,550 |

In 2018 and 2017, 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:

| | 2018 | 2017 |
|---|---|---|
| NOLCO | **₱740,140,220** | ₱673,579,172 |
| MCIT | **2,361,158** | 1,426,062 |

NOLCO and MCIT as of December 31, 2018 and 2017 can be claimed as deduction against future taxable income and income tax due in the next three years from the year of incurrence from 2016-2018 and 2015-2017, 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 generally affect businesses on a prospective basis, the management assessed that the same did 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, 2018 and 2017.

| | |
|---|---|
| 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, 2018 and 2017, the Parent Company's issued capital stock all consists of common shares.

The Parent Company has 1,425 stockholders as of December 31, 2018, 1,434 stockholders as of December 31, 2017 and 1,443 stockholders as of December 31, 2016, 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:

| | | | |
|---|---|---|---|
| Date of declaration | **May 11, 2018** | May 12, 2017 | May 12, 2016 |
| Date of record | **June 6, 2018** | May 26, 2017 | June 3, 2016 |
| Date of payment | **July 3, 2018** | June 22, 2017 | June 29, 2016 |

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Dividends declared: | | | |
| Regular dividends | **₱285,749,110** | ₱203,156,155 | ₱192,921,585 |
| Special dividends | – | 82,592,955 | 75,019,375 |
| | **₱285,749,110** | ₱285,749,110 | ₱267,940,960 |
| Dividends per share | **₱0.2792** | ₱0.2792 | ₱0.2618 |

Appropriation of Retained Earnings for Business Expansion
On December 20, 2013, a resolution was passed and duly approved by the BOD allowing the participation and investment by the Parent Company in prospective power plant projects in the Visayas and Mindanao. In the same board meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1,856.5 million to be used for future investments in these projects which was started in the first quarter of 2014.

Out of the 2013 retained earnings appropriation, the Parent Company invested ₱491.9 million in 2014 in two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

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 additional ₱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 additional ₱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 additional ₱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 additional ₱1.3 billion to be used for future investments in these projects which are expected to be completed starting 2018.

Out of the 2017 retained earnings appropriation, the Parent Company made additional investment of ₱1.2 billion in 2018 on the power plant projects in the Visayas and in the rooftop solar installation project, which amount was then reverted to unappropriated retained earnings.

In a BOD meeting held on December 12, 2018, the BOD has determined that the Parent Company's operation require to continue the existing appropriations for the investments in the two on-going power plant projects in the Visayas, one on-going power plant project in Mindanao and a rooftop solar installation project. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to additional ₱1.7 billion to be used for the investment in one on-going power plant project in the Visayas estimated to start commercial operations in 2021, new power generation projects in Luzon and the Visayas, and for infrastructure projects in the Visayas starting 2019.

Unappropriated Retained Earnings

The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱4.0 billion and ₱3.9 billion as of December 31, 2018 and 2017, 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 2017, VMHI received cash amounting to ₱11.8 million for the issuance of capital stock, ₱3.9 million of which was contributed by non-controlling interest. In the same year, the Group sold to ICS its entire shareholdings in VAHC, representing 60% common ownership and acquired additional shares from ICS in 1590 EC representing 2.5% ownership interest in the latter, in exchange for a net cash consideration amounting to ₱13.3 million. As a result of this transaction, the balance of non-controlling interest in 1590 EC was reduced by ₱13.9 million

In 2018, ET Vivant and ETEI received cash with a total amount of ₱9.5 million from its non-controlling interest for the issuance of capital stock.

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). As of December 31, 2018 and 2017, the Group's ownership in 1590 EC is 55.2% and 52.7%, respectively.

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| Total current assets | **₱729,554,489** | ₱586,650,571 | ₱1,231,392,026 |
| Total noncurrent assets | **1,135,187,658** | 1,117,972,503 | 542,371,291 |
| Total current liabilities | **637,246,205** | 273,371,808 | 1,204,437,354 |
| Total noncurrent liabilities | **888,126,741** | 886,695,940 | 10,817,227 |
| Total equity | **339,369,201** | 545,134,175 | 558,508,736 |
| Sale of power | **1,253,955,509** | 1,811,340,518 | 1,530,605,858 |
| Operating profit | **113,877,671** | 290,303,931 | 389,568,838 |
| Net income | **89,637,567** | 289,018,147 | 296,072,471 |
| Total comprehensive income | **94,235,026** | 286,625,439 | 299,446,829 |
| Net income attributable to non-controlling interests | **40,157,630** | 129,480,130 | 140,042,279 |
| Total comprehensive income attributable to non-controlling interests | **42,217,292** | 128,408,197 | 141,638,350 |
| Dividends paid to non-controlling interests | **134,400,000** | 141,900,000 | 86,086,000 |
| Accumulated non-controlling interest | **152,037,402** | 244,220,110 | 264,174,632 |

## 22. Earnings Per Share (EPS)

The amounts of EPS are computed as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Net income attributable to shareholders of the parent | **₱1,730,807,717** | ₱1,259,926,428 | ₱1,293,430,993 |
| Weighted average number of outstanding common shares | **1,023,456,698** | 1,023,456,698 | 1,023,456,698 |
| Basic and diluted EPS | **₱1.691** | ₱1.231 | ₱1.264 |

There are no potential dilutive shares as of December 31, 2018, 2017 and 2016.

## 23. Contracts, Commitments and Contingencies

a. Interim Power Supply Agreements

On March 31, 2014, the 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, ERC approved the extension of the IPSA to October 31, 2014, and extended until July 25, 2015 under the same terms and conditions unless otherwise agreed upon. On January 19, 2016, the Company 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, 2016 to February 25, 2017. The contract was extended to supply 170 MW (firm contract capacity) for the period February 26 to July 25, 2017. Revenue from the IPSA with Meralco amounted to nil and ₱1,135.0 million and ₱849.0 million in 2018, 2017 and 2016, respectively.

b. Supply Agreement for Heavy Fuel and Purchased Power

On April 1, 2012, the 1590 EC entered into a Supply Agreement (Consignment) with Pilipinas Shell Petroleum Corporation (PSPC) for the supply of the 1590 EC's petroleum product requirements. Under the agreement, PSPC shall sell and deliver, or procure to be delivered, and 1590 EC 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. On May 1, 2018, the contract was renewed until April 30, 2020.

Heavy fuel oil expense recognized in the statements of comprehensive income amounted to ₱327.5 million, ₱680.7 million and ₱314.8 million in 2018, 2017 and 2016, respectively (see Note 17).

c. Participation in WESM

The revenue from sale of power recognized by 1590 EC amounting to ₱360.8 million in 2018, ₱614.6 million in 2017 and ₱681.6 million in 2016 were generated from its participation in the trading of electricity at the 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, the Company 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, the Company filed a Petition for Review with Application for Injunction and Temporary Restraining Order with the CA 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 CA 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 CA 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, filed their respective MRs to which the Company duly filed its respective Oppositions thereto. Moreover, as of March 14, 2018, twelve (12) entities who are not original parties to the consolidated Petitions for Review but claim legal interest in the consolidated Petitions for Review filed their respective Motions for Leave to file intervention and admit the attached MRs. Both the third parties' Motions for Leave and the MRs of ERC and Meralco remain pending as of April 4, 2019.

Amounts recognized in the statements of comprehensive income related to the Company's participation in WESM trading, are presented as "Purchased power and "Market fees" under "Generation Costs" aggregating to ₱212.1 million, ₱113.6 million and ₱150.1 million in 2018, 2017 and 2016, respectively (see Note 17).

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 ₱79.4 million and ₱114.5 million as of December 31, 2018 and 2017 respectively (see Note 7).

d. Operating Leases - Group as Lessee

On May 11, 2012, a MOA was entered into between the 1590 EC and the 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 ₱14.1 million.



On March 22, 2013, a new MOA was executed between 1590 EC 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 extending the agreement to December 31, 2015. In February 2015, the parties executed a Second Amendment to the MOA extending its term until December 31, 2018. The Second Amendment provides for a monthly consideration of ₱13.2 million. All other terms and conditions remained.

In addition, the MOA stipulates for the payment by the Company to PGLU of royalty fees equivalent to 1590EC'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, the 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, the 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 ₱171.4 million, ₱166.4 million and ₱161.5 million in 2018, 2017 and 2016, respectively, and total royalty fees recognized in the consolidated statements of comprehensive income amounted to ₱10.3 million,₱14.6 million and ₱15.8 million in 2018, 2017 and 2016, respectively (see Note 17).

The future minimum lease payments under these non-cancellable operating lease are as follows:

| | **2018** | 2017 |
|---|---|---|
| Within one year | **₱246,000,000** | ₱171,358,716 |
| After one year but not more than five years | **1,022,951,112** | – |
| | **₱1,268,951,112** | ₱171,358,716 |

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, 2018 and 2017.

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 ₱872.2 million, ₱775.9 million, and ₱788.0 million in 2018, 2017 and 2016, 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 ₱908.7 million, ₱806.2 million and ₱834.7 million in 2018, 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 ₱238.9 million and ₱61.0 million in 2018 and 2017 are presented under "Sale of power" in the consolidated statements of comprehensive income (see Note 16).

i. Ancillary Services Procurement Agreement (ASPA)

In January 2017, the 1590 EC entered into an ASPA with NGCP to be its service provider, whereby 1590 EC will provide dispatchable reserve to NGCP to maintain power quality, reliability, and security of the nationwide grid. The term of agreement is in force for five (5) years. Actual transactions such as nominations and scheduling started in November 2017 when the access and technical requirements were finally fulfilled. Revenue from ASPA with NGCP amounted to ₱654.3 million and ₱3.6 million in 2018 and 2017, respectively.

j. 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. As allowed by PAS 37, no further disclosures were provided as this might prejudice the Group's position on this matter. 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.

## 24. Financial Risk Management Objectives and Policies

The Group's principal financial instruments consists of cash and cash equivalents, trade and other receivables, advances to associates and stockholders, financial assets at FVOCI or 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 (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 ₱5,273.2 million and ₱5,947.6 million as of December 31, 2018 and 2017, respectively.

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

The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof. The Group writes off an account when all of the following conditions are met:

- the asset is in past due for over 90 days, or is already an item-for-forfeiture
- contract restructuring is no longer possible

The Group may also write-off financial assets that are still subject to enforcement activity. The Group has not written off outstanding loans and receivables that are still subject to enforcement activity as of December 31, 2018 and 2017.

*Applicable for the Year Ended December 31, 2018.* The following are the details of the Group's assessment of credit quality and the related ECLs as at December 31, 2018:

- *General Approach*
  - *Cash and Cash Equivalents.* As of December 31, 2018, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.

- *Advances to Associates and Stockholders, Receivables from Related Parties and Other Receivables.* No ECL is recognized for related party receivables since there were no history of default payments. As of December 31, 2018, allowance for impairment losses pertain to individually impaired accounts of other receivables. This assessment is undertaken each financial year through examining the financial position of the related parties and the markets in which the related parties operate.

- *Simplified Approach*

  - *Trade and accounts receivable* - The Group applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2018, the allowance for impairment losses as a result from performing collective impairment test amounted to ₱0.5 million. Management evaluated that the Group's trade receivables are of high grade and of good credit quality.

| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Lifetime ECL Simplified Approach | Total |
|---|---|---|---|---|---|
| Gross carrying amount | ₱4,568,042,516 | ₱– | ₱53,872,132 | ₱705,657,980 | ₱5,327,572,628 |
| Loss allowance | – | – | (53,872,132) | (528,476) | (54,400,608) |
| Carrying amount | ₱4,568,042,516 | ₱– | ₱– | ₱705,129,504 | ₱5,273,172,020 |

The following table sets out the aging analysis per class of financial assets, including those that were past due but not impaired, as of December 31, 2018:

| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Financial Assets at Amortized Cost** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,784,638,831 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱3,784,638,831 |
| Trade and other receivables | 541,413,150 | 10,566,782 | 19,225,933 | 2,557,440 | 131,366,199 | 54,400,608 | 759,530,112 |
| Advances to associates and stockholders | 78,792,412 | – | – | – | – | – | 78,792,412 |
| Advances to a supplier (under "Other noncurrent assets") | 698,308,703 | – | – | – | – | – | 698,308,703 |
| Due from RFM Corporation (under "Other noncurrent assets") | – | – | – | – | – | 46,078,063 | 46,078,063 |
| Restricted cash (under "Other current assets") | 650,000 | – | – | – | – | – | 650,000 |
| Security deposits (under "Other noncurrent assets") | 3,888,053 | – | – | – | – | – | 3,888,053 |
| | ₱5,107,691,149 | ₱10,566,782 | ₱19,225,933 | ₱2,557,440 | ₱131,366,199 | ₱100,478,671 | ₱5,371,886,174 |

*Applicable for the Year Ended December 31, 2017 and Prior Years.* The table below shows the credit quality by class of the Group's financial assets (gross of allowance for impairment losses):

| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | | |
|---|---|---|---|---|---|---|---|
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,634,622,495 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱4,634,622,495 |
| Trade and other receivables | 67,938,605 | 302,789,589 | 38,070,870 | 27,808,016 | 96,336,259 | 34,458,046 | 567,401,385 |
| Advances to associates and stockholders | 1,348,227 | 1,178,012 | 15,135 | 217,220 | 80,977,735 | – | 83,736,329 |
| Advances to a supplier (under "Other noncurrent assets") | 698,308,703 | – | – | – | – | – | 698,308,703 |
| Due from RFM Corporation (under "Other noncurrent assets") | – | – | – | – | – | 46,078,063 | 46,078,063 |
| Restricted cash (under "Other current assets") | 650,000 | – | – | – | – | – | 650,000 |
| Security deposits (under "Other noncurrent assets") | 3,899,653 | – | – | – | – | – | 3,899,653 |
| | ₱5,406,767,683 | ₱303,967,601 | ₱38,086,005 | ₱28,025,236 | ₱177,313,994 | ₱80,536,109 | ₱6,034,696,628 |

The following table summarizes 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 |
| **Loans and Receivables** | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,634,622,495 | ₱– | ₱– |
| Trade and other receivables | 532,943,339 | – | – |
| Advances to associates and stockholders | 1,348,227 | – | – |
| Advances to a supplier (under "Other noncurrent assets") | 698,308,703 | – | – |
| Restricted cash (under "Other current assets") | 650,000 | – | – |
| Security deposits (under "Other noncurrent assets") | 3,899,653 | – | – |
| | ₱5,871,772,417 | ₱– | ₱– |

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 their accounts.

- *Financial Assets at FVOCI or 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 since 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:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Contractual Undiscounted Payments | | | | |
| | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | |
| At Amortized Cost | | | | | |
| Cash and cash equivalents | ₱3,787,016,107 | ₱131,456,495 | ₱3,655,559,612 | ₱– | ₱– |
| Trade and other receivables | 705,129,504 | 541,413,150 | 163,716,354 | – | – |
| Advances to associates and stockholders | 78,792,412 | 22,012,741 | 56,779,671 | – | – |
| Advances to a supplier (under "Other noncurrent assets") | 698,308,703 | 698,308,703 | – | – | – |
| Restricted cash (under "Other current assets") | 650,000 | 650,000 | – | – | – |
| Security deposit (under "Other current assets") | 3,888,053 | – | 3,888,053 | – | – |
| At FVOCI | 5,550,000 | – | – | 5,550,000 | – |
| | 5,279,334,779 | 1,393,841,089 | 3,879,943,690 | 5,550,000 | – |
| **Financial Liabilities** | | | | | |
| Other financial liabilities: | | | | | |
| Trade and other payables* | ₱395,762,077 | ₱357,391,488 | ₱38,370,589 | ₱– | ₱– |
| Long-term note payable** | 3,209,517,093 | – | 188,430,201 | 3,021,086,892 | – |
| Advances from related parties | 18,411,603 | 18,411,603 | – | – | – |
| | 3,623,690,773 | 375,803,091 | 226,800,790 | 3,021,086,892 | – |
| **Net Financial Assets (Liabilities)** | ₱1,655,644,006 | ₱1,018,037,998 | ₱3,653,142,900 | (₱3,015,536,892) | ₱– |

**Excluding statutory payables and unearned income*
***Including contractual interest to maturity*

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Contractual Undiscounted Payments | | | | |
| | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | ₱4,635,082,495 | ₱284,111486 | ₱4,350,971,009 | ₱– | ₱– |
| Trade and other receivables | 532,943,339 | 318,009,452 | 214,933,887 | – | – |
| Advances to associates and stockholders | 83,736,329 | 16,218,050 | 67,518,279 | – | – |
| Advances to a supplier (under "Other noncurrent assets") | 698,308,703 | 698,308,703 | – | – | – |
| Restricted cash (under "Other noncurrent assets") | 650,000 | 650,000 | – | – | – |
| Security deposit (under "Other noncurrent assets") | 3,899,653 | 3,899,653 | – | – | – |
| AFS Investments | 3,700,000 | – | – | 3,700,000 | – |
| | 5,958,320,519 | 1,321,197,344 | 4,633,423,175 | 3,700,000 | – |
| **Financial Liabilities** | | | | | |
| Other financial liabilities: | | | | | |
| Trade and other payables* | 267,350,777 | 80,065,147 | 187,285,630 | – | – |
| 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 | 371,198 | – | – |
| | 3,739,674,753 | 152,100,294 | 378,057,366 | 3,209,517,093 | – |
| **Net Financial Assets (Liabilities)** | ₱2,218,645,766 | ₱1,169,097,050 | ₱4,255,365,809 | (₱3,205,817,093) | ₱– |

**Excluding statutory payables and unearned income*
***Including contractual interest to maturity*

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:

| | 2018 | | |
|---|---|---|---|
| | USD | EUR | Php Equivalent |
| Asset: | | | |
| Cash | US$21,171 | €1,021 | ₱1,174,748 |
| | US$21,171 | €1,021 | ₱1,174,748 |

| | 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 |
| | US$1,767,148 | €1,021 | ₱88,294,561 |

The December 31 exchange rates used follows:

| | 2018 | 2017 |
|---|---|---|
| US Dollar | **₱52.58 to US$1** | ₱49.93 to US$1 |
| Euro Dollar | **₱60.31 to €1** | ₱59.61 to €1 |

The Group recognized net foreign exchange gain of ₱7.2 million in 2018, net foreign exchange loss of ₱1.2 million in 2017 and net foreign exchange gain of ₱1.5 million in 2016.

The Group manages the timing of settlements or payments to ensure that the Group is not unfavourably exposed to fluctuations of foreign exchange rates. Likewise, the Group maintains adequate PHP, US, and EUR bank deposits to fund major expenditures or payments in foreign currencies.

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, 2018 and 2017.

| | Change in Philippine Peso to US Dollar | |
|---|---|---|
| | Appreciation | Depreciation |
| Effect in income before income tax: | | |
| **2018 (at 2.50% appreciation and 2.43% depreciation)** | **₱27,829** | **₱27,050** |
| 2017 (at 2.44% appreciation and 1.22% depreciation) | 2,152,902 | 1,076,451 |

| | Change in Philippine Peso to Euro | |
|---|---|---|
| | Appreciation | Depreciation |
| Effect in income before income tax: | | |
| **2018 (at 3.98% appreciation and 3.95% depreciation)** | **₱2,451** | **₱2,434** |
| 2017 (at 6.11% appreciation and 7.10% depreciation) | 3,718 | 4,323 |

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

Interest Rate Risk

The Group is not exposed to interest rate risk since its loans are subject to fixed interest rates and are therefore not subject to interest rate risk. Accounts receivable and other significant liabilities are noninterest-bearing. The Group has achieved a balanced mix of cash balances with various deposit rates.

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, 2018 and 2017, 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 ₱2.8 billion and ₱3.0 billion as of December 31, 2018 and 2017, 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, 2018 and 2017, 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, 2018** | **Valuation Technique** | **Key Observable Inputs** | **Range (Weighted Average)** |
|---|---|---|---|---|
| Long-term notes payable | **₱2,808,219,797** | **Discounted Cash Flow Approach** | **Risk-free interest rate** | **5.41%–7.53% (6.92%)** |

| 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%) |

Changes in Valuation Techniques
There were no changes in the valuation techniques used by the Group in determining the fair value of its financial assets at FVOCI or AFS investments and investment properties during the year.

Highest and Best Use
As at December 31, 2018 and 2017, the current use of the Group's investment properties is considered its highest and best use.

Fair Value Hierarchy

The following table 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 as of December 31, 2018 and 2017:

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

Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statements of comprehensive income amounted to nil in 2018, ₱72.5 million in 2017, and nil in 2016 (see Note 12). The Group recognized an unrealized gain on financial assets at FVOCI amounting to ₱1.9 million in 2018. 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, 2018, 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 table below presents the following for each class of the Group's investment properties as of December 31, 2018 and 2017:

- 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.

| 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 |

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.

The fair value of the investment properties were based on valuations performed by an accredited independent appraiser, with a recognized and relevant professional qualification and with recent experience in the locations and categories of the investment properties being valued, conducted on various dates in 2017. The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied.

*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.

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 2018, 2017 and 2016.

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, 2018 and 2017 (see Note 15). The Parent Company is also subject to Minimum Public Ownership requirement of the PSE. As of December 31, 2018 and 2017, 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:

| | 2018 | 2017 |
|---|---|---|
| Notes payable | **₱2,870,154,989** | ₱2,895,771,935 |
| Less: Cash and cash equivalents | **3,787,016,107** | 4,635,082,495 |
| Net cash and cash equivalents (a) | **(916,861,118)** | (1,739,310,560) |
| Equity | **12,135,045,487** | 10,702,899,708 |
| Equity and net cash and cash equivalents (b) | **₱11,218,184,369** | ₱8,963,589,148 |
| Gearing ratio (a/b) | **(0.08):1.00** | (0.19):1.00 |

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

Changes in Liabilities arising from Financing Activities (in thousands)

| | 2018 | | | | |
|---|---|---|---|---|---|
| | **Long-term Notes Payable** | **Advances from Related Parties** | **Dividends Payable** | **Others** | **Total Liabilities from Financing Activities** |
| January 1, 2018 | **₱2,895,772** | **₱72,406** | **₱4,819** | **₱3,894** | **₱2,976,891** |
| Non-cash changes: | | | | | |
| Dividends declared | **–** | **–** | **482,378** | **–** | **482,378** |
| Amortization of debt issue cost | **4,383** | **–** | **–** | **–** | **4,383** |
| Disposal of a subsidiary (Note 1) | **–** | **(71,962)** | **–** | **–** | **(71,961)** |
| Additional advances to related parties | **–** | **(39,786)** | **–** | **–** | **(39,786)** |
| Cash flows | **(30,000)** | **57,753** | **(346,321)** | **9,474** | **(309,094)** |
| December 31, 2018 | **₱2,870,155** | **₱18,411** | **₱140,876** | **₱13,368** | **₱3,042,811** |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | 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 | – | 24,290 | – | – | 24,290 |
| Cash flows | (133,500) | (54,663) | (427,289) | 3,894 | (611,558) |
| December 31, 2017 | ₱2,895,772 | ₱72,406 | ₱4,819 | ₱3,894 | ₱2,976,891 |

Others include cash received from non-controlling interest for its share of investment.

Non-cash Changes in Investing Activities

- In 2018, the Group made a reclassification of LPCI's deposit for future stock subscription from "Investment in and advances to associates and joint ventures" account to "Advances to associates and stockholders" amounting to ₱34.8 million (see Note 10).

- In 2018, VREC's advances from VSNRGC amounting to ₱72.0 million were settled upon the sale of its investment in the joint venture (see Notes 10 and 16).

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

## 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) and as a retail electricity supplier to PEI. Core also started its operation in 2018 as a retail electricity supplier with two customers, Lafargeholcim Aggregate, Inc. and Tesoro Alegre Inc. VMHI is on its pre-operating stage of building a hydro power plant in Silay, Negros Occidental (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:

| | 2018 | | | |
|---|---|---|---|---|
| | Power Generation and Distiribution | Investing in Shares of Stock | Eliminations | Consolidated |
| Revenues from external customers | ₱1,082,206,258 | ₱67,780,324 | ₱– | ₱1,149,986,582 |
| Revenue from inter-segment, associates and affiliates | 1,395,067,529 | 2,031,327,923 | (2,209,330,328) | 1,217,065,124 |
| Equity in net earnings of associates and joint ventures | 1,796,151,495 | – | – | 1,796,151,495 |
| Interest income | 23,381,127 | 93,676,241 | – | 117,057,368 |
| Inter-segment revenues | (240,015,662) | (1,969,314,666) | 2,209,330,328 | – |
| | 4,056,790,747 | 223,469,822 | – | 4,280,260,569 |
| Income from operations | 635,949,207 | 1,202,402,826 | – | 1,838,352,033 |
| Gain on disposal of an associate or subsidiary | 119,961,701 | – | – | 119,961,701 |
| Finance cost | (724,755) | (172,451,944) | – | (173,176,699) |
| Foreign exchange gain (loss) | 6,800,967 | 366,130 | – | 7,167,097 |
| Other income | 8,853,455 | 12,410,134 | – | 21,263,589 |
| Income before income tax | 770,840,575 | 1,042,727,146 | – | 1,813,567,721 |
| Income tax expense | (39,606,471) | (5,496,311) | – | (45,102,782) |
| Net income | ₱731,234,104 | ₱1,037,230,835 | ₱– | ₱1,768,464,939 |

| | 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 | – |
| | 3,933,016,163 | 202,004,360 | – | 4,135,020,523 |
| 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 | ₱799,810,413 | ₱625,698,393 | ₱– | ₱1,425,508,806 |

| | 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 | – |
| | 3,606,938,872 | 263,143,416 | – | 3,870,082,288 |
| 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 | ₱501,511,055 | ₱927,071,632 | ₱– | ₱1,428,582,687 |

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 24% and 27% pertains to energy fees in 2018, 43% and 21% in 2017, and 40% and 22% in 2016, of 1590 EC and VEC, respectively.

In 2018, revenue from sale of power to two major customers amounted to ₱1.8 billion representing 81% of the total revenue from the sale of power and 42% of total revenues.

In 2017, revenue from sale of power to two major customers amounted to ₱2.0 billion representing 79% of the total revenue from sale of power and 50% of total revenues.



In 2016, revenue from sale of power from a single customer amounted to ₱1.7 billion, representing 71% of the total revenue from sale of power and 43% of total revenues.

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:

| | 2018 | | |
|---|---|---|---|
| | **Power Generation** | **Investing in Shares of Stock** | **Consolidated** |
| Assets | **₱9,067,976,690** | **₱8,129,331,981** | **₱17,197,308,671** |
| Liabilities | **2,591,103,184** | **2,035,741,530** | **4,626,844,714** |
| Capital expenditures | **86,648,697** | **27,626,192** | **114,274,889** |

| | 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 | 2,062,898 | 25,790,315 | 27,853,213 |

| | 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 | 31,568,681 | 18,620,549 | 50,189,230 |

Other segment information included in the consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016 is as follows:

| | Power Generation | Investing in Shares of Stock | Consolidated |
|---|---|---|---|
| Depreciation and amortization: | | | |
| **2018** | **₱13,082,878** | **₱18,302,218** | **₱31,385,096** |
| 2017 | 88,763,731 | 17,751,964 | 106,515,695 |
| 2016 | 89,655,679 | 18,594,212 | 108,249,891 |

The Management Committee monitors the operating results of each business unit separately for the purpose of determining resource allocation and assessing performance. Performance is evaluated based on (i) net income for the year, (ii) consolidated earnings before interest, taxes, and depreciation and amortization ("consolidated EBITDA"); and (iii) consolidated core net income ("CCNI "). Net income for the year is measured consistent with reported net income in the consolidated statement of income.

Consolidated EBITDA is measured as total net income excluding interest, provision for income taxes, depreciation and amortization, financial costs, foreign exchange gains and losses, and other one-off gains and losses.

CCNI for the year is measured as consolidated net income attributable to equity holders of the parent adjusted for foreign exchange gain or loss, impairment or reversal of impairment of noncurrent assets and certain other non-recurring gain or loss, if any, net of tax effect of the foregoing adjustments.

The following table shows the reconciliation of the EBITDA to net income:

| | **2018** | 2017 | 2016 |
|---|---|---|---|
| EBITDA | **₱1,891,000,718** | ₱1,719,806,971 | ₱1,806,238,358 |
| Add (Deduct): | | | |
| Depreciation and amortization (Notes 11 and 13) | **(31,385,096)** | (106,515,695) | (108,249,891) |
| Finance cost (Note 15) | **(173,176,699)** | (176,224,968) | (177,545,814) |
| Gain on disposal of a joint venture and subsidiary | **119,961,701** | 12,068,717 | – |
| Gain on fair value remeasurement of investment properties (Note 12) | – | 72,501,133 | – |
| Insurance claims and other non-recurring gain, net of loss on disposal of asset | – | – | 38,573,788 |
| Foreign exchange gains (losses) - net | **7,167,097** | (1,249,454) | 1,541,433 |
| Income before income tax | **1,813,567,721** | 1,520,386,704 | 1,560,557,874 |
| Provision for income tax (Note 20) | **(45,102,782)** | (94,877,898) | (131,975,187) |
| Net income | **₱1,768,464,939** | ₱1,425,508,806 | ₱1,428,582,687 |

SGV
Building a better working world

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

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

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

## 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated April 4, 2019. 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.

Ma. Genalin Q. Arevalo

Ma. Genalin Q. Arevalo
Partner
CPA Certificate No. 108517
SEC Accreditation No. 1613-A (Group A),
March 2, 2017, valid until March 1, 2020
Tax Identification No. 224-024-926
BIR Accreditation No. 08-001998-123-2017,
February 9, 2017, valid until February 8, 2020
PTR No. 7332522, January 3, 2019, Makati City

April 4, 2019

# VIVANT CORPORATION

## RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

### FOR THE YEAR ENDED DECEMBER 31, 2018

| Items | Amount |
|---|---|
| **Unappropriated Retained Earnings, Beginning** | ₱965,584,015 |
| **Adjustments:** | |
| Deferred income tax assets that reduced the amount of provision for income tax | (24,491,174) |
| Deferred income tax liabilities that increased the amount of provision for income tax | 8,186,341 |
| Impairment loss on investment | 21,306,182 |
| **Unappropriated Retained Earnings, as Adjusted, Beginning** | 970,585,364 |
| **Net Income Based on the Face of AFS** | 859,157,003 |
| **Less: Non-actual/Unrealized Income Net of Tax** | |
| 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 | (2,171,041) |
| Deferred income tax liability that reduced the amount of provision for income tax | (5,194,922) |
| **Add: Non-actual Losses** | |
| 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 | – |
| **Net Income Actual/Realized** | 851,791,040 |
| **Add (Less)** | |
| Dividend declarations during the period | (285,749,110) |
| Appropriations of retained earnings during the period | (1,700,000,000) |
| Reversals of appropriations | 1,150,410,439 |
| Effects of prior period adjustments | – |
| Treasury shares | – |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION** | ₱987,037,733 |

## SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Philippine Financial Reporting Standards** | | | | |
| PFRS 1 | First-time Adoption of Philippine Financial Reporting Standards | | | ✓ |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions | | | ✓ |
| PFRS 3 | Business Combinations | ✓ | | |
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts | | | ✓ |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| PFRS 8 | Operating Segments | ✓ | | |
| PFRS 9 | Financial Instruments | ✓ | | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| PFRS 11 | Joint Arrangements | ✓ | | |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers | ✓ | | |
| **Philippine Accounting Standards** | | | | |
| PAS 1 | Presentation of Financial Statements | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Reporting Period | ✓ | | |
| PAS 12 | Income Taxes | ✓ | | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| PAS 17 | Leases | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 19 | Employee Benefits | ✓ | | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| PAS 23 | Borrowing Costs | | | ✓ |
| PAS 24 | Related Party Disclosures | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 | Separate Financial Statements | | | ✓ |
| PAS 28 | Investments in Associates and Joint Ventures | ✓ | | |
| | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle) | | | ✓ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Presentation | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | ✓ | | |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| PAS 40 | Investment Property | ✓ | | |
| | Amendments to PAS 40, Transfers of Investment Property | | | ✓ |
| PAS 41 | Agriculture | | | ✓ |
| **Philippine Interpretations** | | | | |
| Philippine Interpretation IFRIC-1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| Philippine Interpretation IFRIC-2 | Members' Shares in Co-operative Entities and Similar Instruments | | | ✓ |
| Philippine Interpretation IFRIC-4 | Determining whether an Arrangement contains a Lease | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| Philippine Interpretation IFRIC-5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| Philippine Interpretation IFRIC-6 | Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment | | | ✓ |
| Philippine Interpretation IFRIC-7 | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| Philippine Interpretation IFRIC-10 | Interim Financial Reporting and Impairment | | | ✓ |
| Philippine Interpretation IFRIC-12 | Service Concession Arrangements | | | ✓ |
| Philippine Interpretation IFRIC-14 | PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | | | ✓ |
| Philippine Interpretation IFRIC-16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| Philippine Interpretation IFRIC-17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| Philippine Interpretation IFRIC-19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| Philippine Interpretation IFRIC-20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| Philippine Interpretation IFRIC-21 | Levies | | | ✓ |
| Philippine Interpretation IFRIC-22 | Foreign Currency Transactions and Advance Consideration | ✓ | | |
| Philippine Interpretation SIC-7 | Introduction of the Euro | | | ✓ |
| Philippine Interpretation SIC-10 | Government Assistance—No Specific Relation to Operating Activities | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| Philippine Interpretation SIC-15 | Operating Leases—Incentives | | | ✓ |
| Philippine Interpretation SIC-25 | Income Taxes—Changes in the Tax Status of an Entity or its Shareholders | | | ✓ |
| Philippine Interpretation SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | | | ✓ |
| Philippine Interpretation SIC-29 | Service Concession Arrangements: Disclosures | | | ✓ |
| Philippine Interpretation SIC-32 | Intangible Assets—Web Site Costs | | | ✓ |

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE A - FINANCIAL ASSETS

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

### DECEMBER 31, 2018

| 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 |
|---|---|---|---|---|
| Financial assets at amortized cost: | | | | |
| Cash and cash equivalents | – | ₱3,787,016,107 | ₱3,787,016,107 | ₱117,057,368 |
| Trade and other receivables: | | | | |
| Trade receivables | – | 547,955,835 | 547,955,835 | 2,367,051,706 |
| Dividends receivable | – | 47,500,000 | 47,500,000 | – |
| Advances to shareholders of a joint venture | – | 16,173,188 | 16,173,188 | – |
| Accounts receivable | – | 53,606,943 | 53,606,943 | – |
| Insurance claims receivable | – | – | – | – |
| Advances to officers and employees | – | 2,260,639 | 2,260,639 | – |
| Accrued interest | – | 8,455,867 | 8,455,867 | – |
| Others | – | 29,177,032 | 29,177,032 | – |
| | | 705,129,504 | 705,129,504 | 2,367,051,706 |
| Advances to associates and stockholders | – | 78,792,412 | 78,792,412 | – |
| Advances to other parties | – | 698,308,703 | 698,308,703 | – |
| Due from RFM Corporation | – | – | – | – |
| Restricted cash | – | 650,000 | 650,000 | – |
| Security deposits | – | 3,888,053 | 3,888,053 | – |
| | | 5,273,784,779 | 5,273,784,779 | |
| Financial assets at fair value through other comprehensive income: | | | | |
| Cebu Country Club, Inc. | – | 5,500,000 | 5,500,000 | – |
| Tower Club, Inc. | – | 50,000 | 50,000 | – |
| | – | 5,550,000 | 5,550,000 | – |
| Total financial assets | – | ₱5,279,334,779 | ₱5,279,334,779 | ₱2,484,109,074 |

*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, 2018

| 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. | ₱30,336,519 | ₱14,036,344 | (₱36,503,357) | ₱– | ₱– | ₱7,869,506 | ₱– | ₱7,869,506 |
| Cebu Private Power Corporation | 40,875,357 | 140,506,852 | (99,557,944) | – | – | 81,824,265 | – | 81,824,265 |
| Delta P, Inc. | 5,545,069 | 91,388,223 | (90,202,669) | – | – | 6,730,623 | – | 6,730,623 |
| Minergy Power Corporation | 60,000,000 | – | (60,000,000) | – | – | – | – | – |
| Prism Energy, Inc. | 52,306,358 | 242,994,637 | (191,456,633) | – | – | 103,844,362 | – | 103,844,362 |
| Visayan Electric Company, Inc. | 82,482,709 | 1,672,136,079 | (1,591,850,006) | – | – | 162,768,782 | – | 162,768,782 |
| Global Luzon Energy Development Corporation | 76,458,485 | 1,529,289 | (77,155,905) | – | – | 831,869 | – | 831,869 |
| Lunar Power Core Inc. | 708,588 | 74,480,907 | – | – | – | 75,189,495 | – | 75,189,495 |
| Abovant Holdings, Inc. | – | 316,800,000 | (316,800,000) | – | – | – | – | – |
| Sabang Renewable Energy Corp. | – | 3,982,500 | (157,305) | – | – | 3,825,195 | – | 3,825,195 |
| Culna Renewable Energy Corp. | – | 350,440 | (440) | – | – | 350,000 | – | 350,000 |
| Advances to officers and employees | 3,097,115 | 13,862,165 | (16,916,604) | – | – | 42,676 | – | 42,676 |
| | ₱351,810,200 | ₱2,572,067,436 | (₱2,480,600,863) | ₱– | ₱– | ₱443,276,773 | ₱– | ₱443,276,773 |

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

**DECEMBER 31, 2018**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Collections | Write Offs | Balance at End of Period | | |
|---|---|---|---|---|---|---|---|
| | | | | | Current | Noncurrent | Total |
| Vivant Energy Corporation | ₱55,369,269 | ₱575,373,411 | (₱427,790,571) | ₱– | ₱202,952,109 | ₱– | ₱202,952,109 |
| Vivant Corporation | 133,670 | 324,862,388 | (324,787,300) | – | 208,758 | | 208,758 |
| Hijos de F. Escaño, Inc. | 12,421 | 860,646 | (789,240) | – | 83,827 | – | 83,827 |
| Vivant Geo Power Corp. | 129 | 279 | (408) | – | – | – | – |
| Vivant Isla Inc. | 129 | 115 | (244) | – | – | – | – |
| Southern Grove Properties and Development Corp. | 60,428,396 | 90,975 | (50,595,597) | – | 9,923,774 | – | 9,923,774 |
| 1590 Energy Corp. | 1,985,486 | 5,806,259 | (7,108,709) | – | 683,036 | – | 683,036 |
| Vivant Renewable Energy Corporation | – | 235,148 | (3,314) | – | 231,834 | – | 231,834 |
| Vivant -Malogo Hydropower, Inc. | 784,069 | 44,866 | (777,991) | – | 50,944 | – | 50,944 |
| Corenergy Inc. | 26,844 | 5,545,905 | (5,232,111) | – | 340,638 | – | 340,638 |
| Vivant Powercore Active Inc. | 569 | 106 | (569) | – | 106 | – | 106 |
| Vivant Enercore Integrated Inc. | 569 | 106 | (569) | – | 106 | – | 106 |
| Vivant Integrated Generation Corporation | 567,290 | 104,759 | (663,811) | – | 8,238 | – | 8,238 |
| Vivant Integrated Diesel Corporation | 129 | 2,241 | (2,100) | – | 270 | – | 270 |
| Vivant Realty Ventures Corp. | 27,887,672 | 25,067 | (27,857,078) | – | 55,661 | – | 55,661 |
| Amberdust Holding Corp. | 53,263 | 198 | (53,355) | – | 106 | – | 106 |
| Southern Powercore Holding Corp. | 55,744 | 197 | (55,835) | – | 106 | – | 106 |
| Vivant Corporate Center Inc. | – | 616 | – | – | 616 | – | 616 |
| Vivant Infracore Holdings Inc. | – | 47,300 | – | – | 47,300 | – | 47,300 |
| ET-VVT Solar Corp. | – | 284,090 | (2,186) | | 281,904 | – | 281,904 |
| | ₱147,305,649 | ₱913,284,672 | (₱845,720,988) | ₱– | ₱214,869,333 | ₱– | ₱214,869,333 |

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

**DECEMBER 31, 2018**

| Description | Beginning Balance | Additions of Cost | Charged to Cost and Expenses | Charged to Other Accounts | Other Changes | Ending Balance |
|---|---|---|---|---|---|---|
| Software cost | ₱286,020 | ₱– | (₱273,500) | ₱– | ₱– | ₱12,520 |
| | ₱286,020 | ₱– | (₱273,500) | ₱– | ₱– | ₱12,520 |

## VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE E - LONG-TERM DEBT

**DECEMBER 31, 2018**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Current Portion of Long-term Debt | Long-term Debt |
|---|---|---|---|
| Fixed Rate Corporate Notes (FRCN) | ₱2,880,000,000 | ₱30,000,000 | ₱2,850,000,000 |
| Unamortized debt issue cost | (9,845,011) | (4,571,981) | (5,273,030) |
| | ₱2,870,154,989 | ₱25,428,019 | ₱2,844,726,970 |

## VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

**DECEMBER 31, 2018**

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

## VIVANT CORPORATION AND SUBSIDIARIES

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

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

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE H - CAPITAL STOCK

### DECEMBER 31, 2018

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | 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

## 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.

9th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City, Philippines 6000

Tel. no. (032) 234-2256
Telefax: (032) 234-2285
E-mail: vivant@vivant.com.ph

www.vivant.com.ph

# Exhibit C

## COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| | | | | | 1 | 7 | 5 | 2 | 2 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

VIVANT CORPORATION AND SUBSIDIARIES

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

Unit 907-908, Ayala Life-FGU Center, Mindanao Ave. Cor. Biliran Rd, Cebu Business Park, Bgy. Luz, Cebu City

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| vivant@vivant.com.ph | (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**

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road,
Cebu Business Park, Cebu City

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

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

SEC
Cebu Extension Office
APR 10 2018
by:

VIVANT

## 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.

9th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City, Philippines 6000

Tel. no. (032) 234-2256
Telefax: (032) 234-2285
E-mail: vivant@vivant.com.ph

www.vivant.com.ph

**SUBSCRIBED AND SWORN TO BEFORE ME,** a Notary Public for and in the City of Cebu, this 28TH 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.

ATTY. JOAN A. GIDUQUIO-BARON
NOTARIAL COMMISSION NO. 949-17
NOTARY PUBLIC
UNTIL DECEMBER 31, 2019
UNITS 1501-1502 AYALA LIFE-FGU CENTER
CEBU BUSINESS PARK, CEBU CITY
ROLL NO. 41829
PTR NO. 1434[illegible]
IBP NO. A[illegible]

ATTY. JOAN A. GIDUQUIO
ROLL NO. 41829
NOTARY PUBLIC
CEBU, PHILIPPINES

Doc. No. 387;
Page No. 78;
Book No. XIII;
Series of 2018.

SGV
Building a better working world

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 |
| ASSETS | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | ₱4,635,082,495 | ₱4,437,776,262 |
| 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 |
| **Total Current Assets** | 6,288,011,911 | 5,925,118,055 |
| **Noncurrent Assets** | | |
| 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 | 654,186,208 |
| 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 |
| **Total Noncurrent Assets** | 9,465,525,792 | 8,636,836,775 |
| TOTAL ASSETS | ₱15,753,537,703 | ₱14,561,954,830 |
| LIABILITIES AND EQUITY | | |
| **Current Liabilities** | | |
| Trade and other payables (Note 14) | ₱1,350,518,998 | ₱1,267,102,534 |
| 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 |
| **Total Current Liabilities** | 1,458,625,976 | 1,508,545,934 |
| **Noncurrent Liabilities** | | |
| 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 |
| **Total Noncurrent Liabilities** | 3,009,155,519 | 3,026,063,703 |
| **Total Liabilities** | 4,467,781,495 | 4,534,609,637 |
| **Equity Attributable to Equity Holders of the Parent** | | |
| Capital stock - ₱1 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)

S E C
Cebu Extension Office
APR 10 2018

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Share in remeasurement 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 |
| **Equity Attributable to Equity Holders of the Parent** | 10,702,899,708 | 9,457,039,460 |
| **Equity Attributable to Non-controlling Interests** (Note 21) | 582,856,500 | 570,305,733 |
| **Total Equity** | 11,285,756,208 | 10,027,345,193 |
| **TOTAL LIABILITIES AND EQUITY** | ₱15,753,537,703 | ₱14,561,954,830 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **REVENUE** | | | |
| Sale of power (Note 23) | ₱2,620,388,465 | 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 |
| | 4,135,020,523 | 3,870,082,288 | 4,015,926,801 |
| **GENERATION COSTS** (Notes 17 and 23) | 2,187,471,307 | 1,792,937,494 | 2,292,370,990 |
| **OPERATING EXPENSES** | | | |
| 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 |
| | 442,826,633 | 379,156,327 | 375,636,808 |
| **INCOME FROM OPERATIONS** | 1,504,722,583 | 1,697,988,467 | 1,347,919,003 |
| **OTHER INCOME (CHARGES)** | | | |
| 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 |
| | 15,664,121 | (137,430,593) | 72,759,613 |
| **INCOME BEFORE INCOME TAX** | 1,520,386,704 | 1,560,557,874 | 1,420,678,616 |
| **PROVISION FOR INCOME TAX** (Note 20) | 94,877,898 | 131,975,187 | 170,716,071 |
| **NET INCOME** | 1,425,508,806 | 1,428,582,687 | 1,249,962,545 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| 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) | 291,996,394 | – | – |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Remeasurement gain (loss) on employee benefits (Note 19) | (₱7,642,270) | ₱3,041,578 | ₱7,738,786 |
| 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 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | 270,627,615 | 2,514,893 | 13,650,163 |
| **TOTAL COMPREHENSIVE INCOME** | ₱1,696,136,421 | ₱1,431,097,580 | ₱1,263,612,708 |
| **NET INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | ₱1,259,926,428 | ₱1,293,430,993 | ₱1,052,735,864 |
| Non controlling interests | 165,582,378 | 135,151,694 | 197,226,681 |
| | ₱1,425,508,806 | ₱1,428,582,687 | ₱1,249,962,545 |
| **TOTAL COMPREHENSIVE INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | ₱1,531,685,794 | ₱1,294,538,940 | ₱1,066,364,976 |
| Non-controlling interests | 164,450,627 | 136,558,640 | 197,247,732 |
| | ₱1,696,136,421 | ₱1,431,097,580 | ₱1,263,612,708 |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22) | ₱1.231 | ₱1.264 | ₱1.029 |

*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 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 21) | Additional Paid-in Capital | Share in Revaluation Increment of an Associate | Remeasurement Gain (Loss) on Employee Benefits | Share in Remeasurement Losses on Employee Benefits of Associates and a Joint Venture | Equity Reserve | Unrealized Valuation Gain (Loss) on AFS Investments | Retained Earnings (Note 21) | | Total | Equity Attributable to Non-Controlling Interests (Note 21) | Total Equity |
| | | | | | | | | Appropriated | Unappropriated | | | |
| Balances at January 1, 2017 | ₱1,023,456,698 | ₱8,339,452 | ₱1,207,387,400 | ₱4,652,158 | (₱58,895,444) | ₱– | (₱5,291) | ₱2,778,783,261 | ₱4,493,321,226 | ₱9,457,039,460 | ₱570,305,733 | ₱10,027,345,193 |
| Total comprehensive income (loss) | – | – | 291,996,394 | (4,567,991) | (15,669,037) | – | – | | 1,259,926,428 | 1,531,685,794 | 164,450,627 | 1,696,136,421 |
| Appropriation for business expansion | – | – | – | – | – | – | – | 1,250,000,000 | (1,250,000,000) | – | – | – |
| Reversal of appropriation for business expansion | – | – | – | – | – | – | – | (605,975,033) | 605,975,033 | – | – | – |
| Additional investments of non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | – | 3,894,000 | 3,894,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (26,984,297) | – | – | – | – | – | 26,984,297 | – | – | – |
| Purchase of 1590's NCI and deconsolidation of VAHC | – | – | – | (32,591) | – | (43,845) | – | – | – | (76,436) | (13,893,860) | (13,970,296) |
| Cash dividends | – | – | – | – | – | – | – | – | (285,749,110) | (285,749,110) | (141,900,000) | (427,649,110) |
| Balances at December 31, 2017 | ₱1,023,456,698 | ₱8,339,452 | ₱1,472,399,497 | ₱51,576 | (₱74,564,481) | (₱43,845) | (₱5,291) | ₱3,422,808,228 | ₱4,850,457,874 | ₱10,702,899,708 | ₱582,856,500 | ₱11,285,756,208 |
| Balances at January 1, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱1,234,371,697 | ₱3,625,317 | (₱59,172,924) | ₱– | ₱191,083 | ₱2,493,584,261 | ₱3,726,045,896 | ₱8,430,441,480 | ₱507,623,093 | ₱8,938,064,573 |
| Total comprehensive income (loss) | – | – | – | 1,026,841 | 277,480 | | (196,374) | | 1,293,430,993 | 1,294,538,940 | 136,558,640 | 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 | – | – | – | – | – | – | – | – | – | – | 12,210,000 | 12,210,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (26,984,297) | – | – | – | – | – | 26,984,297 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | – | (267,940,960) | (267,940,960) | (86,086,000) | (354,026,960) |
| Balances at December 31, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱1,207,387,400 | ₱4,652,158 | (₱58,895,444) | ₱– | (₱5,291) | ₱2,778,783,261 | ₱4,493,321,226 | ₱9,457,039,460 | ₱570,305,733 | ₱10,027,345,193 |
| Balances at January 1, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱1,261,492,837 | (₱1,735,079) | (₱67,505,111) | ₱– | ₱254,554 | ₱2,810,784,261 | ₱2,596,929,852 | ₱7,632,017,464 | ₱358,610,361 | ₱7,990,627,825 |
| Total comprehensive income (loss) | – | – | – | 5,360,396 | 8,332,187 | | (63,471) | | 1,082,735,864 | 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 | – | – | – | – | – | – | – | – | – | – | 10,890,000 | 10,890,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (27,121,140) | – | – | – | – | – | 27,121,140 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | – | (267,940,960) | (267,940,960) | (59,124,000) | (327,064,960) |
| Balances at December 31, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱1,234,371,697 | ₱3,625,317 | (₱59,172,924) | ₱– | ₱191,083 | ₱2,493,584,261 | ₱3,726,045,896 | ₱8,430,441,480 | ₱507,623,093 | ₱8,938,064,573 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | ₱1,520,386,704 | 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 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| 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) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| 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)

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

*See accompanying 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 |
| **Subsidiaries** | | | | |
| Hijos De F. Escaño (HDFE) | 50.94 | – | 50.94 | – |
| Southern Grove Properties and Development Corp. (SGPDC) [o] | 100.00 | – | 100.00 | – |
| Vivant Energy Corporation (VEC) | 100.00 | – | 100.00 | – |
| Vivant Integrated Generation Corporation (VIGC) | – | 100.00 [a] | – | 100.00 [a] |
| Vivant Geo Power Corp. (VGPC) | – | 100.00 [b] [g] | – | 100.00 [b] [g] |
| Vivant Isla, Inc. (VII) | – | 100.00 [a] [h] | – | 100.00 [a] [h] |
| Vivant Renewable Energy Corporation (VREC) [f] | – | 100.00 [a] | – | 100.00 [a] |
| Corenergy Inc. (Core) | – | 100.00 [a] | – | 100.00 [a] |
| Vivant Integrated Diesel Corporation (VIDC) | – | 100.00 [a] [i] | – | – |
| Vivant Enercore Integrated Inc. (VEII) | – | 100.00 [a] [m] | – | 100.00 [a] [m] |
| Vivant Powercore Active Inc. (VPAI) | – | 100.00 [a] [n] | – | 100.00 [a] [n] |
| Vivant Realty Ventures Corporation (VRVC) | – | 100.00 [r] [s] | – | – |
| Southern Powercore Holding Corp. (SPHC) | – | 100.00 [b] [t] | – | – |
| Amberdust Holding Corporation (AHC) | – | 100.00 [b] [u] | – | – |
| Vivant-Malogo Hydropower, Inc. (VMHI) | – | 67.00 [a] | – | 67.00 [a] |
| 1590 Energy Corp. (1590 EC) | – | 55.20 [a] | – | 52.70 [a] |
| Vics-Amlan Holdings Corp. (Vics-Amlan) | – | – | – | 60.00 [a] |

(Forward)

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

*a. Indirect ownership through VEC*
*b. Indirect ownership through VREC*
*c. Indirect ownership through VIGC*
*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-Bukun Holdings Corporation (Vics-Bukun) 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 Busuanga, 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.

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.

## 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.

## 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.

## 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) | **₱528,096,174** | ₱634,186,208 |
| Investment properties (see Note 12) | **502,711,090** | 514,801,557 |
| Intangible assets (see Note 13) | **286,020** | 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.

## 6. Cash and Cash Equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash on hand and in banks | **₱284,111,486** | ₱196,306,387 |
| Short-term investments | **4,350,971,009** | 4,241,469,875 |
| | **₱4,635,082,495** | ₱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 | ₱165,022,934 | ₱169,959,362 |
| Related parties (see Notes 16 and 23) | 127,608,462 | 78,488,103 |
| Dividends receivable (see Notes 10 and 16) | 104,200,000 | 99,572,000 |
| Insurance claims receivable | 87,080,666 | 19,947,117 |
| Advances to shareholders of a joint venture | 17,792,000 | 25,792,000 |
| Accounts receivable (see Note 16) | 28,858,278 | 23,481,186 |
| Accrued interest (see Note 6) | 6,736,241 | 3,886,969 |
| Advances to officers and employees | 3,097,115 | 4,959,370 |
| Others | 27,005,689 | 12,442,858 |
| | 567,401,385 | 438,528,965 |
| Less allowance for impairment losses | 34,458,046 | 34,458,046 |
| | ₱532,943,339 | ₱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 |
| | ₱122,863,321 | ₱96,845,759 |

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 |
| | ₱913,386,427 | ₱926,979,573 |

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:

| | | Percentage of Ownership | | |
|---|---|---|---|---|
| | Nature of Business | 2017 | 2016 | 2015 |
| Associates: | | | | |
| VECO | Power distribution | **34.81** | 34.81 | 34.81 |
| LPCI | Power generation | **42.50** | 42.50 | – |
| CPPC | Power generation | **40.00** | 40.00 | 40.00 |
| PEI | Power generation | **40.00** | 40.00 | 40.00 |
| AHPC | Power generation | – | 30.00 | 30.00 |
| AHI | Holding company | **40.00** | 40.00 | 40.00 |
| MPC | Power generation | **40.00** | 40.00 | 40.00 |
| TVI | Power generation | **20.00** | 20.00 | 20.00 |
| GLEDC | Power generation | **42.50** | 42.50 | – |
| SREC | Power generation | **30.00** | 30.00 | – |
| CREC | Power generation | **35.00** | – | – |
| Joint ventures: | | | | |
| VSNRGC | Power generation | **47.64** | 47.64 | 47.64 |
| CIPC | Power generation | **50.00** | 50.00 | 50.00 |
| Delta P | Power generation | **50.00** | 50.00 | 50.00 |

| | 2017 | 2016 |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | **₱5,758,516,616** | ₱5,384,797,366 |
| Additions | **519,552,078** | 372,156,750 |
| Disposal of an associate | **(13,062,500)** | – |
| Deposits converted to equity | **120,500,000** | 1,562,500 |
| At December 31 | **6,385,506,194** | 5,758,516,616 |
| Deposit for future stock subscription: | | |
| At January 1 | **190,042,976** | 2,968,700 |
| Additions | **39,290,000** | 188,636,776 |
| Disposal of an associate | **(1,406,200)** | – |
| Deposits converted to equity | **(120,500,000)** | (1,562,500) |
| At December 31 | **107,426,776** | 190,042,976 |
| Accumulated share in net earnings: | | |
| At January 1 | **349,371,397** | 393,386,231 |
| Equity in net earnings of associates and joint ventures | **1,290,172,769** | 1,288,333,002 |
| Cash dividends received and receivable | **(1,183,387,551)** | (1,359,332,133) |
| Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment | **26,984,297** | 26,984,297 |
| Accumulated losses in disposed investment in an associate | **11,500,000** | – |
| At December 31 | **494,640,912** | 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 |
| | ₱8,385,408,898 | ₱7,446,422,945 |

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

VECO

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

AHI

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Total current assets | ₱795,592,070 | ₱751,610,593 | ₱1,323,785,767 |
| Total noncurrent assets | 3,019,191,652 | 3,070,016,416 | 2,694,464,681 |
| Total equity | 3,814,783,722 | 3,821,610,678 | 4,018,176,089 |
| Gross revenue | 742,400,726 | 1,120,522,589 | 1,041,283,276 |
| Operating profit | 742,279,413 | 1,120,278,753 | 1,041,031,454 |
| Net income | 742,251,648 | 1,120,271,955 | 1,041,828,799 |
| Other comprehensive income (loss) | (1,078,604) | 3,162,634 | 17,421,581 |
| Total comprehensive income | 741,173,044 | 1,123,434,589 | 1,059,250,380 |
| Group's share in net income | 296,900,659 | 448,108,782 | 416,731,520 |
| Proportion of Group's ownership | 40.00% | 40.00% | 40.00% |
| Carrying amount of the investment | 1,526,079,117 | 1,528,809,774 | 1,607,435,837 |
| Dividends received from AHI | 299,199,875 | 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 | ₱229,876,533 | ₱146,863,330 | ₱350,439,957 |
| Net income (loss) | 167,964,723 | 161,982,082 | (68,071,964) |
| Other comprehensive income | 1,010,471 | 755,652 | 3,679,067 |
| Total comprehensive income (loss) | 168,725,194 | 162,737,734 | (64,392,897) |
| Aggregate carrying amounts | 1,372,744,600 | 826,892,828 | 564,401,566 |

11. Property, Plant and Equipment

| | 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | | |
| At January 1 | ₱– | ₱648,898,491 | ₱45,977,395 | ₱43,060,037 | ₱37,505,325 | ₱8,368,111 | ₱18,239,350 | ₱32,588,780 | ₱834,637,489 |
| 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 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| 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 |
| **Net Book Value** | ₱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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Land | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | | |
| 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) | – | – | – | – | – | – | – | 11,455,381 | 11,455,381 |
| 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 |
| **Accumulated Depreciation and Amortization** | | | | | | | | | |
| 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 |
| **Net Book Value** | ₱– | ₱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) | ₱86,797,416 | ₱87,412,714 | ₱33,587,391 |
| Operating expenses | 18,876,409 | 18,345,528 | 16,753,073 |
| | ₱105,673,825 | ₱105,758,242 | ₱50,340,464 |

## 12. Investment Properties

| | 2017 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| At January 1 | ₱511,423,557 | ₱3,378,000 | ₱514,801,557 |
| 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 | ₱502,711,090 | ₱– | ₱502,711,090 |

| | 2016 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| At January 1 and December 31 | ₱511,423,557 | ₱3,378,000 | ₱514,801,557 |

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.

## 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 |
| | **₱33,335,299** | ₱24,182,258 |

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 |
|---|---|---|
| **At Cost** | | |
| 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 | – | – |
| | 3,750,000 | 3,750,000 |
| **At Fair Value** | | |
| Philippine Long Distance Telephone Co. | 600 | 600 |
| Paper Industries Corp. of the Phils. | 31 | 31 |
| | 631 | 631 |
| | ₱3,750,631 | ₱3,750,631 |

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

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) | ₱1,116,427,842 | ₱1,051,211,182 |
| Deferred output VAT | 119,259,763 | 94,559,030 |
| Output VAT | 59,531,435 | 68,484,477 |
| Accrued interest (see Note 15) | 25,450,401 | 25,712,776 |
| Accounts payable | 9,869,523 | 8,214,133 |
| Accrued expenses | 5,641,040 | 1,831,215 |
| Accrued taxes payable | 5,009,714 | 10,366,912 |
| Dividends payable | 4,819,251 | 4,458,690 |
| Others | 4,510,029 | 2,264,119 |
| | ₱1,350,518,998 | ₱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 HDFE. 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 |
| | 2,910,000,000 | 2,940,000,000 |
| Less unamortized debt issue costs | 14,228,065 | 18,415,321 |
| | 2,895,771,935 | 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 |
| | ₱2,870,154,989 | ₱2,895,771,935 |

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 |
| | ₱2,910,000,000 | ₱2,940,000,000 |

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:

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| Associates | | | | | |
| 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 | 33,960,800 | – | – | 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 |
| **Joint Ventures** | | | | | |
| 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 | 176,770 | 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 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| 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 |
| **Stockholders with Significant Influence** | | | | | |
| Management fees expense (see Note 16c) | | | | | |
| 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 |
| **Stockholders with No Significant Influence** | | | | | |
| 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 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| **Associates** | | | | | |
| 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 16i): | | | | | |
| 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)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| **Joint Ventures** | | | | | |
| Management fees (see Note 16d): | | | | | |
| NR | ₱6,536,452 | ₱87,646 | ₱ | 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 |
| **Stockholders with Significant Influence** | | | | | |
| 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 |
| **Stockholders with No Significant Influence** | | | | | |
| 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 |
| | **₱85,984,780** | ₱68,860,700 | ₱73,934,788 |

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

Other Operating Expenses

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Stand-by letter of credit | ₱9,855,418 | ₱11,055,353 | ₱12,710,011 |
| Outside services | 8,905,085 | 5,348,326 | 3,437,441 |
| Marketing expenses | 7,399,504 | 1,200,000 | – |
| Directors' per diem (see Note 18) | 6,621,650 | 4,014,968 | 3,749,245 |
| Office supplies | 5,729,590 | 5,544,422 | 5,886,977 |
| Repairs and maintenance | 3,296,682 | 3,537,743 | 3,602,583 |
| Corporate social responsibility | 3,280,772 | 2,352,179 | 3,115,981 |
| Regulatory expenses | 2,446,335 | 2,104,086 | 2,861,470 |
| Stockholders' meeting expenses | 817,847 | 744,503 | 618,479 |
| Project costs written off (see Note 13) | – | 21,172,701 | – |
| Others | 10,493,310 | 14,443,886 | 11,469,888 |
| | ₱58,846,193 | ₱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 |
| | ₱220,960,010 | ₱192,046,036 | ₱178,074,511 |

## 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 | ₱8,838,915 | ₱8,838,434 | ₱10,802,650 |

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 |
| | ₱7,642,270 | (₱3,041,578) | (₱7,738,786) |

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 | ₱45,956,101 | ₱35,329,225 |
| Fair value of plan assets | (14,198,052) | (14,611,824) |
| Pension liability | ₱31,758,049 | ₱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 | ₱20,306,854 | ₱14,588,890 |
| Fair value of plan assets | (20,238,923) | (17,463,681) |
| Pension liability (asset) | ₱67,931 | (₱2,874,791) |

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

| | 2017 | 2016 |
|---|---|---|
| At January 1 | ₱49,918,115 | ₱43,368,899 |
| Current service cost | 7,939,720 | 8,111,854 |
| Interest cost on defined benefit obligation | 2,308,089 | 2,008,966 |
| Actuarial loss (gain) due to: | | |
| Experience adjustments | 4,210,177 | (46,682) |
| Changes in demographic assumptions | 991,134 | (1,759,766) |
| Changes in financial assumptions | 895,720 | (1,483,919) |
| Benefits paid | – | (281,237) |
| At December 31 | ₱66,262,955 | ₱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 | ₱32,075,505 | ₱28,598,256 |
| Contributions to the retirement fund | 2,497,815 | 2,724,889 |
| Interest income included in net interest cost | 1,408,894 | 1,282,386 |
| Return on assets excluding amount included in net interest cost | (1,545,239) | (248,789) |
| Benefits paid | – | (281,237) |
| At December 31 | ₱34,436,975 | ₱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 | ₱31,825,980 | ₱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 | 100.00% | 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 | **(₱6,547,905)** | (₱4,818,307) |
| | −100 basis points | **7,950,905** | 5,942,776 |
| Future salary increase rate | +100 basis points | **8,141,099** | 5,747,650 |
| | −100 basis points | **(6,833,684)** | (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 ₱3.1 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 | **₱20,890,173** | ₱16,117,322 |
| More than one year to five years | **8,932,877** | 8,525,165 |
| More than five years to 10 years | **14,395,465** | 12,563,210 |
| More than 10 years to 15 years | **66,126,037** | 62,910,540 |
| More than 15 years to 20 years | **151,427,202** | 123,559,178 |
| More than 20 years | **352,750,122** | 232,518,527 |
| Total | **₱614,521,876** | ₱456,193,942 |

## 20. Income Taxes

| | **2017** | 2016 | 2015 |
|---|---|---|---|
| Current | **₱90,407,602** | ₱115,629,566 | ₱90,190,909 |
| Final | **6,532,901** | 8,744,210 | 8,978,227 |
| | **96,940,503** | 124,373,776 | 99,169,136 |
| Deferred | **(2,062,605)** | 7,601,411 | 71,546,935 |
| | **₱94,877,898** | ₱131,975,187 | ₱170,716,071 |

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 | ₱1,520,386,704 | ₱1,560,557,874 | ₱1,420,678,616 |
| Tax calculated at 30% statutory rate | ₱456,116,011 | ₱468,167,362 | ₱426,203,585 |
| Adjustments for the tax effects of: | | | |
| Equity in net earnings of associates and joint ventures | (387,051,831) | (386,499,901) | (302,912,871) |
| Unrecognized NOLCO and MCIT | 81,576,654 | 56,341,026 | 65,498,521 |
| Difference of OSD over deductible expenses | (22,146,917) | 4,312,599 | (18,658,706) |
| Realized gain on change in fair value of investment properties | (14,894,907) | – | – |
| Non-deductible expenses | 11,598,309 | 5,143,800 | 9,354,063 |
| Interest income subject to final tax | (10,408,119) | (7,282,461) | (8,686,576) |
| Non-deductible impairment loss | (6,391,855) | – | – |
| Others | (13,519,447) | (8,207,238) | (81,945) |
| | ₱94,877,898 | ₱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 | ₱13,923,328 | ₱13,923,328 |
| Net pension liability | 10,567,846 | 9,116,357 |
| | 24,491,174 | 23,039,685 |
| Deferred income tax liabilities on: | | |
| Unamortized debt issue costs | 4,268,419 | 5,524,596 |
| Unrealized gain on changes in unitized investment in trust fund | 3,889,466 | – |
| Unrealized foreign exchange gain | 28,456 | 1,159,203 |
| | 8,186,341 | 6,683,799 |
| Deferred income tax liability related to defined benefit obligation recognized as other comprehensive income | 330,502 | 1,986,870 |
| Net deferred income tax assets | ₱15,974,331 | ₱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 |
| | 107,737,111 | 109,574,367 |
| Deferred income tax asset on net pension liability | 276,402 | – |
| | 107,460,709 | – |
| Deferred income tax asset related to defined benefit obligation recognized as other comprehensive income | 286,159 | |
| | ₱107,174,550 | ₱109,574,367 |

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 | **May 12, 2017** | May 12, 2016 | May 27, 2015 |
| Date of record | **May 26, 2017** | June 3, 2016 | June 9, 2015 |
| Date of payment | **June 22, 2017** | June 29, 2016 | July 3, 2015 |
| Dividends declared: | | | |
| Regular dividends | **₱203,156,155** | ₱192,921,585 | ₱192,921,585 |
| Special dividends | **82,592,955** | 75,019,375 | 75,019,375 |
| | **₱285,749,110** | ₱267,940,960 | ₱267,940,960 |
| Dividends per share | **₱0.2792** | ₱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 | **₱1,313,182,600** | ₱1,231,392,026 | ₱1,048,785,545 |
| Total noncurrent assets | **392,583,926** | 542,371,291 | 854,247,328 |
| Total current liabilities | **1,150,199,480** | 1,204,437,354 | 1,461,384,281 |
| Total noncurrent liabilities | **646,781** | 10,817,227 | 586,685 |
| Total equity | **556,920,265** | 558,508,736 | 441,061,907 |
| Sale of power | **1,811,340,517** | 1,530,605,858 | 1,991,517,373 |
| Operating profit | **291,705,707** | 389,568,838 | 333,782,601 |
| Net income | **298,804,237** | 296,072,471 | 247,465,879 |
| Total comprehensive income | **296,411,529** | 299,446,829 | 247,639,622 |
| Net income attributable to non-controlling interests | **141,334,404** | 140,042,279 | 117,051,361 |
| Total comprehensive income attributable to non-controlling interests | **140,202,653** | 141,638,350 | 117,133,541 |
| Dividends paid to non-controlling interests | **141,900,000** | 86,086,000 | 59,125,000 |
| Accumulated non-controlling interest | **249,500,279** | 264,174,632 | 208,622,282 |

## 22. Earnings Per Share (EPS)

The amounts of EPS are computed as follows:

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

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

## 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 interval 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.

## 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | Impaired | Total |
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | | |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,634,622,495 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱4,634,622,495 |
| 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 |
| | ₱5,410,518,314 | ₱303,065,269 | ₱38,086,005 | ₱28,025,236 | ₱177,313,994 | ₱88,281,227 | ₱6,045,290,045 |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | Impaired | Total |
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | | |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,437,126,262 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱4,437,126,262 |
| 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 |
| | ₱5,569,541,797 | ₱4,484,269 | ₱6,305,757 | ₱19,684,442 | ₱115,645,929 | ₱88,281,227 | ₱5,803,943,421 |

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 |
| **Loans and Receivables** | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,634,622,495 | ₱– | ₱– |
| 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 | – | – |
| | ₱5,410,518,314 | ₱– | ₱– |

| | 2016 | | |
|---|---|---|---|
| | Neither Past Due nor Impaired | | |
| | High Grade | Medium Grade | Low Grade |
| **Loans and Receivables** | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,437,126,262 | ₱– | ₱– |
| 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 | – | – |
| **AFS Investments** | 3,750,631 | – | – |
| | ₱5,569,541,797 | ₱– | ₱– |

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 |
| **Financial Assets** | | | | | |
| 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 |
| **Financial Liabilities** | | | | | |
| 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 | – |
| Net Financial Assets (Liabilities) | ₱1,412,859,864 | ₱4,634,448,726 | (₱104,965,646) | (₱3,162,701,279) | ₱46,078,063 |

**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 |
| **Financial Assets** | | | | | |
| 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 |
| **Financial Liabilities** | | | | | |
| 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 |
| Net Financial Assets (Liabilities) | ₱719,436,628 | ₱3,653,728,256 | ₱410,061,653 | (₱600,742,920) | (₱2,743,610,361) |

**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** |
| | **US$1,767,148** | **€1,021** | **₱88,294,561** |

| | 2016 | | |
|---|---|---|---|
| | USD | EUR | Php Equivalent |
| Asset: | | | |
| Cash | US$89,319 | €1,020 | ₱4,493,818 |
| Trade and other receivables | 401,189 | – | 19,947,117 |
| | **US$490,508** | €1,020 | ₱24,440,935 |

The December 31 exchange rates used follows:

| | **2017** | 2016 |
|---|---|---|
| US Dollar | **₱49.93 to US$1** | ₱49.72 to US$1 |
| Euro Dollar | **₱59.61 to €1** | ₱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% Appreciation | 1.22% Depreciation |
| Effect in income before income tax: | | |
| **2017** | **₱2,152,902** | **₱1,076,451** |
| 2016 | 1,075,513 | 858,460 |

| | Change in Philippine Peso to Euro | |
|---|---|---|
| | 6.11% Appreciation | 7.10% Depreciation |
| Effect in income before income tax: | | |
| **2017** | **₱3,718** | **₱4,323** |
| 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) |
| **Assets Measured at Fair Value** | | | | |
| Investment properties (see Note 12): | | | | |
| Land | ₱502,711,090 | ₱– | ₱– | ₱502,711,090 |
| Buildings | – | – | – | – |
| | ₱502,711,090 | ₱– | ₱– | ₱502,711,090 |

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

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 | **₱2,895,771,935** | ₱3,025,084,679 |
| Less: Cash and cash equivalents | **4,635,082,495** | 4,437,776,262 |
| Net cash and cash equivalents (a) | **(1,739,310,560)** | (1,412,691,583) |
| Equity | **10,702,899,708** | 9,457,039,460 |
| Equity and net cash and cash equivalents (b) | **₱8,963,589,148** | ₱8,044,347,877 |
| Gearing ratio (a/b) | **(0.19):1.00** | (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 | – |
| | 3,933,016,163 | 202,004,360 | – | 4,135,020,523 |
| 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 | ₱799,810,413 | ₱625,698,393 | ₱– | ₱1,425,508,806 |

| | 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 | – |
| | 3,606,938,872 | 263,143,416 | – | 3,870,082,288 |
| 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 | ₱501,511,055 | ₱927,071,632 | ₱– | ₱1,428,582,687 |

| | 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 |

SGV
Building a better working world

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

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

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

## INDEPENDENT AUDITOR'S REPORT 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 |
|---|---|
| **Unappropriated Retained Earnings, Beginning** | P1,031,800,271 |
| **Adjustment:** | |
| 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 |
| **Unappropriated Retained Earnings, as Adjusted, Beginning** | 1,014,643,114 |
| **Net Income Based on the Face of AFS** | 863,557,821 |
| **Less: Non-actual/Unrealized Income Net of Tax** | |
| 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) |
| **Add: Non-actual Losses** | |
| 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 |
| **Net Income Actual/Realized** | 885,716,327 |
| **Add (Less)** | |
| 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 | – |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION** | ₱970,585,364 |

*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 | – |
| Total financial assets | – | ₱5,957,468,818 | ₱5,957,468,818 | ₱2,844,847,754 |

*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 | ₱281,328 | ₱33,791,056 | (₱3,735,865) | ₱– | ₱– | ₱30,336,519 | ₱– | ₱30,336,519 |
| 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 |
| | ₱246,280,608 | ₱2,453,621,436 | (₱2,347,350,268) | ₱ | ₱ | ₱352,751,776 | ₱ | ₱352,751,776 |

# 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 | | |
|---|---|---|---|---|---|---|---|
| | | | | | Current | Noncurrent | Total |
| 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 | 538,869 | (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 |
| | P13,705,703 | P132,985,214 | (P4,385,268) | P– | P147,305,649 | P– | P147,305,649 |

# 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**

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Current Portion of Long-term Debt | Long-term Debt |
|---|---|---|---|
| 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 | | | ✓ |

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4 Insurance Contracts | See footnoteError! Bookmark not defined. | | |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | | | ✓ |
| | Amendments to PFRS 5: Changes in Methods of Disposal | | | ✓ |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | 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 | ✓ | | |
| PFRS 8 | 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 | ✓ | | |
| PFRS 9 | Financial Instruments (2010 version) | See footnoteError! Bookmark not defined. | | |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures | See footnoteError! Bookmark not defined. | | |
| | Amendments to PFRS 9, Prepayment Features with Negative Compensation | See footnoteError! Bookmark not defined. | | |
| PFRS 10 | 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 footnoteError! Bookmark not defined. | | |
| PFRS 11 | Joint Arrangements | ✓ | | |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: | | | ✓ |

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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) | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivable and payables | ✓ | | |
| | Amendments to PFRS 13: Portfolio Exception | | | ✓ |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| PFRS 15 | Revenue from Contracts with Customers | See footnoteError! Bookmark not defined. | | |
| PFRS 16 | Leases | See footnoteError! Bookmark not defined. | | |
| **Philippine Accounting Standards** | | | | |
| PAS 1 (Revised) | 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 | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7: Disclosure Initiatives | ✓ | | |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Balance Sheet Date | ✓ | | |
| PAS 11 | Construction Contracts | | | ✓ |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendment to PAS 12: Recognition of Deferred Tax assets for Unrealized Losses | | | ✓ |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendment to PAS 16: Classification of servicing equipment | | | ✓ |

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 (Amended) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Defined Benefit Plans - Employee Contributions | | | ✓ |
| | Amendments to PAS 19: Regional Market Issue regarding Discount Rate | | | ✓ |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | | | ✓ |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |
| | Amendment to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| PAS 28 (Amended) | 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. | | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2017 | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | 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 | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| | Amendments to PAS 34: Disclosure of Information 'elsewhere in the interim financial report' | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | 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 | ✓ | | |
| PAS 39 | 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 | | | ✓ |
| PAS 40 | 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 | | |

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

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

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS<br>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.

[1]Not early adopted; Effective beginning on or after January 1, 2018

[2]Not early adopted; Effective beginning on or after January 1, 2019

[3]Deferred effectivity

# COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

FOR BIR'S USE ONLY

AFTER THE BIR HAS DULY STAMPED "RECEIVED."

SEC Registration Number

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 1 | 7 | 5 | 2 | 2 | 2 | |

COMPANY NAME

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| V | I | V | A | N | T | | C | O | R | P | O | R | A | T | I | O | N | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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

| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| U | n | i | t | | 9 | 0 | 7 | - | 9 | 0 | 8 | , | | A | y | a | l | a | | L | i | f | e | - | F | G | U | | C |
| e | n | t | e | r | , | | M | i | n | d | a | n | a | o | | A | v | e | . | | C | o | r | . | | B | i | l | i | |
| r | a | n | | R | d | , | | C | e | b | u | | B | u | s | i | n | e | s | s | | P | a | r | k | , | | B | g | |
| y | . | | L | u | z | , | | C | e | b | u | | C | i | t | y | | | | | | | | | | | | | | |

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| A A F S | C R M D | N / A |

## COMPANY INFORMATION

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| vivant@vivant.com.ph | (032) 234-2256 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,434 | June 14 | 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

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road,
Cebu Business Park, Cebu City

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

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

APR 16 2018

SUBSCRIBED AND SWORN TO

VIVANT

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **VIVANT CORPORATION** 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 K.A. GARCIA
Chairman of the Board/Chief Executive Officer

MINUEL CARMELA N. FRANCO
Chief Financial Officer

Signed this _____ day of MAR 27 2018, 2018.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE - FBU
APR 13 2018
DPQA SECTION INITIAL

9th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City, Philippines 6000

Tel. no. (032) 234-2256
Telefax: (032) 234-2285
E-mail: vivant@vivant.com.ph

www.vivant.com.ph

**SUBSCRIBED AND SWORN TO BEFORE ME**, a Notary Public for and in the City of Cebu, this 28[TH] 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. 386 ;
Page No. 78 ;
Book No XXII ;
Series of 2018.

ATTY. JOAN A. GIDUQUIO-BARON
ROLL NO. 41829 NOTARY PUBLIC
CEBU, PHILIPPINES

Joan A. Giduquio-Baron

**ATTY. JOAN A. GIDUQUIO-BARON**
NOTARIAL COMMISSION NO. 049-17
NOTARY PUBIC
UNTIL DECEMBER 31, 2019
UNITS 1501-1507 AYALA LIFE-FGU CENTER
CEBU BUSINESS PARK, CEBU CITY
ROLL NO. 41829
PTR NO. 1434687 - CEBU CITY - 01/04/18
IBP NO. AR000748 - CEBU CITY - 01/04/18

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 7
CEBU
RECEIVED
APR 13 2018
DPQA SECTION INITIAL

SGV
Building a better working world

SyCip Gorres Velayo & Co.
Unit 908, Ayala Life-FGU Center
Cebu Business Park
Mindanao Avenue corner
Biliran Road
Cebu Business Park
Cebu City
6000 Cebu, Philippines

Tel: (032) 266 2947 to 49
Fax: (032) 266 2319
ey.com/ph

BOA Reg. No. 0001,
Dec. 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
Unit 907-908 Ayala Life-FGU Center
Mindanao Avenue Corner Biliran Road
Cebu Business Park, Barangay Luz
Cebu City, Philippines 6000

## Report on the Audit of the Parent Company Financial Statements

### Opinion

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

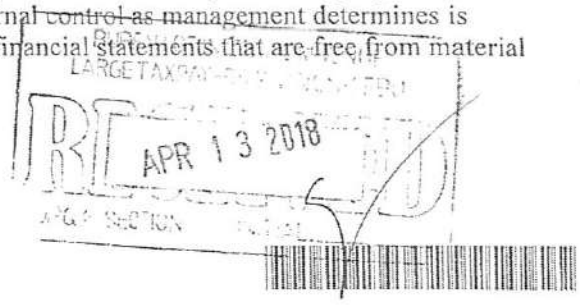
In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016, in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

### Basis for Opinion

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

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

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



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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 21 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Vivant Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

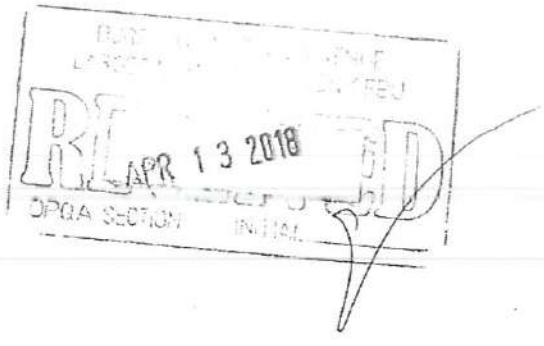
The engagement partner on the audit resulting in this independent auditor's report is Leovina Mae V. Chu.

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

PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | ₱2,963,358,526 | ₱3,042,355,997 |
| Trade and other receivables (Note 7) | 50,145,621 | 81,295,573 |
| Prepaid expenses and other current assets (Note 8) | 108,222,982 | 77,219,687 |
| **Total Current Assets** | 3,121,727,129 | 3,200,871,257 |
| **Noncurrent Assets** | | |
| Investments in and advances to subsidiaries and associates (Note 9) | 5,186,656,184 | 4,563,319,833 |
| Property and equipment (Note 10) | 60,154,394 | 50,643,851 |
| Deferred income tax assets - net (Note 16) | 15,974,331 | 15,409,355 |
| Other noncurrent assets (Note 11) | 7,604,207 | 5,669,212 |
| **Total Noncurrent Assets** | 5,270,389,116 | 4,635,042,251 |
| **TOTAL ASSETS** | ₱8,392,116,245 | ₱7,835,913,508 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of notes payable (Note 13) | ₱25,616,946 | ₱25,812,744 |
| Trade and other current liabilities (Note 12) | 43,626,695 | 47,153,539 |
| **Total Current Liabilities** | 69,243,641 | 72,966,283 |
| **Noncurrent Liabilities** | | |
| Notes payable - net of current portion (Note 13) | 2,870,154,989 | 2,895,771,935 |
| Pension liability (Note 15) | 31,758,049 | 20,717,401 |
| **Total Noncurrent Liabilities** | 2,901,913,038 | 2,916,489,336 |
| **Total Liabilities** | 2,971,156,679 | 2,989,455,619 |
| **Equity** | | |
| Capital stock (Note 17) | 1,023,456,698 | 1,023,456,698 |
| Additional paid-in capital | 8,339,452 | 8,339,452 |
| Remeasurement of employee benefits (Note 15) | 771,173 | 4,078,207 |
| Retained earnings (Note 17) | | |
| Appropriated for business expansion | 3,422,808,228 | 2,778,783,261 |
| Unappropriated | 965,584,015 | 1,031,800,271 |
| **Total Equity** | 5,420,959,566 | 4,846,457,889 |
| **TOTAL LIABILITIES AND EQUITY** | ₱8,392,116,245 | ₱7,835,913,508 |

*See accompanying Notes to Financial Statements*

APR 13 2018
SEC Cebu Extension Office
APR

# VIVANT CORPORATION
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| INCOME | | | |
| Dividend income (Note 9) | ₱1,095,190,876 | ₱713,260,234 | ₱633,145,640 |
| Management fees (Note 14) | 206,161,967 | 209,482,223 | 181,209,346 |
| Interest income (Note 6) | 47,323,234 | 46,493,674 | 46,035,016 |
| Reversal of allowance for impairment loss on investment in a subsidiary (Note 9) | – | – | 122,468,104 |
| Others (Note 14) | 17,068,278 | 41,783,003 | 10,442,065 |
| | 1,365,744,355 | 1,011,019,134 | 993,300,171 |
| EXPENSES | | | |
| Salaries and employee benefits (Notes 15 and 18) | 136,379,255 | 112,134,666 | 103,556,585 |
| Professional fees (Note 14) | 53,391,327 | 56,862,508 | 54,323,131 |
| Travel | 25,031,124 | 20,084,848 | 16,602,040 |
| Impairment loss on investment in a subsidiary (Note 9) | 21,306,182 | – | – |
| Depreciation (Note 10) | 16,279,765 | 15,413,285 | 14,200,552 |
| Rent and association dues | 12,218,764 | 8,210,744 | 6,228,328 |
| Marketing | 7,174,604 | 1,200,000 | – |
| Representation | 7,027,912 | 5,282,804 | 3,044,982 |
| Director's per diem | 6,621,650 | 4,014,968 | 3,749,245 |
| Communication and utilities | 6,306,449 | 5,055,604 | 3,831,987 |
| Outside services | 5,666,345 | 5,348,326 | 3,437,441 |
| Supplies | 5,292,769 | 5,184,073 | 5,235,699 |
| Corporate social responsibility | 3,280,772 | 2,352,179 | 3,115,981 |
| Taxes and licenses | 2,193,517 | 8,302,675 | 5,485,908 |
| Repairs and maintenance | 2,022,237 | 2,192,912 | 3,127,901 |
| Meetings and conferences | 817,847 | 743,595 | 611,578 |
| Others | 5,989,651 | 5,671,826 | 7,715,378 |
| | 317,000,170 | 258,055,013 | 234,266,736 |
| INCOME FROM OPERATIONS | 1,048,744,185 | 752,964,121 | 759,033,435 |
| FINANCE CHARGES | | | |
| Interest expense (Note 13) | 174,002,357 | 174,992,188 | 170,030,841 |
| Other financing charges | 3,798,782 | 2,218,359 | 6,173,102 |
| | 177,801,139 | 177,210,547 | 176,203,943 |
| INCOME BEFORE INCOME TAX | 870,943,046 | 575,753,574 | 582,829,492 |
| PROVISION FOR INCOME TAX (Note 16) | 7,385,225 | 6,475,580 | 7,776,119 |
| NET INCOME | 863,557,821 | 569,277,994 | 575,053,373 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Other comprehensive income (loss) that will not be reclassified to profit or loss: | | | |
| Remeasurement gain (loss) on employee benefits (Note 15) | (4,724,334) | (1,073,493) | 7,526,904 |
| Income tax effect | 1,417,300 | 322,048 | (2,258,071) |
| Other comprehensive income (loss) for the year, net of tax | (3,307,034) | (751,445) | 5,268,833 |
| TOTAL COMPREHENSIVE INCOME | ₱860,250,787 | ₱568,526,549 | ₱580,322,206 |
| EARNINGS PER SHARE (BASIC/DILUTED) (Note 17) | ₱0.844 | ₱0.556 | ₱0.562 |

APR 13 2018
DPGA SECTION INITIAL

*See accompanying Notes to Financial Statements.*

# VIVANT CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

| | Capital Stock | Additional Paid-in Capital | Remeasurement of Employee Benefits (Note 15) | Retained Earnings (Note 17) Appropriated | Retained Earnings (Note 17) Unappropriated | Total |
|---|---|---|---|---|---|---|
| At January 1, 2017 | ₱1,023,456,698 | ₱8,339,452 | ₱4,078,207 | ₱2,778,783,261 | ₱1,031,800,271 | ₱4,846,457,889 |
| Total comprehensive income (loss) | – | – | (3,307,034) | – | 863,557,821 | 860,250,787 |
| Appropriation for business expansion | – | – | – | 1,250,000,000 | (1,250,000,000) | – |
| Reversal of appropriation for business expansion | – | – | – | (695,975,033) | 695,975,033 | – |
| Cash dividends declared | – | – | – | – | (285,749,110) | (285,749,110) |
| At December 31, 2017 | ₱1,023,456,698 | ₱8,339,452 | ₱771,173 | ₱3,422,808,228 | ₱965,584,015 | ₱5,420,959,566 |
| At January 1, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱4,829,652 | ₱2,493,584,261 | ₱1,015,662,237 | ₱4,545,872,300 |
| Total comprehensive income (loss) | – | – | (751,445) | – | 569,277,994 | 568,526,549 |
| Appropriation for business expansion | – | – | – | 690,500,000 | (690,500,000) | – |
| Reversal of appropriation for business expansion | – | – | – | (405,301,000) | 405,301,000 | – |
| Cash dividends declared | – | – | – | – | (267,940,960) | (267,940,960) |
| At December 31, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱4,078,207 | ₱2,778,783,261 | ₱1,031,800,271 | ₱4,846,457,889 |
| At January 1, 2015 | ₱1,023,456,698 | ₱8,339,452 | (₱439,181) | ₱2,810,784,261 | ₱391,349,824 | ₱4,233,491,054 |
| Total comprehensive income | – | – | 5,268,833 | – | 575,053,373 | 580,322,206 |
| Appropriation for business expansion | – | – | – | 534,000,000 | (534,000,000) | – |
| Reversal of appropriation for business expansion | – | – | – | (851,200,000) | 851,200,000 | – |
| Cash dividends declared | – | – | – | – | (267,940,960) | (267,940,960) |
| At December 31, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱4,829,652 | ₱2,493,584,261 | ₱1,015,662,237 | ₱4,545,872,300 |

*See accompanying Notes to Financial Statements.*

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION II
RECEIVED
APR 13 2018
DPQA SECTION

# VIVANT CORPORATION
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | ₱870,943,046 | ₱575,753,574 | ₱582,829,492 |
| Adjustments for: | | | |
| Dividend income (Note 9) | (1,095,190,876) | (713,260,234) | (633,145,640) |
| Interest expense (Note 13) | 174,002,357 | 174,992,188 | 170,030,841 |
| Interest income (Note 6) | (47,323,234) | (46,493,674) | (46,035,016) |
| Impairment loss (reversal of allowance for impairment loss) on investment in a subsidiary (Note 9) | 21,306,182 | – | (122,468,104) |
| Depreciation (Note 10) | 16,279,765 | 15,413,285 | 14,200,552 |
| Pension expense (Note 15) | 6,316,314 | 5,459,950 | 7,706,704 |
| Gain on disposal of property and equipment (Note 10) | (1,111,600) | (639,636) | (1,020,345) |
| Unrealized foreign exchange gain | (3,921) | (60,434) | (64,626) |
| Operating income (loss) before working capital changes | (54,781,967) | 11,165,019 | (27,966,142) |
| Decrease (increase) in: | | | |
| Trade and other receivables | 26,363,155 | (38,133,793) | 44,071,617 |
| Prepaid expenses and other current assets | (31,003,294) | (26,528,548) | (24,348,489) |
| Increase (decrease) in trade and other current liabilities | (3,728,029) | 4,421,576 | 630,055 |
| Net cash used in operations | (63,150,135) | (49,075,746) | (7,612,939) |
| Interest paid | (170,077,476) | (170,194,087) | (167,836,907) |
| Contributions to the retirement fund (Note 15) | – | – | (8,062,808) |
| Net cash flows used in operating activities | (233,227,611) | (219,269,833) | (183,512,674) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividends received from subsidiaries and an associate (Note 9) | 1,100,354,260 | 713,260,234 | 627,982,256 |
| Interest received | 40,516,744 | 39,266,146 | 35,920,441 |
| Additions to: | | | |
| Investments in and advances to subsidiaries and associates (Note 9) | (644,642,533) | (445,801,000) | (911,200,000) |
| Property and equipment (Note 10) | (25,790,315) | (16,885,672) | (18,467,185) |
| Other noncurrent assets | (1,934,995) | (116,117) | (608,856) |
| Proceeds from disposal of property and equipment | 1,111,607 | 517,700 | 954,871 |
| Net cash flows from (used in) investing activities | 469,614,768 | 290,241,291 | (265,418,473) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments of: | | | |
| Cash dividends (Note 17) | (285,388,549) | (266,737,916) | (267,615,337) |
| Notes payable (Note 13) | (30,000,000) | (30,000,000) | (30,000,000) |
| Net cash flows used in financing activities | (315,388,549) | (296,737,916) | (297,615,337) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (79,001,392) | (225,766,458) | (746,546,484) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 3,921 | 60,434 | 64,626 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 3,042,355,997 | 3,268,062,021 | 4,014,543,879 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ₱2,963,358,526 | ₱3,042,355,997 | ₱3,268,062,021 |

*See accompanying Notes to Financial Statements.*

LARGE TAXPAYERS DIVISION
RECEIVED
APR 13 2018

## 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's shares are listed in the Philippine Stock Exchange (PSE) with 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% in 2017, 2016 and in 2015. MRC and JDC are entities incorporated and domiciled in the Philippines.

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.

Details of the Parent Company's equity interests in its subsidiaries and associates as of December 31, 2017 and 2016 are shown below:

| | Percentage of Direct Ownership |
|---|---|
| **Subsidiaries** | |
| Hijos De F. Escaño (HDFE) | 50.94 |
| Southern Grove Properties & Development Corp. (SGPDC) | 100.00 |
| Vivant Energy Corporation (VEC) | 100.00 |
| **Associates** | |
| Visayan Electric Company, Inc. (VECO) | 34.81 |
| Prism Energy, Inc. (PEI) | 40.00 |

The parent company financial statements 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.

BUREAU OF INTERNAL REVENUE
RECEIVED
APR 13 2018

## 2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The financial statements of the Parent Company have been prepared on a historical cost basis and 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 financial statements of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

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 Parent Company'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 Parent Company has provided the required information in Note 20 to the financial statements. As allowed under the transition provisions of the standard, the Parent Company did not present comparative information for the year ended December 31, 2016.

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

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

  Application of the amendments has no effect on the Parent Company's financial position and performance as the Parent Company 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 Parent Company does not expect that the future adoption of the said pronouncements will have a significant impact on the financial statements. The Parent Company 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 Parent Company 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 Parent Company 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 Parent Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

  The Parent Company 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 Parent Company plans to adopt the new standard on the required effective date using the modified retrospective method.

  The Parent Company 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 Parent Company is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Parent Company 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 Parent Company 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 amendments do not have any impact on the Parent Company since it does not have any investment property.

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

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

  The interpretation is not expected to have any impact on the parent company 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 parent company 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 Parent Company 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 parent company 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 Parent Company 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 parent company financial statements.

## 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 Parent Company recognizes a financial asset or a financial liability in the parent company 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 (AFS). The Parent Company 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 parent company statement 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 the 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 Parent Company's cash and cash equivalents and trade and other receivables.

*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 parent company statement of comprehensive income.

The Parent Company has AFS investments amounting to ₱3.7 million as of December 31, 2017 and 2016, and is presented as part of "Other noncurrent assets" account in the parent company statement 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 Parent Company's accounts payable, notes payable and accrued interest payable.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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
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 Parent Company.

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

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

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

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

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

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

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

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

Where the Parent Company 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 Parent Company'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 Parent Company 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 Parent Company's continuing involvement is the amount of the transferred asset that the Parent Company 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 Parent Company'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 parent company statement of comprehensive income.

*Impairment of Financial Assets.* The Parent Company 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 parent company statement of comprehensive income.

  The Parent Company 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 parent company 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 Parent Company 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 parent company statement of comprehensive income, is transferred from equity to the parent company statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in the parent company statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed in the parent company 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 parent company 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 changes in value.

Prepaid Expenses 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 parent company 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 parent company statement of comprehensive income.

Investments in and Advances to Subsidiaries and Associates
A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

An associate is an entity over which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture. 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.

Investments in and advances to subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Parent Company recognizes income from the investments only to the extent that the Parent Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Initially, an item of property 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 Parent Company. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

Depreciation is computed using the straight-line method over the assets' estimated useful lives. Leasehold improvements are depreciated 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 |
|---|---|
| Condominium units and improvements | 5–40 |
| Transportation equipment | 5 |
| Office furniture and equipment | 2–10 |
| Leasehold improvements | 3–10 |
| Other equipment | 3–5 |

The useful lives and depreciation method are reviewed at each reporting date to ensure that such useful lives and depreciation 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 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 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.

Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (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 are recognized in the parent company statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Parent Company 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

*Capital Stock.* Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscribing 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 economic benefits will flow to the Parent Company and revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The Parent Company 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.

*Dividends.* Dividends are recognized when the stockholders' right to receive the payment is established.

*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.* Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

*Other Income.* Other income includes intercompany charges, rental income and gain on disposal of property and equipment. These are generally recognized when earned. Revenue from intercompany charges are recognized when the related services are rendered based on agreed hourly billing rates. Rental income is recognized on a straight-line basis over the term of the lease while gain on disposal of property 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 Expense Recognition

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 parent company statement 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 Parent Company 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 Parent Company 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 parent company 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; and,
- 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 parent company statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability 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 parent company statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to parent company statement of 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 Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Taxes

*Current Income Tax.* Current 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 balance sheet 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 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 parent company statement of comprehensive income.

Deferred tax assets and deferred tax 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 parent company 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 parent company statement of financial position to the extent of the recoverable amount.

Contingencies
Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company 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 Parent Company's position at the reporting date (adjusting events) are reflected in the parent company 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 Parent Company 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 Parent Company 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 of December 31, 2017 and 2016, the Parent Company does not have dilutive common stock equivalents.



## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in compliance with PFRSs requires the Parent Company to make judgments, estimates and assumptions that affect the amounts reported in the parent company financial statements and related notes. In preparing these parent company financial statements, the Parent Company 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 in future periods.

The Parent Company believes that the following represent a summary of these significant accounting judgments and estimates and the related impact and associated risks in the parent company financial statements.

Judgments

In the process of applying the Parent Company'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 parent company financial statements:

*Determining Fair Value of Long-term Notes Payable.* The Parent Company 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 Parent Company 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 parent company financial statements.

Where the fair value of the long-term notes payable disclosed in the parent company financial statements 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 parent company financial statements.

As of December 31, 2017 and 2016, the fair values of the Parent Company's long-term notes payable amounted to ₱3,011.9 million and ₱3,050.7 million, respectively (see Note 19).

*Determination of Control or Significant Influence Over an Investee Company.* Control is presumed to exist when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies. Management has determined that by virtue of its ownership in its subsidiaries and associates as of December 31, 2017 and 2016, the Parent Company has the ability to exercise control over the subsidiaries and has significant influence over the associates (see Note 1).

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.* The Parent Company maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Parent Company's relationship with its clients, client's current credit status and other known market factors. The Parent Company 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 Parent Company made different judgment or utilized different estimates. An increase in the Parent Company's allowance for impairment will increase the Parent Company's recorded expenses and decrease current assets.

No provisions for impairment losses were recognized in 2017, 2016 and 2015. As of December 31, 2017 and 2016, allowance for impairment losses amounted to ₱0.3 million (see Note 7). Trade and other receivables amounted to ₱50.1 million and ₱81.3 million as of December 31, 2017 and 2016, respectively (see Note 7).

*Estimating Allowance for Impairment of Losses on Investments in and Advances to Subsidiaries and Associates.* Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2014, it was determined that the carrying value of the investment in HDFE exceeded its recoverable amount. As a result, an impairment loss amounting to ₱618.7 million was recognized. In 2015, there was an increase in the fair market value of the assets of HDFE which consequently increased the carrying value of Vivant's investment in HDFE resulting to a reversal of allowance for impairment loss amounting to ₱122.5 million. In 2017, impairment loss amounting to ₱21.3 million was recognized arising from the appraisal and disposal of HDFE's investment properties and depreciation of land improvements (see Note 9).

*Estimating Provision for Pension Liability.* The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The pension liability as of December 31, 2017 and 2016 amounted to ₱31.8 million and ₱20.7 million, respectively (see Note 15).

Further details about the assumptions used are provided in Note 15.

*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 Parent Company'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 Parent Company.

Deferred income tax assets amounted to ₱24.5 million and ₱22.7 million as of December 31, 2017 and 2016, respectively. Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of ₱581.1 million and ₱462.1 million as of December 31, 2017 and 2016, respectively, and minimum corporate income tax (MCIT) of ₱0.5 million and ₱1.5 million as of December 31, 2017 and 2016, respectively, because management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized (see Note 16).

## 6. Cash and Cash Equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash on hand and in banks | ₱138,389,511 | ₱26,791,633 |
| Short-term investments | 2,824,969,015 | 3,015,564,364 |
| | ₱2,963,358,526 | ₱3,042,355,997 |

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 Parent Company, and earn interest at the respective short-term investment rates.

Interest income recognized from cash in banks and short-term investments amounted to ₱47.3 million, ₱46.5 million and ₱46.0 million in 2017, 2016 and 2015, respectively.

## 7. Trade and Other Receivables

| | 2017 | 2016 |
|---|---|---|
| Accounts receivable: | | |
| Third parties | ₱5,407,438 | ₱6,579,775 |
| Related parties (see Note 14) | 24,806,676 | 47,154,899 |
| Advances to related parties (see Note 14) | 14,623,234 | 14,177,244 |
| Accrued interest receivable | 2,299,004 | 2,025,415 |
| Advances to officers and employees | 1,669,716 | 4,133,449 |
| Dividends receivable (see Notes 9 and 14) | – | 5,163,384 |
| Others | 1,672,585 | 2,394,439 |
| | 50,478,653 | 81,628,605 |
| Less allowance for impairment losses | 333,032 | 333,032 |
| | ₱50,145,621 | ₱81,295,573 |

Accounts receivable represent amounts owed by third parties and related parties for consultancy, management, technical and other related services rendered by the Parent Company. These are noninterest-bearing and collectible within 10 to 30 days.

Advances to officers and employees pertain to cash advanced to the Parent Company's officers and employees for official business expenses which are subject to liquidation upon completion of the purpose for which the cash is advanced.

There was no movement in the allowance for impairment losses as of December 31, 2017 and 2016.

## 8. Prepaid Expenses and Other Current Assets

| | 2017 | 2016 |
|---|---|---|
| Creditable withholding tax | ₱96,461,400 | ₱68,219,210 |
| Prepayments | 7,446,194 | 5,115,654 |
| Others | 4,315,388 | 3,884,823 |
| | ₱108,222,982 | ₱77,219,687 |

Creditable withholding taxes pertain to taxes withheld by customers on income payments to the Parent Company for sales of services that can be applied against its income tax liabilities.

Prepayments include prepaid rentals and advance payments for health insurance coverage and all risks of direct physical loss or damage to the Company's properties.

Others include dues and subscriptions and unused office supplies.

## 9. Investments in and Advances to Subsidiaries and Associates

The components of the carrying values of investments accounted for under the cost method and advances to subsidiaries and associates are as follows:

| | Nature of Business | Ownership | 2017 | 2016 |
|---|---|---|---|---|
| **Investments in subsidiaries** | | | | |
| VEC | Power generation | 100.00 | ₱4,015,905,323 | ₱3,377,662,790 |
| HDFE | Holding company | 50.94 | 760,507,362 | 760,507,362 |
| SGPDC [formerly VC Ventures Net, Inc. (VNI)] | Real estate | 100.00 | 1,250,000 | 1,250,000 |
| | | | 4,777,662,685 | 4,139,420,152 |
| Less allowance for impairment loss | | | 517,539,638 | 496,233,456 |
| | | | 4,260,123,047 | 3,643,186,696 |
| **Investments in associates** | | | | |
| VECO | Power distribution | 34.81 | 919,633,137 | 919,633,137 |
| PEI | Retail electricity supplier | 40.00 | 500,000 | 500,000 |
| | | | 920,133,137 | 920,133,137 |
| Advances for future stock subscription of PEI | | | 6,400,000 | – |
| | | | ₱5,186,656,184 | ₱4,563,319,833 |

Subsidiaries

VEC, HDFE and SGPDC qualify as the Parent Company's subsidiaries. The relevant operations of the subsidiaries are as follows:

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 is a holding company with the following direct equity shareholdings:

| | | Percentage of Direct Ownership | | |
|---|---|---|---|---|
| | Nature of Business | 2017 | 2016 | 2015 |
| **Subsidiaries** | | | | |
| Vivant Integrated Generation Corporation (VIGC) | Holding company | 100 | 100 | 100 |
| Vivant Renewable Energy Corporation (VREC) | Holding company | 100 | 100 | 100 |
| Corenergy Inc. (Corenergy) | Retail Electricity Supplier | 100 | 100 | 100 |
| Vivant Isla Inc. (VII) | Power generation | 100 | 100 | 100 |
| Vivant Integrated Diesel Corporation (VIDC) | Holding company | 100 | 100 | 100 |
| Vivant Enercore Integrated Inc. (VEII) | Power generation | 100 | 100 | – |
| Vivant Powercore Active Inc. (VPAI) | Power generation | 100 | 100 | – |
| Vivant-Malogo Hydropower, Inc. (VMHI) | Power generation | 62 | 67 | 67 |
| 1590 Energy Corp. (1590 EC) | Power generation | 55 | 53 | 53 |
| VICS-Amlan Holdings Corp. (Vics-Amlan) | Holding company | – | 60 | 60 |
| **Associate** | | | | |
| Cebu Private Power Corporation (CPPC) | Power generation | 40 | 40 | 40 |
| **Joint Ventures** | | | | |
| Calamian Islands Power Corp. (CIPC) | Power generation | 50 | 50 | 50 |
| Delta P, Inc. (DPI) | Power generation | 50 | 50 | 50 |

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) Megawatt (MW) of geothermal power from ULGPP beginning January 1, 2015, the start of commercial operations.

VEC declared dividends to the Parent Company amounting to ₱450.0 million in 2017 and nil in 2016 and 2015.

On June 29, 2015, VEC's application for increase in capital stock and issuance of shares has been approved by SEC thereby converting the long-term advance of ₱396.9 million to equity of VEC. Moreover, additional investments in VEC were made in 2015 amounting to ₱911.2 million. The conversion of long-term advance and additional investments in VEC represents 81,617,138 common shares with par value of ₱1.00 per share and 817,041,518 preferred shares with par value of ₱1.00 per share. Additional paid-in capital related to the issuance of the common shares and preferred shares amounted to ₱343.6 million and ₱65.9 million, respectively.

In 2016, the Parent Company made additional investments in VEC amounting to ₱445.8 million, which represents 40,000,000 common shares with par value of ₱1.00 per share and 405,801,000 preferred shares with par value of ₱1.00 per share.

In 2017, the Parent Company made additional investments in VEC amounting to ₱638.2 million, which represents 638,242,533 preferred shares with par value of ₱1.00 per share.

Vics Amlan was incorporated on August 26, 2009 with the primary purpose of holding investments in power generation companies. VEC sold to ICS Renewables Holdings, Inc. its entire shareholdings in Vics-Amlan representing 60% common ownership for a consideration of ₱0.6 million. Vics-Amlan ceased to be a related party after the sale.

HDFE

HDFE was incorporated on December 24, 1926, which registration was renewed for another 50 years effective November 26, 1974.0020 On June 26, 2012, the SEC approved the latest renewal of HDFE's registration for another 25 years effective April 2, 2013. 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.

In 2014, the Parent Company determined that the carrying value of the Parent Company's investment in HDFE exceeded its recoverable amount mainly due to the declaration of property dividends to the Parent Company. Accordingly, an impairment loss amounting to ₱618.7 million was recognized in 2014.

As of December 31, 2015, an appraisal of HDFE's investment properties showed an increase in their fair market value, thereby increasing the carrying value of the Parent Company's investment in HDFE. Reversal of allowance for impairment loss amounting to ₱122.5 million was recognized in the 2015 Parent Company statement of comprehensive income.

As of December 31, 2017, the Parent Company determined that the carrying value of the Parent Company's investment in HDFE exceeded its recoverable amount mainly due to the disposal of a portion of HDFE's investment properties and depreciation of land improvements. Accordingly, the Parent Company recognized an impairment loss of ₱21.3 million in its 2017 statement of comprehensive income.

SGPDC

SGPDC (previously VNI) was incorporated on December 8, 2004 and its primary purpose is 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. SGPDC also renders IT services to the companies under its parent 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 were approved by the SEC on October 8, 2015.

On January 6, 2016, the SEC approved its application for change in corporate name from VC Ventures Net, Inc. (VNI) to Southern Grove Properties and Development Corp. (SGPDC) and its primary purpose to engage in real estate business in all its branches and ramifications, to hold, construct, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, all kinds of real property such as lands, buildings, commercial centers, housing projects, mixed-use property projects, industrial, urban or other kinds of real property, or to act as real estate broker, for itself or for others, for such fees as may be legal and proper.

On June 1, 2017, the Parent Company received the ₱5.2 million cash dividends declared by SGPDC on December 7, 2015. No cash dividends were declared to the Parent Company in 2017.

On May 19, 2017, SGPDC subscribed to 249,995 common shares with a par value of ₱1 per share of Vivant Realty Ventures Corporation (VRVC), or a total of ₱249,995, resulting to 100% ownership in VRVC.

Associates
VECO and PEI qualify as associates of the Parent Company.

VECO
VECO was incorporated on February 22, 1961 and whose corporate term was extended for another 50 years from and after the date of its expiration on February 23, 2011. 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.

VECO declared cash dividends to the Parent Company amounting to ₱645.2 million, ₱713.3 million, and ₱628.0 million in 2017, 2016 and 2015, respectively.

PEI
PEI was incorporated on March 24, 2009 and its primary purpose is to engage in a business activity carried on pursuant to Republic Act No. 9136 otherwise known as the Electric Power Industry Reform Act of 2001, as amended, as a retail energy supplier and energy consolidator including sourcing, selling, brokering, marketing and aggregating of electricity to end-users.

The Energy Regulatory Commission granted the Company a license as a Retail Electricity Supplier (RES) on May 22, 2012, with a term of five years. The application for renewal for another five years was submitted to ERC prior to expiry in 2017. As of March 27, 2018, the Company is awaiting ERC's approval for its application.

On April 26, 2017, the Company began its operations as a RES company providing qualified contestable customers the opportunity to select a contract structure that will meet their generation supply requirement.

In 2017, the Parent Company made additional advances for future stock subscription to PEI amounting to ₱6.4 million.



## 10. Property and Equipment

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Condominium Units and Improvements | Transportation Equipment | Office Furniture and Equipment | Leasehold Improvements | Other Equipment | Construction in Progress | Total |
| Cost | | | | | | | |
| At January 1 | ₱36,421,603 | ₱26,894,499 | ₱27,728,828 | ₱10,168,873 | ₱6,152,658 | ₱– | ₱107,366,461 |
| Additions | – | 10,140,349 | 8,360,300 | 348,429 | 1,115,723 | 5,825,514 | 25,790,315 |
| Disposals | – | (4,754,319) | (216,251) | – | – | – | (4,970,570) |
| At December 31 | 36,421,603 | 32,280,529 | 35,872,877 | 10,517,302 | 7,268,381 | 5,825,514 | 128,186,206 |
| Accumulated Depreciation | | | | | | | |
| At January 1 | 18,839,967 | 14,051,182 | 19,215,919 | 1,854,346 | 2,761,196 | – | 56,722,610 |
| Additions | 2,401,699 | 5,853,002 | 5,669,899 | 722,231 | 1,632,934 | – | 16,279,765 |
| Disposals | – | (4,754,315) | (216,248) | – | – | – | (4,970,563) |
| At December 31 | 21,241,666 | 15,149,869 | 24,669,570 | 2,576,577 | 4,394,130 | – | 68,031,812 |
| Net Book Value | ₱15,179,937 | ₱17,130,660 | ₱11,203,307 | ₱7,940,725 | ₱2,874,251 | ₱5,825,514 | ₱60,154,394 |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Condominium Units and Improvements | Transportation Equipment | Office Furniture and Equipment | Leasehold Improvements | Other Equipment | | Total |
| Cost | | | | | | | |
| At January 1 | ₱36,159,099 | ₱22,509,214 | ₱23,879,197 | ₱8,807,935 | ₱2,767,318 | ₱– | ₱94,122,763 |
| Additions | 262,504 | 7,536,636 | 4,340,254 | 1,360,938 | 3,385,340 | – | 16,885,672 |
| Disposals | – | (3,151,351) | (490,623) | – | – | – | (3,641,974) |
| At December 31 | 36,421,603 | 26,894,499 | 27,728,828 | 10,168,873 | 6,152,658 | – | 107,366,461 |
| Accumulated Depreciation | | | | | | | |
| At January 1 | 16,131,660 | 11,098,007 | 14,242,068 | 1,350,474 | 1,052,555 | – | 43,874,764 |
| Additions | 2,708,307 | 5,036,484 | 5,455,981 | 503,872 | 1,708,641 | – | 15,413,285 |
| Disposals | – | (2,083,309) | (482,130) | – | – | – | (2,565,439) |
| At December 31 | 18,839,967 | 14,051,182 | 19,215,919 | 1,854,346 | 2,761,196 | – | 56,722,610 |
| Net Book Value | ₱17,581,636 | ₱12,843,317 | ₱8,512,909 | ₱8,314,527 | ₱3,391,462 | ₱– | ₱50,643,851 |

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.

Fully depreciated property and equipment costing ₱27.5 million and ₱13.9 million as of December 31, 2017 and 2016, respectively, are still being used by the Parent Company.

## 11. Other Noncurrent Assets

| | 2017 | 2016 |
|---|---|---|
| AFS investments | ₱3,700,000 | ₱3,700,000 |
| Others - net of allowance for impairment loss of ₱46.1 million | 3,904,207 | 1,969,212 |
| | ₱7,604,207 | ₱5,669,212 |

a. AFS Investments

This account is composed of investments in shares of stock as of December 31, 2017 and 2016 as follows:

| | |
|---|---|
| Cebu Country Club, Inc. | ₱3,400,000 |
| Tower Club, Inc. | 300,000 |
| | ₱3,700,000 |

*Cebu Country Club, Inc.* In 2012, the Parent Company acquired proprietary ownership shares in the Cebu Country Club, Inc. The non-listed equity security is stated at cost which approximates the fair value based on published buying and selling prices of these shares.

*Tower Club, Inc.* In 2014, the Parent Company acquired proprietary ownership shares in the Tower Club, Inc. The non-listed equity security is stated at cost which approximates the fair value based on published buying and selling prices of these shares.

b. Others

Others include receivable from RFM Corporation, the Parent Company'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 security deposits with various tenants and other parties.

## 12. Trade and Other Current Liabilities

| | 2017 | 2016 |
|---|---|---|
| Accrued interest (see Note 13) | ₱25,450,401 | ₱25,712,776 |
| Accounts payable | 9,423,548 | 7,766,329 |
| Accrued expenses | 4,213,620 | 7,087,426 |
| Dividends payable (see Note 20) | 2,331,387 | 1,970,826 |
| Output value-added tax | 1,495,275 | 4,010,014 |
| Others | 712,464 | 606,168 |
| | ₱43,626,695 | ₱47,153,539 |

Accounts payable consist mainly of liabilities for payroll, professional fees and other expenses. Accrued expenses consist of accruals for legal fees, securities and transfer fees, benefits and other expenses. Others include payable to HDMF, SSS, and PHIC contributions and withholding taxes.

## 13. 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 |
| | 2,910,000,000 | 2,940,000,000 |
| Less unamortized debt issue costs | 14,228,065 | 18,415,321 |
| | 2,895,771,935 | 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 |
| | ₱2,870,154,989 | ₱2,895,771,935 |

The Parent Company entered into a Notes Facility Agreement (Agreement) to issue P3.0 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, Minergy Power Corporation and Therma Visayas Incorporated.

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 P1.0 billion was made on February 3, 2014. The second drawdown amounting to P2.0 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 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 |
| | ₱2,910,000,000 | ₱2,940,000,000 |

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's 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 parent company 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 12).

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.

## 14. 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 Parent Company enters into transactions with related parties principally consisting of the following:

| | | 2017 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| **Subsidiaries** | | | | | |
| Dividend income (see Note 9): | | | | | |
| VEC | ₱450,000,000 | ₱– | ₱– | 30-60 days; noninterest-bearing | Unsecured, no impairment |
| Management fees (income) (see Note 14a): | | | | | |
| 1590 EC | 46,200,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| HDFE | 840,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| VEC | 6,000,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| SGPDC | 1,200,000 | 97,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service income (see Note 14a): | | | | | |
| 1590 EC | 2,784,701 | 1,280,593 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 4,008,311 | 700,286 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| VEC | 305,093 | 1,179,231 | 22,320 | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| 1590 EC | 608,499 | 319,899 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SGPDC | 100,465 | 10,023,700 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VRVC | 1,749 | 1,749 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 159,272 | 79,819 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIGC | 1,106,644 | 498,408 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VGPC | 353 | 129 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CORENERGY | 129,811 | 27,950 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 23,388 | 12,421 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VREC | 83,214 | 62,400 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIDC | 1,694 | 129 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VII | 129 | 129 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VEII | 569 | 569 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VPAI | 569 | 569 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| AHC | 129 | 129 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SPHC | 129 | 129 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Associates** | | | | | |
| Dividend income (see Note 9): | | | | | |
| VECO | 645,190,876 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Management fees (income) (see Note 14a): | | | | | |
| VECO | 34,937,352 | 5,648,205 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CPPC | 26,675,774 | 11,640,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| Category | Volume | 2017 Outstanding Balance Receivable | Payable | Terms | Conditions |
|---|---|---|---|---|---|
| Service income (see Note 14a): | | | | | |
| CPPC | ₱10,388,471 | ₱35,357 | ₱– | 30-60 days; noninterest-bearing | Unsecured, no impairment |
| Advances (see Note 14c): | | | | | |
| PEI | – | 1,532,400 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| LPCI | 300 | 300 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| DPI | 8,761,752 | 1,416,483 | – | 30-60 days; noninterest-bearing | Unsecured, no impairment |
| NR (see Note 14e) | 6,782,064 | 135,257 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CIPC | 3,600,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Service fees (see Note 14a): | | | | | |
| NR (see Note 14e) | 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 |
| DPI | 6,296,946 | 3,517,437 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| NR (see Note 14e) | 67,551 | 79,435 | 79,933 | 30-60 days; noninterest-bearing | Unsecured |
| CIPC | 15,857 | 4,932 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| DPI | 576,649 | 323,923 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Stockholders | | | | | |
| Management fees (expense) (see Note 14b): | | | | | |
| JDC | 6,135,893 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 9,203,839 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Advances (see Note 14c): | | | | | |
| Shareholder | – | 42,676 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

| Category | Volume | 2016 Outstanding Balance Receivable | Payable | Terms | Conditions |
|---|---|---|---|---|---|
| **Subsidiaries** | | | | | |
| Dividend income (see Note 9): | | | | | |
| SGPDC | ₱– | ₱5,163,384 | ₱– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Management fees (income) (see Note 14a): | | | | | |
| 1590 EC | 49,200,000 | 3,300,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 840,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| VFC | 6,000,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| SGPDC | 1,200,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Service income (see Note 14a): | | | | | |
| 1590 EC | 24,149,310 | 24,134,929 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 6,938,674 | 1,001,472 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| Advances (see Note 14c): | | | | | |
| VEC | ₱624,100 | ₱92,765 | ₱– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| 1590 EC | 2,296,942 | 1,169,590 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SGPDC | 1,257 | 9,923,512 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 314,248 | 59,666 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIGC | 835,047 | 332,870 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VGPC | 769 | 269 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CORENERGY | 182,325 | 175,093 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFI | 46,596 | 1,890 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VREC | 24,554 | 2,733 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VICS-AMLAN | 470 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| VII | 510 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Associates | | | | | |
| Dividend income (see Note 9): | | | | | |
| VECO | 713,260,234 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Management fees (income) (see Note 14a): | | | | | |
| 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 14a): | | | | | |
| CPPC | 347,850 | 336,875 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | 12,750 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| AHPC | 106,242 | 176,354 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| AHPC | 129,508 | 331,507 | – | 30-60 days; 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 |
| Operating lease (see Note 14d): | | | | | |
| VECO | 4,437,229 | 791,306 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Joint Ventures | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| DPI | 20,156,216 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| NR | 6,536,452 | 87,646 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CIPC | 1,620,000 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Service fees (see Note 14a): | | | | | |
| 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 |

(Forward)

| | | 2016 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| DPI | ₱3,045,200 | ₱48,482 | ₱ - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| NR | 711,425 | - | 68,049 | 30-60 days; noninterest-bearing | Unsecured |
| CIPC | 15,424 | 1,611 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| DPI | 1,219,320 | 578,711 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Stockholders | | | | | |
| Management fees (expense) (see Note 14b): | | | | | |
| JDC | 9,221,786 | - | - | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 13,832,679 | - | - | 30-60 days; noninterest-bearing | Unsecured |
| Advances (see Note 14e) | | | | | |
| Shareholder | - | 42,676 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |

The transactions above are generally settled in cash.

a. Management fees and service income from subsidiaries and associates represent compensation for consultancy, management, technical and other related services rendered by the Parent Company and use of the Parent Company's facilities in accordance with the terms of the respective agreements with the related parties. Services covered by SLAs or Management Contracts are recognized as part of the "Management fees" account while those not within the scope of work in the SLAs and rendered to the subsidiaries, associates and joint ventures on irregular basis are recognized as part of the "Other income" account in the parent company statements of comprehensive income.

b. The Parent Company entered into agreements with MRC and JDC, its stockholders, to perform consultancy services. For the consideration of the services rendered by MRC and JDC, the Parent Company will pay management fees agreed upon by the parties, without need for further demand. These are recognized as part of "Professional fees" in the parent company statements of comprehensive income.

c. Advances to and from subsidiaries, associates, joint ventures, and shareholders pertain to advances for working capital requirements. Advances to shareholder pertains to the life insurance plan advanced by the Parent Company for a member of its BOD.

d. The Parent Company also leased out an office space to VECO to be utilized as the latter's Customer Care Office. 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. 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 Parent Company recognized as part of "Others" account in the parent company statements of comprehensive income the amount of nil in 2017, ₱4.4 million in 2016 and ₱4.0 million in 2015 representing rent income received from VECO.

e. 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 favour of 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.

The retirement fund (the Fund) of the Parent Company 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 ₱14.2 million and ₱14.6 million as of December 31, 2017 and 2016, respectively (see Note 15). The Parent Company does not have any other transactions with the Fund in 2017 and 2016.

Compensation and Benefits of Key Management Personnel

The compensation of the Parent Company'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 15) | 4,851,293 | 3,964,194 | 7,706,704 |
| | ₱85,984,780 | ₱68,860,700 | ₱73,934,788 |

## 15. Retirement Plan

The Parent Company has a funded, noncontributory, defined benefit pension plan ("the Plan") covering all regular, permanent employees. The Plan provides 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 Parent Company.

The retirement fund for the Parent Company'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 parent company statements of comprehensive income and the funded status and amounts recognized in the parent company statements of financial position for the pension plan.

The components of the pension expense recognized under "Salaries and employee benefits" in the parent company statements of comprehensive income follow:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current service cost | ₱5,176,857 | ₱4,695,435 | ₱6,949,142 |
| Interest cost | 1,139,457 | 764,515 | 757,562 |
| Pension expense | ₱6,316,314 | ₱5,459,950 | ₱7,706,704 |

Remeasurement effects recognized in the parent company statements of comprehensive income follow:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Actuarial gains (losses) on defined benefit obligation | (₱3,947,827) | (₱1,392,012) | ₱7,680,723 |
| Actuarial gains (losses) on plan assets | (776,507) | 318,519 | (153,819) |
| | (₱4,724,334) | (₱1,073,493) | ₱7,526,904 |

The Parent Company's pension liability as of December 31, 2017 and 2016 follows:

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

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

| | 2017 | 2016 |
|---|---|---|
| At January 1 | ₱35,329,225 | ₱27,967,048 |
| Current service cost | 5,176,857 | 4,695,435 |
| Actuarial loss (gain) due to: | | |
| Experience adjustments | 4,023,983 | 1,722,744 |
| Changes in financial assumptions | (1,294,187) | (330,732) |
| Changes in demographic assumptions | 1,218,031 | – |
| Interest cost on defined benefit obligation | 1,502,192 | 1,274,730 |
| At December 31 | ₱45,956,101 | ₱35,329,225 |

Changes in the fair value of plan assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | ₱14,611,824 | ₱13,783,090 |
| Interest income included in net interest cost | 362,735 | 510,215 |
| Actuarial gains (losses) on return on plan assets | (776,507) | 318,519 |
| At December 31 | ₱14,198,052 | ₱14,611,824 |

Changes in the amounts recognized in the parent company statements of financial position for pension liability follow:

| | 2017 | 2016 |
|---|---|---|
| At January 1 | ₱20,717,401 | ₱14,183,958 |
| Pension expense | 6,316,314 | 5,459,950 |
| Actuarial losses recognized for the year | 4,724,334 | 1,073,493 |
| At December 31 | ₱31,758,049 | ₱20,717,401 |

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 | 99.86% | 99.85% |
| Savings deposit | 0.14% | 0.15% |
| Total plan assets | 100.00% | 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 Parent Company's defined benefit pension plan is guided by the objective of providing the necessary funding for the benefits payable under the plan and achieving such liquidity as deemed appropriate in the circumstances.

The principal assumptions used in determining pension liability obligations for the Parent Company's plan as of December 31 are shown below:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 5.80% | 5.50% |
| Future salary increase rate | 7.00% | 7.00% |

The sensitivity analysis below has been determined based on reasonable possible changes of the significant assumptions on the present value of the defined benefit obligation as of December 31, assuming all other assumptions were held constant:

| | | Increase (Decrease) in the Present Value of Defined Benefit Obligation | |
|---|---|---|---|
| | Increase (Decrease) | 2017 | 2016 |
| Discount rate | +100 basis points | (₱3,824,865) | (₱2,820,470) |
| | –100 basis points | 4,595,317 | 3,404,893 |
| Future salary increase rate | +100 basis points | 4,731,236 | 3,182,508 |
| | –100 basis points | (4,019,682) | (2,706,760) |

The average duration of the defined benefit obligation at the end of the reporting period is 20.4 years and 19.2 years as of December 31, 2017 and 2016, respectively.

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 | 2016 |
|---|---|---|
| Less than one year | ₱20,768,290 | ₱16,033,298 |
| More than 1 year to 5 years | 4,169,043 | 4,045,273 |
| More than 5 years to 10 years | 5,521,356 | 4,611,700 |
| More than 10 years to 15 years | 41,027,155 | 41,193,564 |
| More than 15 years to 20 years | 116,777,546 | 96,271,479 |
| More than 20 years | 171,314,308 | 91,122,785 |
| | ₱359,577,698 | ₱253,278,099 |

## 16. Income Tax

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Current tax: | | | |
| Minimum Corporate Income Tax (MCIT) (at 2%) | ₱– | ₱441,767 | ₱46,356 |
| Final (at 20% and 7.5%) | 6,532,901 | 8,744,209 | 8,978,225 |
| | 6,532,901 | 9,185,976 | 9,024,581 |
| Deferred | 852,324 | (2,710,396) | (1,248,462) |
| | ₱7,385,225 | ₱6,475,580 | ₱7,776,119 |

The reconciliation of the income tax expense computed at the statutory tax rate to provision for income tax reported in the parent company statements of comprehensive income follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income before income tax | ₱870,943,046 | ₱575,753,574 | ₱582,829,492 |
| Income tax computed at 30% | ₱261,282,914 | ₱172,726,072 | ₱174,848,848 |
| Adjustments to income tax resulting from: | | | |
| Nontaxable dividend income | (328,557,263) | (213,978,070) | (189,943,692) |
| Unrecognized deferred income tax asset on net operating loss carry-over (NOLCO) and MCIT | 68,039,429 | 47,905,203 | 58,483,438 |
| Nondeductible expenses | 9,969,666 | 5,018,350 | 5,959,279 |
| Interest income subjected to final tax | (9,882,422) | (12,662,622) | (13,809,548) |
| Final taxes paid | 6,532,901 | 8,744,209 | 8,978,225 |
| Nontaxable reversal of allowance for impairment loss | – | – | (36,740,431) |
| Others | – | (1,277,562) | – |
| | ₱7,385,225 | ₱6,475,580 | ₱7,776,119 |

The components of the Parent Company'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 | ₱13,923,328 | ₱13,923,328 |
| Pension liability | 9,857,918 | 7,963,023 |
| Unamortized past service cost | 709,928 | 822,681 |
| | 24,491,174 | 22,709,032 |
| Deferred income tax liabilities on: | | |
| Unamortized debt issue costs | 4,268,419 | 5,524,596 |
| Unrealized foreign exchange gain | 28,456 | 27,279 |
| Unrealized gain on unitized investment in trust fund | 3,889,466 | – |
| | 8,186,341 | 5,551,875 |
| Deferred income tax liability related to defined benefit obligation recognized as other comprehensive income | 330,502 | 1,747,802 |
| Net deferred income tax assets | ₱15,974,331 | ₱15,409,355 |

As of December 31, 2017 and 2016, the Parent Company has accumulated NOLCO and MCIT which can be claimed as deduction against future taxable income and income tax due, respectively, as follows:

| Year Incurred | Expiry Date | As of December 31, 2016 | Additions | Applied | Expired | As of December 31, 2017 |
|---|---|---|---|---|---|---|
| NOLCO | | | | | | |
| 2017 | 2020 | ₱– | ₱226,798,098 | ₱– | ₱– | ₱226,798,098 |
| 2016 | 2019 | 158,211,454 | – | – | – | 158,211,454 |
| 2015 | 2018 | 194,790,272 | – | – | – | 194,790,272 |
| 2014 | 2017 | 109,049,234 | – | – | 109,049,234 | – |
| | | ₱462,050,960 | ₱226,798,098 | ₱– | ₱109,049,234 | ₱581,092,046 |
| MCIT | | | | | | |
| 2017 | 2020 | ₱– | ₱– | ₱– | ₱– | ₱– |
| 2016 | 2019 | 441,767 | – | – | – | 441,767 |
| 2015 | 2018 | 46,356 | – | – | – | 46,356 |
| 2014 | 2017 | 1,048,596 | – | – | 1,048,596 | – |
| | | ₱1,536,719 | ₱– | ₱– | ₱1,048,596 | ₱488,123 |

The Parent Company did not recognize deferred income tax assets for NOLCO and MCIT because management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

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.

## 17. 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 - P1 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.

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 are expected to be completed starting 2017.

Out of the 2014 retained earnings appropriation, the Parent Company 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 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 P606.0 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 P1.3 billion to be used for future investments in these projects which are expected to be completed starting 2018.

Dividends

The BOD declared cash dividends to its stockholders as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Date of declaration | May 12, 2017 | May 12, 2016 | May 27, 2015 |
| Date of record | May 26, 2017 | June 3, 2016 | June 9, 2015 |
| Date of payment | June 22, 2017 | June 29, 2016 | July 3, 2015 |
| Dividends declared: | | | |
| Regular dividends | P203,156,155 | P192,921,585 | P192,921,585 |
| Special dividends | 82,592,955 | 75,019,375 | 75,019,375 |
| | P285,749,110 | P267,940,960 | P267,940,960 |
| Dividends per share | P0.2792 | P0.2618 | P0.2618 |

Earnings per Share

The earnings per share as of December 31 are computed as follows:

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Net income for the year | P863,557,821 | P569,277,994 | P575,053,373 |
| Number of outstanding common shares | 1,023,456,698 | 1,023,456,698 | 1,023,456,698 |
| Basic and diluted earnings per share | P0.844 | P0.556 | P0.562 |

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

## 18. Personnel Expenses

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Salaries and employee benefits | P130,062,941 | P106,674,716 | P95,849,881 |
| Pension expense (see Note 15) | 6,316,314 | 5,459,950 | 7,706,704 |
| | P136,379,255 | P112,134,666 | P103,556,585 |

## 19. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, advances to related parties, AFS investments, trade and other current liabilities and notes payable. The main purpose of these financial instruments is to raise funds for the Parent Company's operations.

The main risks arising from the Parent Company's financial instruments are credit risk and liquidity 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 a customer contract, leading to a financial loss. The Parent Company 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 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 receivable from RFM Corporation, which is fully provided with allowance for impairment, and portion of the receivables provided with allowance amounting to ₱0.3 million as of December 31, 2017 and 2016 (see Note 7), management evaluated that the Parent Company's financial assets as summarized above are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for doubtful accounts, amounted to ₱3,017.0 million and ₱3,127.1 million as of December 31, 2017 and 2016, respectively.

There are no significant concentrations of credit risk within the Parent Company.

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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither | Past Due But not Impaired | | | | | |
| | Past Due nor Impaired | Less than 30 Days | 31–60 Days | 61–90 Days | Over 90 days | Impaired | Total |
| Loans and Receivables | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱2,963,143,526 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱2,963,143,526 |
| Trade and other receivables: | | | | | | | |
| Accounts receivable | 23,046,622 | – | 3,809,554 | – | 3,024,906 | 333,032 | 30,214,114 |
| Advances to related parties | – | 834,062 | 116,401 | 165,389 | 13,507,382 | – | 14,623,234 |
| Accrued interest receivable | 2,299,004 | – | – | – | – | – | 2,299,004 |
| Advances to officers and employees | – | 49,788 | 20,727 | 46,408 | 1,552,793 | – | 1,669,716 |
| Others | – | 378,837 | – | 27,833 | 1,265,915 | – | 1,672,585 |
| Due from RFM Corporation (under "Other noncurrent assets") | – | – | – | – | – | 46,078,063 | 46,078,063 |
| AFS Investments | 3,700,000 | – | – | – | – | – | 3,700,000 |
| | ₱2,992,189,152 | ₱1,262,687 | ₱3,946,682 | ₱239,630 | ₱19,350,996 | ₱46,411,095 | ₱3,063,400,242 |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | | |
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,042,140,997 | ₱ | ₱ | ₱ | ₱ | ₱ | ₱3,042,140,997 |
| Trade and other receivables | | | | | | | |
| Accounts receivable | 38,066,517 | – | 2,832,087 | 3,722 | 12,499,316 | 333,032 | 53,734,674 |
| Advances to related parties | – | 2,797,833 | 236,697 | 472,945 | 10,669,769 | – | 14,177,244 |
| Accrued interest receivable | 2,025,415 | – | – | – | – | – | 2,025,415 |
| Advances to officers and employees | – | 150,130 | 1,704 | 418 | 3,981,197 | – | 4,133,449 |
| Dividends receivable | – | – | – | – | 5,163,384 | – | 5,163,384 |
| Others | – | 77,597 | 1,559,201 | – | 757,641 | – | 2,394,439 |
| Due from RFM Corporation (under "Other noncurrent assets") | – | – | – | – | – | 46,078,063 | 46,078,063 |
| AFS Investments | 3,700,000 | – | – | – | – | – | 3,700,000 |
| | ₱3,085,932,929 | ₱3,025,560 | ₱4,629,689 | ₱477,085 | ₱33,071,307 | ₱46,411,095 | ₱3,173,547,665 |

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 |
| **Loans and Receivables** | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱2,963,143,526 | ₱– | ₱– |
| Trade and other receivables: | | | |
| Accounts receivable | 23,046,622 | – | – |
| Accrued interest receivable | 2,299,004 | – | – |
| AFS Investments | 3,700,000 | – | – |
| | ₱2,992,189,152 | ₱– | ₱– |

| | 2016 | | |
|---|---|---|---|
| | Neither Past Due nor Impaired | | |
| | High Grade | Medium Grade | Low Grade |
| **Loans and Receivables** | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,042,140,997 | ₱– | ₱– |
| Trade and other receivables: | | | |
| Accounts receivable | 38,066,517 | – | – |
| Accrued interest receivable | 2,025,415 | – | – |
| **AFS Investments** | 3,700,000 | – | – |
| | ₱3,085,932,929 | ₱– | ₱– |

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

High grade - pertains to counterparty who is not expected by the Parent Company 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* - high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.

- *Accounts Receivable, Advances to Officers and Employees, and Others* - high grade since these pertain to receivables from customers or parties who have established good credit standing with the Parent Company, except for past due and impaired trade and other receivables which are considered as medium and low grade financial assets.

- *Accrued Interest Receivable* - high grade since these arise from cash and cash equivalents which are deposited in reputable banks with good bank standing, thus credit risk is minimal.

- *Advances to Related Parties* - high grade since these pertain to advances to related parties who are consistent in the payment of their 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.

Liquidity Risk

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

The Parent Company 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 Parent Company's trade receivables are maintained to meet maturing obligations. The Parent Company, in general, matches the appropriate long-term funding instruments with the general nature of its equity instruments.

The following tables summarize the Parent Company's financial assets that can be used to manage its liquidity risk and the maturity profile of the Parent Company'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 |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | ₱2,963,358,526 | ₱2,963,358,526 | ₱– | ₱– |
| Trade and other receivables: | | | | |
| Accounts receivable | 29,881,082 | – | 29,704,728 | 176,354 |
| Advances to related parties | 14,623,234 | – | 4,657,324 | 9,965,910 |
| Advances to officers and employees | 1,669,716 | – | 116,923 | 1,552,793 |
| Accrued interest receivable | 2,299,004 | – | 2,299,004 | – |
| Others | 1,672,585 | – | 406,670 | 1,265,915 |
| AFS investments | 3,700,000 | 3,700,000 | – | – |
| | 3,017,204,147 | 2,967,058,526 | 37,184,649 | 12,960,972 |
| **Financial Liabilities** | | | | |
| Other financial liabilities: | | | | |
| Accrued interest | 25,450,401 | – | 25,450,401 | – |
| Accounts payable | 9,423,548 | – | 9,423,548 | – |
| Dividends payable | 2,331,387 | – | 2,331,387 | – |
| Notes payable | 3,399,917,631 | – | 190,400,538 | 3,209,517,093 |
| | 3,437,122,967 | – | 227,605,874 | 3,209,517,093 |
| Net Financial Assets (Liabilities) | (₱419,918,820) | ₱2,967,058,526 | (₱190,421,225) | (₱3,196,556,121) |

| | 2016 | | | |
|---|---|---|---|---|
| | Contractual Undiscounted Payments | | | |
| | Total | On Demand | Less than 1 Year | 1 to 5 Years |
| **Financial Assets** | | | | |
| Loans and receivables: | | | | |
| Cash and cash equivalents | ₱3,042,355,997 | ₱3,042,355,997 | ₱– | ₱– |
| Trade and other receivables: | | | | |
| Accounts receivable | 53,401,642 | – | 53,342,154 | 59,488 |
| Advances to related parties | 14,177,244 | – | 4,211,333 | 9,965,911 |
| Dividends receivable | 5,163,384 | – | – | 5,163,384 |
| Advances to officers and employees | 4,133,449 | – | 2,852,438 | 1,281,011 |
| Accrued interest receivable | 2,025,415 | – | 2,025,415 | – |
| Others | 2,394,439 | – | 2,076,315 | 318,124 |
| AFS investments | 3,700,000 | 3,700,000 | – | – |
| | 3,127,351,570 | 3,046,055,997 | 64,507,655 | 16,787,918 |
| **Financial Liabilities** | | | | |
| Other financial liabilities: | | | | |
| Accrued interest | 25,712,776 | – | 25,712,776 | – |
| Accounts payable | 7,766,329 | – | 7,766,329 | – |
| Dividends payable | 1,970,826 | – | 1,970,826 | – |
| Notes payable | 3,591,671,252 | – | 191,753,621 | 3,399,917,631 |
| | 3,627,121,183 | – | 227,203,552 | 3,399,917,631 |
| **Net Financial Assets (Liabilities)** | (₱499,769,613) | ₱3,046,055,997 | (₱162,695,897) | (₱3,383,129,713) |

Fair Value of Financial Instruments

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 Parent Company 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 Parent Company's financial instruments, except for the notes payable, approximate fair values due to their relatively short-term maturity.

The Parent Company 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.

Although the Parent Company has an AFS investment, which is classified under Level 3, it is measured at cost less any impairment in value since its fair value cannot be reliably measured (see Note 11).

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 Parent Company'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) |
|---|---|---|---|---|
| Notes payable | P3,011,089,999 | 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) |
|---|---|---|---|---|
| Notes payable | P3,050,730,103 | Discounted Cash Flow Approach | Risk-free interest rate | 1.17%-4.68% (4.33%) |

Capital Management

The Parent Company considers its total equity as its capital. The primary objective of the Parent Company'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 Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company 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 13). 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 17).

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

Gearing ratios of the Parent Company as of December 31 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Notes payable | ₱2,895,771,935 | ₱2,921,584,679 |
| Less: Cash and cash equivalents | 2,963,358,526 | 3,042,355,997 |
| Net cash and cash equivalents (a) | (67,586,591) | (120,771,318) |
| Equity | 5,420,959,566 | 4,846,457,889 |
| Equity and net cash and cash equivalents (b) | ₱5,353,372,975 | ₱4,725,686,571 |
| Gearing ratio (a/b) | (0.01):1.00 | (0.03):1.00 |

## 20. Changes in Liabilities Arising from Financing Activities in 2017

| | Notes Payable | Dividends Payable | Total Liabilities from Financing Activities |
|---|---|---|---|
| January 1, 2017 | ₱2,921,584,679 | ₱1,970,826 | ₱2,923,555,505 |
| Non-cash changes: | | | |
| Cash flows | (30,000,000) | (285,388,549) | (315,388,549) |
| Amortization of debt issue cost | 4,187,256 | – | 4,187,256 |
| Dividends declared | – | 285,749,110 | 285,749,110 |
| December 31, 2017 | ₱2,895,771,935 | ₱2,331,387 | ₱2,898,103,322 |

## 21. Supplementary Information Required under Revenue Regulations 15-2010

In compliance with the requirements set forth by the RR 15-2010, hereunder are the information on taxes, duties, and license fees paid or accrued by the Parent Company in 2017:

Details of the Parent Company's net sales, output VAT and input VAT accounts are as follows:

Value-Added Tax (VAT)

*Output VAT.* The Parent Company is a VAT-registered company for the year. The Parent Company's sources of revenue are management fees from subsidiaries, associates, and joint ventures. The VAT rate is 12.0%.

Net Sales/Receipts and Output VAT Declared in the Parent Company's VAT Returns

| | Net Sales/ Receipts | Output VAT |
|---|---|---|
| Net sales | ₱245,117,460 | ₱29,414,095 |

The Parent Company's taxable sales are based on actual collections received, hence, may not be the same as the amounts accrued under "Management fees" and "Others" in the parent company statement of comprehensive income.

*Input VAT.* The Parent Company recognized input VAT for the purchases of goods and services from other VAT-registered individuals or corporations in 2017 amounting to ₱16,250,940. Total input VAT available for application as of December 31, 2017 is as follows:

| | |
|---|---|
| Balance at January 1 | ₱2,228,512 |
| Current year's domestic purchases or payments for: | |
| Services lodged under expenses | 13,033,400 |
| Capital goods subject to amortization | 1,207,620 |
| Goods other than capital goods | 2,009,921 |
| Total | 18,479,453 |
| Adjustments: | |
| Amortization of input VAT from capital goods | (564,910) |
| Claims against output vat | (15,805,925) |
| At December 31 | ₱2,108,618 |

Documentary Stamp Tax
The Parent Company paid documentary stamp taxes in 2017 amounting to ₱37,938, of which ₱12,224 are from the advances from related parties, ₱25,482 from lease contracts, and ₱232 from other transactions entered during the year.

Customs Duties
The Parent Company does not engage in import/export transactions, hence, no customs duties were paid or recorded during the year.

Withholding Taxes
The amount of taxes withheld in 2017 follows:

| | |
|---|---|
| Expanded withholding taxes | ₱44,034,445 |
| Creditable withholding taxes | 28,349,294 |
| Withholding taxes on compensation and benefits | 28,163,815 |
| Final withholding taxes | 130,652 |
| | ₱100,678,206 |

Other Taxes and Licenses
Other taxes paid during the year recognized under "Taxes and licenses" account under "Expenses" in the 2017 parent company statement of comprehensive income are as follows:

| | |
|---|---|
| Business permit | ₱1,473,392 |
| Fringe benefit tax | 469,943 |
| Real property tax | 86,692 |
| Community tax | 10,500 |
| BIR annual registration fee | 500 |
| Others | 114,552 |
| | ₱2,155,579 |

Tax Assessments and Cases
The Parent Company does not have any pending tax cases outside the administration of the BIR.

RECEIVED
APR 13 2018
DPQA SECTION INITIAL

# Exhibit D

## COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| | | | | | 1 | 7 | 5 | 2 | 2 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

VIVANT CORPORATION AND SUBSIDIARIES

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

Unit 9077-9081, Ayala Life-FGU Center, Mindanao Avenue Corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City, Philippines 6000

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AACFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| vivant@vivant.com.ph | (032) 234-2256 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,443 | 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**

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road,
Cebu Business Park, Cebu City

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

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

VIVANT

## 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, 2016 and 2015, 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 NA. GARCIA
Chairman of the Board

RAMONTITO E. GARCIA
Chief Executive Officer

MINUEL CARMELA N. FRANCO
Chief Financial Officer

Signed this 31 day of MAR 2017, 2017.

Unit 907-908, 9th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City, Philippines 6000
vivant@vivant.com.ph

Tel. no. (6332) 234-2256
Telefax: (6332) 234-2285
E-mail:

**SUBSCRIBED AND SWORN TO BEFORE ME,** a Notary Public for and in the City of Cebu, this 31st day of March 2017. Affiants personally appeared **DENNIS N.A. GARCIA** with his Philippine Passport with No. EC0044262 issued on January 20, 2014 at DFA Cebu, **RAMONTITO E. GARCIA** exhibited to me his Philippine Passport with No. EC5751689 issued on October 20, 2020 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. 340;
Page No. 69;
Book No. I;
Series of 2017.

ATTY. NYERA HYSSENE O. YU
ROLL NO. 65101
NOTARY PUBLIC
CEBU CITY, PHILIPPINES

ATTY. NYERA HYSSENE O. YU
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
UNITS 1801-1802 ATLANTA LIFE LAW CENTER
CEBU BUSINESS PARK, CEBU CITY
ROLL NO. 65101
PTR NO. [illegible] CEBU CITY - JANUARY
IBP NO. [illegible] / 2018

SGV
Building a better working world

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

## 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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2016 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.*

As disclosed in Notes 1 and 10 to the consolidated financial statements, the Group owns 34.81% of Visayan Electric Company, Inc. (VECO), an associate engaged in power distribution services, as at December 31, 2016 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 15% of the consolidated total assets and contributed 46% to the consolidated net income of the Group as at and for the year ended December 31, 2016. VECO's net income is significantly affected 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.

*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, 2016. We also evaluated the design and tested the controls over VECO's billing and revenue process. These include 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 used in the billing statements.

**Other Information**

Management is responsible for the other information. The other information comprises the information include in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2016, 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, 2016 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. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 7693446, January 7, 2017, Cebu City

March 31, 2017

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

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| ASSETS | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | ₱4,437,776,262 | ₱4,068,285,801 |
| Trade and other receivables (Note 7) | 443,360,472 | 342,691,120 |
| Advances to associates and stockholders (Note 16) | 20,155,989 | 31,167,018 |
| Inventories (Note 8) | 96,845,759 | 89,095,939 |
| Prepayments and other current assets (Note 9) | 926,979,573 | 703,863,263 |
| **Total Current Assets** | 5,925,118,055 | 5,235,103,141 |
| **Noncurrent Assets** | | |
| Investments in and advances to associates and joint ventures (Note 10) | 7,403,863,494 | 6,913,791,619 |
| Property, plant and equipment (Note 11) | 634,186,208 | 916,497,160 |
| Investment properties (Note 12) | 514,801,557 | 514,801,557 |
| Pension asset (Note 19) | 2,874,791 | – |
| Deferred income tax assets - net (Note 20) | 14,369,016 | 12,581,733 |
| Other noncurrent assets (Note 13) | 66,741,709 | 97,161,841 |
| **Total Noncurrent Assets** | 8,636,836,775 | 8,454,833,910 |
| TOTAL ASSETS | ₱14,561,954,830 | ₱13,689,937,051 |
| LIABILITIES AND EQUITY | | |
| **Current Liabilities** | | |
| Short-term note payable (Note 15) | ₱103,500,000 | ₱33,000,000 |
| Trade and other payables (Note 14) | 1,267,102,534 | 1,546,394,312 |
| Advances from related parties (Note 16) | 111,676,791 | 110,212,802 |
| Income tax payable | 453,865 | 154,009 |
| Current portion of long-term notes payable (Note 15) | 25,812,744 | 25,989,025 |
| **Total Current Liabilities** | 1,508,545,934 | 1,715,750,148 |
| **Noncurrent Liabilities** | | |
| Long-term notes payable - net of current portion (Note 15) | 2,895,771,935 | 2,921,584,679 |
| Pension liability (Note 19) | 20,717,401 | 14,770,643 |
| Deferred income tax liabilities (Note 20) | 109,574,367 | 99,767,008 |
| **Total Noncurrent Liabilities** | 3,026,063,703 | 3,036,122,330 |
| **Total Liabilities** | 4,534,609,637 | 4,751,872,478 |
| **Equity Attributable to Equity Holders of the Parent** | | |
| Capital stock - ₱1 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) | 1,207,387,400 | 1,234,371,697 |
| Remeasurement gain on employee benefits (Note 19) | 4,652,158 | 3,625,317 |

(Forward)

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| Share in remeasurement losses on employee benefits of associates and a joint venture (Note 10) | (₱58,895,444) | (₱59,172,924) |
| Unrealized valuation gain (loss) on available-for-sale (AFS) investments | (5,291) | 191,083 |
| Retained earnings (Notes 10 and 21): | | |
| Appropriated for business expansion | 2,778,783,261 | 2,493,584,261 |
| Unappropriated | 4,493,321,226 | 3,726,045,896 |
| **Equity Attributable to Equity Holders of the Parent** | 9,457,039,460 | 8,430,441,480 |
| **Equity Attributable to Non-controlling Interests** (Note 21) | 570,305,733 | 507,623,093 |
| **Total Equity** | 10,027,345,193 | 8,938,064,573 |
| **TOTAL LIABILITIES AND EQUITY** | ₱14,561,954,830 | ₱13,689,937,051 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **REVENUE** | | | |
| Sale of power (Note 23) | P2,365,257,193 | P2,797,425,370 | P3,207,748,349 |
| Equity in net earnings of associates and joint ventures (Note 10) | 1,288,333,002 | 1,009,709,570 | 1,110,762,054 |
| Management fees (Note 16) | 157,242,224 | 149,044,346 | 138,915,915 |
| Interest income (Note 6) | 59,249,869 | 59,747,515 | 50,712,945 |
| | 3,870,082,288 | 4,015,926,801 | 4,508,139,263 |
| **GENERATION COSTS** (Notes 17 and 23) | 1,792,937,494 | 2,292,370,990 | 2,067,662,019 |
| **OPERATING EXPENSES** | | | |
| Salaries and employee benefits (Note 18) | 134,616,326 | 127,327,809 | 83,791,123 |
| Professional fees (Notes 16 and 23) | 53,886,293 | 55,774,694 | 168,936,237 |
| Taxes and licenses | 28,671,551 | 42,571,432 | 23,836,166 |
| Management fees (Note 16) | 25,565,790 | 45,312,413 | 61,560,712 |
| Travel | 24,514,349 | 21,360,359 | 17,336,895 |
| Depreciation and amortization (Notes 11 and 13) | 20,837,177 | 18,667,737 | 17,378,708 |
| Rent and association dues | 7,809,735 | 5,514,472 | 5,375,178 |
| Communication and utilities | 5,777,843 | 4,560,920 | 4,617,323 |
| Representation | 5,392,548 | 6,261,621 | 3,267,245 |
| Security and janitorial | 566,548 | 833,276 | 591,615 |
| Impairment loss on trade receivables (Note 7) | – | – | 34,125,014 |
| Other operating expenses (Note 17) | 71,518,167 | 47,452,075 | 25,012,141 |
| | 379,156,327 | 375,636,808 | 445,828,357 |
| **INCOME FROM OPERATIONS** | 1,697,988,467 | 1,347,919,003 | 1,994,648,887 |
| **OTHER INCOME (CHARGES)** | | | |
| Finance costs (Note 15) | (177,545,814) | (172,833,443) | (140,546,624) |
| Foreign exchange gains - net (losses) | 1,541,433 | (302,360) | 4,269,158 |
| Other income - net (Notes 12 and 16) | 38,573,788 | 245,895,416 | 63,937,040 |
| | (137,430,593) | 72,759,613 | (72,340,426) |
| **INCOME BEFORE INCOME TAX** | 1,560,557,874 | 1,420,678,616 | 1,922,308,461 |
| **PROVISION FOR INCOME TAX** (Note 20) | 131,975,187 | 170,716,071 | 226,853,561 |
| **NET INCOME** | 1,428,582,687 | 1,249,962,545 | 1,695,454,900 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Item that will be reclassified to profit or loss: | | | |
| Unrealized valuation gain (loss) on AFS investments | (385,500) | (124,600) | 124,600 |
| Items that will not be reclassified to profit or loss: | | | |
| Share in revaluation increment of an associate, net of tax | – | – | 40,603,451 |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Remeasurement gain (loss) on employee benefits (Note 19) | ₱3,041,578 | ₱7,738,786 | (₱1,841,100) |
| Income tax effect | (418,665) | (2,296,210) | 192,476 |
| | 2,622,913 | 5,442,576 | (1,648,624) |
| Share in the remeasurement gains (losses) on employee benefits of associates, net of tax (Note 10) | 277,480 | 8,332,187 | (1,116,142) |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | 2,514,893 | 13,650,163 | 37,963,285 |
| **TOTAL COMPREHENSIVE INCOME** | ₱1,431,097,580 | ₱1,263,612,708 | ₱1,733,418,185 |
| **NET INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | ₱1,293,430,993 | ₱1,052,735,864 | ₱1,348,042,824 |
| Non-controlling interests | 135,151,694 | 197,226,681 | 347,412,076 |
| | ₱1,428,582,687 | ₱1,249,962,545 | ₱1,695,454,900 |
| **TOTAL COMPREHENSIVE INCOME** | | | |
| Attributable to: | | | |
| Equity holders of the parent | ₱1,294,538,940 | ₱1,066,364,976 | ₱1,387,414,273 |
| Non-controlling interests | 136,558,640 | 197,247,732 | 346,003,912 |
| | ₱1,431,097,580 | ₱1,263,612,708 | ₱1,733,418,185 |
| **EARNINGS PER SHARE** | | | |
| Basic and diluted, for net income for the year attributable to equity holders of the parent (Note 22) | ₱1.264 | ₱1.029 | ₱1.317 |

*See accompanying Notes to Consolidated Financial Statements.*

# VIVANT CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

| | Attributable to Equity Holders of the Parent | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Retained Earnings (Note 21) | | | | |
| | Capital Stock (Note 21) | Additional Paid-in Capital | Share in Revaluation Increment of an Associate | Remeasurement Gain (Loss) on Employee Benefits | Share in Remeasurement Losses on Employee Benefits of Associates and a Joint Venture | Unrealized Valuation Gain (Loss) on AFS Investments | Appropriated | Unappropriated | Total | Equity Attributable to Non-Controlling Interests (Note 21) | Total Equity |
| Balances at January 1, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱1,234,371,697 | ₱3,625,317 | (₱59,172,924) | ₱191,083 | ₱2,493,584,261 | ₱3,726,045,896 | ₱8,430,441,480 | ₱507,623,093 | ₱8,938,064,573 |
| Total comprehensive income (loss) | – | – | – | 1,026,841 | 277,480 | (191,374) | | 1,293,430,993 | 1,294,538,940 | 136,558,640 | 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 | – | – | – | – | – | – | – | – | – | 12,210,000 | 12,210,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (26,984,297) | – | – | – | – | 26,984,297 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | (267,940,960) | (267,940,960) | (86,086,000) | (354,026,960) |
| Balances at December 31, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱1,207,387,400 | ₱4,652,158 | (58,895,444) | (₱3,291) | ₱2,778,783,261 | ₱4,493,321,226 | ₱9,457,039,460 | ₱570,305,733 | ₱10,027,345,193 |
| Balances at January 1, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱1,261,492,837 | (₱1,735,079) | (₱67,505,111) | ₱254,554 | ₱2,810,784,261 | ₱2,396,929,852 | ₱7,632,017,464 | ₱358,610,361 | ₱7,990,627,825 |
| 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 | – | – | – |
| Additional investments of non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | 10,890,000 | 10,890,000 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (27,121,140) | – | – | – | – | 27,121,140 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | (267,940,960) | (267,940,960) | (59,125,000) | (327,065,960) |
| Balances at December 31, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱1,234,371,697 | ₱3,625,317 | (₱59,172,924) | ₱191,083 | ₱2,493,584,261 | ₱3,726,045,896 | ₱8,430,441,480 | ₱507,623,093 | ₱8,938,064,573 |
| Balances at January 1, 2014 | ₱1,023,456,698 | ₱8,339,452 | ₱1,292,314,176 | (₱874,453) | (₱67,070,264) | ₱191,083 | ₱1,856,476,291 | ₱2,357,237,719 | ₱6,470,070,702 | ₱496,688,804 | ₱6,966,759,506 |
| Total comprehensive income (loss) | – | – | 40,603,451 | (860,626) | (434,847) | 63,471 | | 1,348,042,824 | 1,387,414,273 | 346,003,912 | 1,733,418,185 |
| Appropriation for business expansion | – | – | – | – | – | – | 1,446,207,970 | (1,446,207,970) | – | – | – |
| Reversal of appropriation for business expansion | – | – | – | – | – | – | (491,900,000) | 491,900,000 | – | – | – |
| Conversion of deposits for future stock subscription and additional investments of non-controlling interests of a subsidiary | – | – | – | – | – | – | – | – | – | 3,107,645 | 3,107,645 |
| Share in the amount transferred to retained earnings representing depreciation on the revaluation increment of an associate (Note 10) | – | – | (71,424,790) | – | – | – | – | 71,424,790 | – | – | – |
| Cash dividends | – | – | – | – | – | – | – | (225,467,511) | (225,467,511) | (487,190,000) | (712,657,511) |
| Balances at December 31, 2014 | ₱1,023,456,698 | ₱8,339,452 | ₱1,261,492,837 | (₱1,735,079) | (₱67,505,111) | ₱254,554 | ₱2,810,784,261 | ₱2,596,929,852 | ₱7,632,017,464 | ₱358,610,361 | ₱7,990,627,825 |

*See accompanying Notes to Consolidated Financial Statements.*

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

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | ₱1,560,557,874 | P1,420,678,616 | P1,922,308,461 |
| Adjustments for: | | | |
| Equity in net earnings of associates and joint ventures (Note 10) | (1,288,333,002) | (1,009,709,570) | (1,110,762,054) |
| Finance costs | 177,545,814 | 172,833,443 | 140,546,624 |
| Depreciation and amortization (Notes 11 and 13) | 108,249,891 | 52,255,128 | 21,554,410 |
| Interest income (Note 6) | (59,249,869) | (59,747,515) | (50,712,945) |
| Loss (gain) on disposal of property and equipment | 24,623,822 | (892,010) | – |
| Pension expense (Note 19) | 8,838,434 | 10,802,650 | 11,591,504 |
| Unrealized foreign exchange gains | (2,501,097) | (2,868,471) | (4,677,416) |
| Gain on fair value remeasurement of investment properties (Note 12) | – | (240,730,557) | – |
| Impairment loss on trade receivables (Note 7) | – | – | 34,125,014 |
| Operating income before working capital changes | 529,731,867 | 342,621,714 | 963,973,598 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (132,882,226) | (69,504,409) | 574,908,883 |
| Prepayments and other current assets | (223,116,310) | (277,657,089) | (134,814,811) |
| Inventories | (7,749,820) | 17,735,790 | (7,671,725) |
| Increase (decrease) in trade and other payables | (218,084,752) | 302,170,265 | (88,050,229) |
| Cash generated from (used in) operations | (52,101,241) | 315,366,271 | 1,308,345,716 |
| Interest paid | (176,758,688) | (172,958,893) | (115,129,266) |
| Income taxes paid | (124,073,920) | (130,571,660) | (350,016,142) |
| Contributions to the retirement fund | (2,724,889) | (11,502,247) | (7,422,815) |
| Net cash flows from (used in) operating activities | (355,658,738) | 333,471 | 835,777,493 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Increase in investments and advances to associates and joint ventures (Note 10) | (558,071,005) | (1,436,488,703) | (1,623,238,821) |
| Dividends received from associates and joint ventures (Note 10) | 1,392,332,133 | 1,013,754,256 | 1,003,535,759 |
| Additions to property, plant and equipment (Note 11) | (48,543,697) | (313,549,045) | (718,711,033) |
| Decrease (increase) in: | | | |
| Intangible assets (Note 13) | (1,645,533) | (930,837) | (3,579,009) |
| Other noncurrent assets | 15,118,638 | (18,743,166) | 868,232 |
| Interest received | 59,591,550 | 58,049,267 | 49,255,749 |
| Proceeds from: | | | – |
| Disposal of property and equipment | 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 | 1,069,511,579 | (545,753,359) | (1,291,869,123) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Cash dividends paid (Note 21) | (412,048,495) | (267,073,599) | (767,299,540) |
| Proceeds from availment of notes payable debts - net of transaction costs (Note 15) | 207,000,000 | 143,000,000 | 2,970,432,078 |
| Payments of notes payable (Note 15) | (166,500,000) | (140,000,000) | – |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Increase in advances from related parties | P12,475,018 | P4,490,191 | P47,298,244 |
| Additional investments and deposits for future stock subscriptions of non-controlling interests of a subsidiary (Note 21) | 12,210,000 | 10,890,000 | 3,107,645 |
| Net cash flows from (used in) financing activities | (346,863,477) | (248,693,408) | 2,253,538,427 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 366,989,364 | (794,113,296) | 1,797,446,797 |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 2,501,097 | 2,868,471 | 4,677,416 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | |
| Cash and cash equivalents (Note 6) | 4,068,285,801 | 4,859,530,626 | 3,057,406,413 |
| Restricted cash (Notes 9 and 13) | 775,000 | 775,000 | 1,437,500 |
| | 4,069,060,801 | 4,860,305,626 | 3,058,843,913 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| Cash and cash equivalents (Note 6) | 4,437,776,262 | 4,068,285,801 | 4,859,530,626 |
| Restricted cash (Notes 9 and 13) | 650,000 | 775,000 | 775,000 |
| | P4,438,426,262 | P4,069,060,801 | P4,860,305,626 |

*See accompanying 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% in 2016, 2015 and in 2014. 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 business.

The principal office address of the Parent Company is located at Unit 907-908, Ayala Life-FGU Center, Mindanao Avenue Corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City, Philippines 6000.

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, 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | Direct | Indirect | Direct | Indirect |
| **Subsidiaries** | | | | |
| Hijos De F. Escaño (HDFE) | 50.94 | – | 50.94 | – |
| Southern Grove Properties and Development Corp. (SGPDC) [o] | 100.00 | – | 100.00 | – |
| Vivant Energy Corporation (VEC) | 100.00 | – | 100.00 | – |
| Vivant Integrated Generation Corporation (VIGC) | – | 100.00 [a] | – | 100.00 [a] |
| Vivant Geo Power Corp. (VGPC) | – | 100.00 [b][g] | – | 100.00 [b][g] |
| Vivant Isla, Inc. (VII) | – | 100.00 [a][h] | – | 100.00 [a][h] |
| Vivant Renewable Energy Corporation (VREC) [f] | – | 100.00 [a] | – | 100.00 [a] |
| Corenergy Inc. (Core) | – | 100.00 [a] | – | 100.00 [a] |
| Vivant Integrated Diesel Corporation (VIDC) | – | 100.00 [a][i] | – | – |
| Vivant Enercore Integrated Inc. (VEII) | – | 100.00 [a][m] | – | – |
| Vivant Powercore Active Inc. (VPAI) | – | 100.00 [a][n] | – | – |
| Vivant-Malogo Hydropower, Inc. (VMHI) | – | 67.00 [a] | – | 67.00 [a] |
| Vics-Amlan Holdings Corp. (Vics-Amlan) | – | 60.00 [a] | – | 60.00 [a] |
| 1590 Energy Corp. (1590 EC) | – | 52.70 [a] | – | 52.70 [a] |

(Forward)

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Percentage of Ownership | | | |
| | Direct | Indirect | Direct | Indirect |
| **Associates** | | | | |
| Visayan Electric Company, Inc. (VECO) | 34.81 [e] | – | 34.81 [e] | – |
| Prism Energy, Inc. (PEI) | 40.00 | – | 40.00 | – |
| Abovant Holdings, Inc. (AHI) | – | 40.00 [c] | – | 40.00 [c] |
| Cebu Private Power Corporation (CPPC) | – | 40.00 [a] | – | 40.00 [a] |
| Minergy Power Corporation (MPC) | – | 40.00 [c] | – | 40.00 [c] |
| Amlan Hydroelectric Power Corporation (AHPC) | – | 30.00 [d] | – | 30.00 [d] |
| Therma Visayas, Inc. (TVI) | – | 20.00 [c] | – | 20.00 [c] |
| Lunar Power Core Inc. (LPCI) | | 42.50 [c] [l] | – | – |
| Global Luzon Energy Development Corporation (GLEDC) | – | 42.50 [c] [p] | – | – |
| Sabang Renewable Energy Corporation (SREC) | – | 30.00 [b] [q] | – | – |
| **Joint Ventures** | | | | |
| Calamian Islands Power Corp. (CIPC) | – | 50.00 [a] | – | 50.00 [a] |
| Vivant Sta. Clara Northern Renewables Generation Corporation (VSNRGC) | – | 47.64 [b] [j] | – | 47.64 [b] [j] |
| Delta P, Inc. (Delta P) | – | 50.00 [a] [k] | – | 50.00 [a] [k] |

*a. Indirect ownership through VEC*
*b. Indirect ownership through VREC*
*c. Indirect ownership through VIGC*
*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, 20*
*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*

*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 and Core are in its pre-operating stage of building a hydro power plant in Silay, Negros Occidental and operating as a retail electricity supplier, respectively. 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.

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 AOI were approved by the SEC on October 8, 2015.

On January 6, 2016, the SEC approved the amendment to its Articles of Incorporation (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, 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, 2016, 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, 2016, 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, a holding entity.

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, 2016, Core has acquired its license as a Retail Electricity Supplier but has not yet started commercial operations.

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, 2016, 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, 2016, 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, 2016, VPAI is still in the pre-operating stage.



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.

The Company 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. The Company 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.

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.

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. (EUVHCI) and ICS Renewables Holdings Corp. (IHI), among others.

*Associates.* VECO, PEI, AHI, CPPC, AHPC, TVI, MPC, LPCI, GLEDC and SREC 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. As of December 31, 2016, it has not yet started commercial operations.

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. The plant is expected to feed into the franchise area of a power distribution utility which covers the City of Cagayan de Oro and adjoining towns, in 2017.

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.

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 first unit is expected to be turned-over by the end of 2017, with the second following three (3) months thereafter.

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.

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, 2016, 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.

*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 Busuanga, 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.

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).

The consolidated financial statements of the Group as at and for the years ended December 31, 2016, 2015 and 2014 were approved and authorized for issuance by the Board of Directors (BOD) on March 31, 2017.



## 2. Basis of Preparation and Statement of Compliance

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
- 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.

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.

## 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 Interpretations which were applied starting January 1, 2016.

Adoption of these pronouncements did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, Investment Entities: Applying the Consolidation Exception

  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

  These amendments do not have any impact on the Group.

- Amendments to PFRS 11, *Joint Arrangements*, Accounting for Acquisitions of Interests in Joint Operations

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

These amendments do not have any impact on the Group as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRSs. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

  Since the Group is an existing PFRSs preparer, this standard does not apply.

- Amendments to PAS 1, *Presentation of Financial Statements*, Disclosure Initiative

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements; and,
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  These amendments do not have any impact to the Group.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, Clarification of Acceptable Methods of Depreciation and Amortization

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  These amendments are applied prospectively and do not have any impact to the Group since it has not used a revenue-based method to depreciate or amortize its property, plant and equipment and intangible assets.

- Amendments to PAS 16 and PAS 41, *Agriculture*: Bearer Plants

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

  The amendments are applied retrospectively and do not have any relevance to the Group since it is not engaged in agriculture business.

- Amendments to PAS 27, *Separate Financial Statements*, Equity Method in Separate Financial Statements

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

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

Annual Improvements to PFRSs 2012–2014 Cycle

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, Changes in Methods of Disposal

  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments*: Disclosures, Servicing Contracts

  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.



- Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits*, Discount Rate: Regional Market Issue

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting*, Disclosure of Information 'Elsewhere in the Interim Financial Report'

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

New Standards and Interpretation Issued and Effective after December 31, 2016
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 to have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2017*

- Amendment to PFRS 12, 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.

  The amendments do not have any impact on the Group's financial position and results of operation.

- Amendments to PAS 7, *Statement of Cash Flows*, Disclosure Initiative
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Group.

- 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 on the reversal of that deductible temporary difference. 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.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  These amendments are not expected to have any impact on the Group.

*Effective Beginning on or After 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.

  This amendment does not apply to the Group since 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 forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Group since none of the entities within the Group has activities that are predominantly connected with insurance or issue insurance contracts.

- 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.

  The Group is currently assessing the impact of adopting this standard and plans to adopt the new standard on the required effective date, once adopted locally.

- 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. 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 adoption of PFRS 9 will have an effect on the classification and measurement of and impairment methodology for the Group's financial assets, but will have no impact on the classification and measurement of its financial liabilities. The adoption of PFRS 9 is not expected to have any significant impact on the financial statements of the Group.

- 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 non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary 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. The interpretation may be applied on a fully retrospective basis. Entities 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 to the Group.

*Effective Beginning on or After January 1, 2019*

- PFRS 16, *Leases*

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition 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.

*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.

  The Group is currently assessing the impact of adopting the amendments to PFRS 10 and PAS 28.

## 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 liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. 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 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, 2016 and 2015, 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, 2016 and 2015, 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 P3.8 million and P3.8 million as of December 31, 2016 and 2015, respectively, 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, long-term 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, and notes payable and for non-recurring measurement, such as 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 Interest 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.

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 distribution utility assets, 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.

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

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 and improvements, 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.

Goodwill

Goodwill recognized in a business combination accounted for using the acquisition method, is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the Group's interest in the fair values of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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.

*Other Income, such as Rental Income and Gain on Disposal of Property, Plant 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
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.

*Sales Tax.* Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

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, 2016 and 2015, the Group does not have dilutive common stock equivalents.

## 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 Financial Instruments.* The Group carries certain financial assets and liabilities at fair value which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair values would differ if the Group utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would affect the consolidated statement of comprehensive income and consolidated statement of changes in equity.

Where the fair value of the financial assets and financial liabilities recorded 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, 2016 and 2015, the carrying values of the Group's financial instruments, except for the Notes Payable, approximate fair values due to their relative short-term maturity (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, 2016 and 2015, the carrying value of the Group's investment properties amounted to ₱514.8 million (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, 2016 and 2015, the Group has the ability to exercise control 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 (starting 2015 only) 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 of these properties which are leased on operating leases.

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, 2016 and 2015, trade and other receivables amounted to ₱443.4 million and ₱342.7 million, respectively (see Note 7), and advances to associates and stockholders amounted to ₱20.2 million and ₱31.2 million, respectively (see Note 16). Provision for impairment losses recognized in 2014 amounted to ₱34.1 million. There was no provision for impairment losses recognized in 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 ₱634.2 million and ₱916.5 million as of December 31, 2016 and 2015, respectively (see Note 11). The carrying value of intangible assets (relating to software costs under "Other noncurrent assets") amounted ₱1.1 million and ₱2.0 million as of December 31, 2016 and 2015, 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:

| | 2016 | 2015 |
|---|---|---|
| Property, plant and equipment (see Note 11) | ₱634,186,208 | ₱916,497,160 |
| Investment properties (see Note 12) | 514,801,557 | 514,801,557 |
| Intangible assets (see Note 13) | 1,127,890 | 1,974,007 |

The Group did not recognize any impairment loss on its nonfinancial assets in 2016, 2015 and 2014.

*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 ₱23.0 million and ₱21.7 million as of December 31, 2016 and 2015, respectively (see Note 20). Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of ₱535.0 million and ₱371.5 million as of December 31, 2016 and 2015, respectively, and minimum corporate income tax (MCIT) of ₱1.7 million and ₱1.3 million as of December 31, 2016 and 2015, 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.

## 6. Cash and Cash Equivalents

| | 2016 | 2015 |
|---|---|---|
| Cash on hand and in banks | ₱196,306,387 | ₱301,636,865 |
| Short-term investments | 4,241,469,875 | 3,766,648,936 |
| | ₱4,437,776,262 | ₱4,068,285,801 |

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 the cash in banks and short-term investments amounted to ₱59.2 million, ₱59.7 million and ₱50.7 million in 2016, 2015 and 2014, respectively.

## 7. Trade and Other Receivables

| | 2016 | 2015 |
|---|---|---|
| Trade receivables: | | |
| Third parties | ₱169,959,362 | ₱135,659,305 |
| Related parties (see Note 16) | 78,488,103 | 72,940,284 |
| Dividends receivable (see Notes 10 and 16) | 99,572,000 | 132,572,000 |
| Receivable from GLEDC (see Note 16) | 39,289,553 | – |
| Advances to shareholders of a joint venture | 25,792,000 | – |
| Accounts receivable (see Note 16) | 23,481,186 | 14,352,182 |
| Insurance claims receivable | 19,947,117 | – |
| Advances to officers and employees | 4,959,370 | 8,755,973 |
| Accrued interest (see Note 6) | 3,886,969 | 4,228,650 |
| Others | 12,442,858 | 8,640,772 |
| | 477,818,518 | 377,149,166 |
| Less allowance for impairment losses | 34,458,046 | 34,458,046 |
| | ₱443,360,472 | ₱342,691,120 |

Trade receivables 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.

Insurance claims receivable pertains to 1590 EC's insurance claim for one of its power plant engines that was damaged in 2016.

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

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

## 8. Inventories at Cost

| | 2016 | 2015 |
|---|---|---|
| Spare parts | ₱63,688,269 | ₱58,770,527 |
| Heavy fuel oil | 29,355,363 | 26,470,917 |
| Lube oil | 1,904,178 | 1,979,667 |
| Light fuel oil | 1,897,949 | 1,874,828 |
| | ₱96,845,759 | ₱89,095,939 |

The total cost of inventories recognized under "Generation costs" in the consolidated statements of comprehensive income amounted to ₱348.0 million, ₱730.8 million and ₱1,449.9 million in 2016, 2015 and 2014, respectively (see Note 17).

## 9. Prepayments and Other Current Assets

| | 2016 | 2015 |
|---|---|---|
| Advances to suppliers and other parties | ₱760,191,390 | ₱556,309,228 |
| Creditable withholding taxes | 97,000,681 | 72,525,345 |
| Input VAT | 42,373,976 | 40,592,898 |
| Prepaid expenses | 22,651,542 | 19,759,835 |
| Others | 4,761,984 | 14,675,957 |
| | ₱926,979,573 | ₱703,863,263 |

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

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 an insurance coverage.

"Others" include advance payments of 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, and the corresponding equity ownership as of December 31 follow:

| | Nature of Business | Percentage of Ownership | | |
|---|---|---|---|---|
| | | 2016 | 2015 | 2014 |
| Associates: | | | | |
| VECO | Power distribution | 34.81 | 34.81 | 34.81 |
| LPCI | Power generation | 42.50 | – | – |
| CPPC | Power generation | 40.00 | 40.00 | 40.00 |
| PEI | Power generation | 40.00 | 40.00 | 40.00 |
| AHPC | Power generation | 30.00 | 30.00 | 30.00 |
| AHI | Holding company | 40.00 | 40.00 | 40.00 |
| MPC | Power generation | 40.00 | 40.00 | 40.00 |
| TVI | Power generation | 20.00 | 20.00 | 20.00 |
| GLEDC | Power generation | 42.50 | – | – |
| SREC | Power generation | 30.00 | – | – |
| Delta P | Power generation | – | – | 35.00 |
| Joint ventures: | | | | |
| VSNRGC* | Power generation | 47.64 | 47.64 | 46.00 |
| CIPC | Power generation | 50.00 | 50.00 | 50.00 |
| Delta P | Power generation | 50.00 | 50.00 | – |

* *increased to 47.64% effective November 6, 2015*

| | 2016 | 2015 |
|---|---|---|
| Acquisition cost: | | |
| At January 1 | ₱5,342,237,915 | ₱3,689,425,745 |
| Additions | 372,156,750 | 1,440,000,000 |
| Deposits converted to equity | 1,562,500 | 364,012,170 |
| Redemption of an equity interest in an associate | – | (151,200,000) |
| At December 31 | 5,715,957,165 | 5,342,237,915 |
| Deposit for future stock subscription: | | |
| At January 1 | 2,968,700 | 370,492,167 |
| Additions | 188,636,776 | 2,968,700 |
| Deposits converted to equity | (1,562,500) | (364,012,170) |
| Return of deposits | – | (6,479,997) |
| At December 31 | 190,042,976 | 2,968,700 |
| Accumulated share in net earnings and other comprehensive income: | | |
| At January 1 | 334,213,307 | 435,376,666 |
| Equity in net earnings of associates | 1,288,333,002 | 1,009,709,570 |
| Cash dividends received and receivable | (1,359,332,133) | (1,146,326,256) |
| Share in the amount transferred from revaluation surplus representing depreciation on revaluation increment | 26,984,297 | 27,121,140 |
| Share in the remeasurement gains on employee benefits | 277,480 | 8,332,187 |
| At December 31 | 290,475,953 | 334,213,307 |

(Forward)

| | 2016 | 2015 |
|---|---|---|
| Share in revaluation increment: | | |
| At January 1 | ₱1,234,371,697 | ₱1,261,492,837 |
| Share in the amount transferred to equity representing depreciation on revaluation increment of an associate | (26,984,297) | (27,121,140) |
| At December 31 | 1,207,387,400 | 1,234,371,697 |
| | ₱7,403,863,494 | ₱6,913,791,619 |

The Group has unrecognized share in losses from results of operations of its investments in an associate and a joint venture amounting to ₱364.0 million, ₱107.5 million and ₱57.2 million in 2016, 2015 and 2014, respectively. Total cumulative unrecognized losses amounted to ₱735.8 million, ₱371.8 million, ₱270.0 million as of December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016 and 2015, the undistributed earnings of the associates and joint ventures included in the Group's retained earnings amounting to ₱290.5 million and ₱263.8 million, respectively, are not available for distribution to the stockholders unless declared by the associates and joint ventures.

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, 2016 and 2015, the Group's investment in MPC amounted to ₱2.8 billion and ₱2.4 billion, respectively.

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 ₱977.6 million as of December 31, 2016 and 2015.

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.

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.

Total investment in Delta P amounted to ₱72.6 million as of December 31, 2016 and 2015.

CIPC
In 2014, the deposits for future stock subscription by the Group to CIPC amounted to ₱99.0 million. These were converted to equity upon approval by the SEC of the application for increase in capital stock of the joint venture on November 13, 2015.

As of December 31, 2016 and 2015, total investment in CIPC amounted to ₱102.1 million.

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.

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. As of December 31, 2016, total investment in LPCI amounted to ₱0.3 million. VIGC also made advances for future stock subscription to LPCI amounting to ₱68.1 million in 2016.

In 2016, LPCI made advances for future stock subscription to GLEDC amounting to ₱145.6 million.

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, 2016 and 2015, total investment in SREC amounted to ₱5.1 million and nil, respectively.

The following are selected financial information of the material associates of the Group as of and for the years ended December 31, 2016, 2015 and 2014:

MPC

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Total current assets | ₱4,137,173,423 | ₱9,629,533,324 | ₱3,452,001,949 |
| Total noncurrent assets | 18,405,379,004 | 10,149,175,766 | 4,265,433,215 |
| Total current liabilities | 1,514,605,133 | 493,655,362 | 152,967,627 |
| Total noncurrent liabilities | 13,993,655,309 | 12,641,351,110 | 5,036,804,427 |
| Total equity | 7,034,291,985 | 6,643,702,618 | 2,527,663,110 |
| Gross revenue | 69,152,840 | 134,176,589 | 5,516,220 |
| Operating profit | 51,358,036 | 140,760,687 | 9,319,983 |
| Net income (loss) | 47,594,367 | 149,286,642 | (5,089,604) |
| Total comprehensive income (loss) | 47,594,367 | 149,286,642 | (5,089,604) |
| Group's share in net income (loss) | 19,037,747 | 59,714,657 | (2,035,842) |
| Proportion of Group's ownership | 40.00% | 40.00% | 40.00% |
| Carrying amount of investment | 2,833,720,003 | 2,471,692,256 | 1,019,977,599 |

VECO

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Total current assets | ₱2,838,785,786 | ₱2,748,991,164 | ₱2,758,373,152 |
| Total noncurrent assets | 13,278,353,583 | 12,896,378,323 | 12,398,588,725 |
| Total current liabilities | 4,306,718,828 | 3,657,243,240 | 3,065,730,557 |
| Total noncurrent liabilities | 5,565,555,738 | 5,582,902,153 | 5,602,805,816 |
| Total equity | 6,244,864,803 | 6,405,224,094 | 6,488,425,504 |
| Gross revenue | 22,419,251,099 | 21,110,387,108 | 21,072,224,119 |
| Operating profit | 2,414,608,430 | 2,229,398,192 | 1,962,682,781 |
| Net income | 1,893,721,319 | 1,727,478,763 | 1,593,159,515 |
| Other comprehensive income | (5,071,030) | (6,651,859) | 9,404,771 |
| Total comprehensive income | 1,888,650,289 | 1,720,826,904 | 1,602,564,286 |
| Group's share in net income | 659,204,391 | 601,335,357 | 554,578,827 |
| Proportion of Group's ownership | 34.81% | 34.81% | 34.81% |
| Carrying amount of the investment | 2,173,837,438 | 2,229,658,507 | 2,258,620,918 |
| Dividends received from VECO | 713,260,234 | 627,982,256 | 547,763,612 |

AHI

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Total current assets | ₱751,610,593 | ₱1,323,785,767 | ₱839,477,042 |
| Total noncurrent assets | 3,070,016,416 | 2,694,464,681 | 3,245,862,171 |
| Total equity | 3,821,610,678 | 4,018,176,089 | 4,085,339,213 |
| Gross revenue | 1,120,522,589 | 1,041,283,276 | 1,023,500,125 |
| Operating profit | 1,120,278,753 | 1,041,031,454 | 1,023,404,633 |
| Net income | 1,120,271,955 | 1,041,828,799 | 1,023,360,608 |
| Other comprehensive income (loss) | 3,162,634 | 17,421,581 | (10,749,461) |
| Total comprehensive income | 1,123,434,589 | 1,059,250,380 | 1,012,611,147 |
| Group's share in net income | 448,108,782 | 416,731,520 | 409,344,243 |
| Proportion of Group's ownership | 40.00% | 40.00% | 40.00% |
| Carrying amount of the investment | 1,528,809,774 | 1,607,435,837 | 1,634,135,685 |
| Dividends receive from AHI | 527,999,899 | 299,200,000 | 316,800,000 |

Individually Immaterial Associates and Joint Ventures

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income from continuing operations | ₱146,863,330 | ₱350,439,957 | ₱188,987,667 |
| Net income (loss) | 161,982,082 | (68,071,964) | 129,966,955 |
| Other comprehensive income | 755,652 | 3,679,067 | 60,815,019 |
| Total comprehensive income (loss) | 162,737,734 | (64,392,897) | 190,781,974 |
| Aggregate carrying amount | 867,496,279 | 605,005,017 | 844,053,215 |

Material Partly-Owned Subsidiary - 1590 EC

As of December 31, 2016, the Group has a 52.70% indirect ownership interest in 1590 EC which is primarily engaged in power generation with registered office at Unit 907 Ayala Life-FGU Center, Cebu Business Park, Cebu City, Philippines. The summarized financial information of 1590 EC as of December 31 is provided below:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Total current assets | ₱1,231,392,026 | ₱1,048,785,545 | ₱938,180,052 |
| Total noncurrent assets | 542,371,291 | 854,247,328 | 711,549,163 |
| Total current liabilities | 1,204,437,354 | 1,461,384,281 | 1,330,164,870 |
| Total noncurrent liabilities | 10,817,227 | 586,685 | 1,142,060 |
| Total equity | 558,508,736 | 441,061,907 | 318,422,285 |
| Sale of power | 1,530,605,858 | 1,991,517,373 | 3,207,748,349 |
| Operating profit | 389,568,838 | 333,782,601 | 829,301,821 |
| Net income | 296,072,471 | 247,465,879 | 677,097,561 |
| Total comprehensive income | 299,446,829 | 247,639,622 | 675,431,603 |
| Net income attributable to non-controlling interests | 140,042,279 | 117,051,361 | 320,267,146 |
| Total comprehensive income attributable to non-controlling interests | 141,638,350 | 117,133,541 | 319,479,148 |
| Dividends paid to non-controlling interests | 86,086,000 | 59,125,000 | 487,190,000 |
| Accumulated non-controlling interest | 264,174,632 | 208,622,282 | 150,613,741 |

## 11. Property, Plant and Equipment

| | 2016 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | |
| 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) | – | – | – | – | – | – | 11,455,381 | 11,455,381 |
| 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 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| 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 |
| **Net Book Value** | **₱527,461,643** | **₱26,802,405** | **₱19,590,624** | **₱10,760,116** | **₱4,989,780** | **₱11,992,860** | **₱32,588,780** | **₱634,186,208** |

| | 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Plant Machineries and Equipment | Condominium Units, Building and Improvements | Transportation Equipment | Office Furniture, Fixtures and Equipment | Tools and Other Assets | Leasehold and Land Improvements | Construction in Progress | Total |
| **Cost** | | | | | | | | |
| At January 1 | ₱703,469,835 | ₱25,924,832 | ₱33,249,958 | ₱27,812,923 | ₱505,670 | ₱25,157,022 | ₱– | ₱816,120,240 |
| Additions | 281,629,170 | 12,104,352 | 9,593,181 | 8,317,345 | 939,786 | 965,211 | – | 313,549,045 |
| Reclassifications | 313,839 | 8,699,140 | – | (1,982,433) | 2,213,275 | (9,243,821) | – | – |
| Retirements | – | (1,055,561) | – | (1,448,408) | – | – | – | (2,503,969) |
| Price adjustment | (107,018,080) | – | – | – | – | – | – | (107,018,080) |
| Disposal | – | – | (5,791,601) | – | – | – | – | (5,791,601) |
| At December 31 | 878,394,764 | 45,672,763 | 37,051,538 | 32,699,427 | 3,658,731 | 16,878,412 | – | 1,014,355,635 |
| **Accumulated Depreciation and Amortization** | | | | | | | | |
| At January 1 | 4,061,256 | 9,291,210 | 15,779,531 | 16,820,517 | 304,626 | 9,093,582 | – | 55,350,722 |
| Depreciation | 31,528,309 | 3,592,807 | 6,877,109 | 6,702,864 | 875,354 | 764,021 | – | 50,340,464 |
| Reclassifications | – | 4,399,333 | 1,332,089 | (1,601,257) | 299,202 | (4,429,367) | – | – |
| Retirements | – | (1,055,561) | – | (1,448,408) | – | – | – | (2,503,969) |
| Disposal | – | – | (5,328,742) | – | – | – | – | (5,328,742) |
| At December 31 | 35,589,565 | 16,227,789 | 18,659,987 | 20,473,716 | 1,479,182 | 5,428,236 | – | 97,858,475 |
| Net Book Value | ₱842,805,199 | ₱29,444,974 | ₱18,391,551 | ₱12,225,711 | ₱2,179,549 | ₱11,450,176 | ₱– | ₱916,497,160 |

On December 4, 2015, 1590 EC received a credit memo for price reduction of certain property and equipment purchased from a supplier amounting to ₱107.0 million.

Fully depreciated property and equipment costing ₱15.7 million and ₱9.2 million as of December 31, 2016 and 2015, respectively, are still being used by the Group.

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Generation costs (see Note 17) | ₱87,412,714 | ₱33,587,391 | ₱4,175,702 |
| Operating expenses | 18,345,528 | 16,753,073 | 16,413,661 |
| | ₱105,758,242 | ₱50,340,464 | ₱20,589,363 |

## 12. Investment Properties

| | 2016 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| At January 1 and December 31 | ₱511,423,557 | ₱3,378,000 | ₱514,801,557 |

| | 2015 | | |
|---|---|---|---|
| | Land | Buildings | Total |
| At January 1 | ₱270,103,000 | ₱3,968,000 | ₱274,071,000 |
| Net unrealized gain (loss) on fair value remeasurement | 241,320,557 | (590,000) | 240,730,557 |
| At December 31 | ₱511,423,557 | ₱3,378,000 | ₱514,801,557 |

Some of the Group's properties were leased out to outside parties to earn rental income (see Note 23c). Total rental income amounting to ₱2.5 million in 2016, ₱2.9 million in 2015 and ₱1.7 million in 2014, 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" in the consolidated statements of comprehensive income, amounted to nil and ₱240.7 million in 2016 and 2015, respectively.

In 2015, an appraisal was carried out on the Group's investment properties resulting to a fair value change amounting to ₱240.7 million. Management assessed that there is no significant change in the fair value of the Group's investment properties from the valuation date until December 31, 2016.

Real property taxes pertaining to the land amounting to ₱0.8 million in 2016 and 2015, and ₱0.9 million 2014, 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.

13. **Other Noncurrent Assets**

| | 2016 | 2015 |
|---|---|---|
| Goodwill | ₱42,559,451 | ₱42,559,451 |
| Input VAT | 7,254,787 | 3,379,916 |
| Advances to suppliers (see Note 11) | 3,946,417 | 36,412,810 |
| Available-for-sale (AFS) investments | 3,750,631 | 3,750,631 |
| Software cost - net | 1,127,890 | 1,974,006 |
| Others - net of allowance for impairment loss of ₱46.1 million | 8,102,533 | 9,085,027 |
| | ₱66,741,709 | ₱97,161,841 |

a. Goodwill

Goodwill represents the excess of the acquisition cost over the Group's interest in recognized amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities at acquisition date of HDFE, a subsidiary (see Note 10), whose assets at that time comprise significantly of equity shares in VECO. Due to the acquisition of HDFE, the Group was able to exercise significant influence over the financial and operating policies of VECO with whom HDFE has direct ownership interest of 25%. The Group considers the investment in VECO as a separate cash generating unit since it generates cash inflows independent of the inflows of other assets of the Group.

In 2012 and 2013, HDFE declared property dividends, in the form of VECO shares, to its stockholders. The property dividends reduced HDFE's ownership in VECO to zero. However, as a result of the property dividends, the Parent Company's direct ownership in VECO increased to 34.81%.

The recoverable amount of each unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- The net cash flows from operations is discounted using weighted average cost of capital of 18.25% and 16.56% in 2016 and 2015, respectively.
- Annual growth in metered sales and city street lighting is projected with an annual growth rate of 9% to 22% and 6% to 22%, respectively.
- Operating expenses are projected to increase from 12% to 22% depending on the nature of the expenses.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, no impairment was recognized on goodwill in 2016, 2015 and 2014.

With regard to the assessment of the value-in-use of HDFE, management believes that no reasonable possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

b. 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).

c. AFS Investments

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

| | 2016 | 2015 |
|---|---|---|
| **At Cost** | | |
| 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 | – | – |
| | **3,750,000** | 3,750,000 |
| **At Fair Value** | | |
| Philippine Long Distance Telephone Co. | **600** | 600 |
| Paper Industries Corp. of the Phils. | **31** | 31 |
| | **631** | 631 |
| | **₱3,750,631** | ₱3,750,631 |

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, as their fair values cannot be reliably measured, less any impairment in value.

d. 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:

| | 2016 | 2015 |
|---|---|---|
| **Cost** | | |
| At January 1 | **₱5,827,991** | ₱4,897,154 |
| Additions | **1,645,533** | 930,837 |
| At December 31 | 7,473,524 | 5,827,991 |
| **Accumulated Amortization** | | |
| At January 1 | **3,853,985** | 1,939,321 |
| Amortization for the year | **2,491,649** | 1,914,664 |
| At December 31 | **6,345,634** | 3,853,985 |
| Net Book Value | **₱1,127,890** | ₱1,974,006 |

e. 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, 2016 and 2015.

## 14. Trade and Other Payables

| | 2016 | 2015 |
|---|---|---|
| Trade payables (see Note 23d) | **₱1,051,211,182** | ₱1,284,446,332 |
| Deferred output VAT | **94,559,030** | 59,815,117 |
| Output VAT | **68,484,477** | 85,704,445 |
| Accrued interest (see Note 15) | **25,712,776** | 24,925,650 |
| Accrued taxes payable | **10,366,912** | 3,415,141 |
| Accounts payable | **8,214,133** | 7,114,873 |
| Dividends payable | **4,458,690** | 62,480,225 |
| Accrued expenses | **1,831,215** | 12,218,167 |
| Others | **2,264,119** | 6,274,362 |
| | **₱1,267,102,534** | ₱1,546,394,312 |

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 23d).
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 the Parent Company, 1590 EC and HDFE. Dividends declared relating to non-controlling interests amounted to ₱86.1 million, ₱59.1 million, and ₱487.2 million in 2016, 2015 and 2014, respectively.

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 will mature on March 17 and April 12, 2017, respectively, bear an interest of 2.75% per annum.

On November 23, 2015, 1590 EC obtained a loan from a local bank amounting to ₱33.0 million. The loan is subject 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 including those that matured in 2016 and 2015, amounted to ₱2.6 million in 2016 and ₱2.8 million in 2015.

b. Long-term notes payable

| | 2016 | 2015 |
|---|---|---|
| Fixed Rate Corporate Notes (FRCN): | | |
| ₱1.0 billion at 5.7271% interest per annum | ₱980,000,000 | ₱990,000,000 |
| ₱2.0 billion at 5.4450% interest per annum | 1,960,000,000 | 1,980,000,000 |
| | 2,940,000,000 | 2,970,000,000 |
| Less unamortized debt issue costs | 18,415,321 | 22,426,296 |
| | 2,921,584,679 | 2,947,573,704 |
| Less current portion - net of unamortized debt issue costs of ₱4.2 million in 2016 and ₱4.0 million in 2015 | 25,812,744 | 25,989,025 |
| | ₱2,895,771,935 | ₱2,921,584,679 |

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:

| | 2016 | 2015 |
|---|---|---|
| Within one year | ₱30,000,000 | ₱30,000,000 |
| More than one year but not more than five years | 120,000,000 | 120,000,000 |
| More than five years | 2,790,000,000 | 2,820,000,000 |
| | ₱2,940,000,000 | ₱2,970,000,000 |

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, 2016 and 2015.

Interest expense recognized in the consolidated statements of comprehensive income related to these notes payable amounted to ₱175.0 million, ₱170.0 million and ₱137.0 million in 2016, 2015 and 2014, respectively, and the related accrued interest expense as of December 31, 2016 and 2015 amounted to ₱25.7 million and ₱24.9 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:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| Associates | | | | | |
| 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 |

(Forward)

| Category | Volume | 2016 Outstanding Balance: Receivables | Outstanding Balance: Payables | Terms | Conditions |
|---|---|---|---|---|---|
| Receivable from (see Note 16i): | | | | | |
| 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 |
| **Joint Ventures** | | | | | |
| Management fees (see Note 16d): | | | | | |
| NR | 6,536,452 | 87,646 | - | 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 receivable (see Note 16g): | | | | | |
| CPPC | 99,572,000 | 99,572,000 | - | 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 | 235,475,251 | 184,693 | - | noninterest-bearing | Unsecured; no impairment |
| **Stockholders with Significant Influence** | | | | | |
| 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 |
| **Stockholders with No Significant Influence** | | | | | |
| 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 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivables | Payables | Terms | Conditions |
| **Associates** | | | | | |
| Sale of power (see Note 16h): | | | | | |
| VECO | ₱805,858,331 | ₱72,700,209 | ₱– | 30 days; noninterest-bearing | Unsecured, no impairment |
| Management fees (see Note 16d): | | | | | |
| VECO | 30,156,400 | 2,504,700 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CPPC | 13,133,000 | 240,075 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service income (see Note 16d) | | | | | |
| CPPC | 25,126,750 | 1,786,680 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | 5,000,000 | 4,850,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances to (see Note 16a): | | | | | |
| AHPC | 180,273 | 201,999 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| MPC | 589 | 299,883 | – | noninterest-bearing | Unsecured, no impairment |
| AHPC | – | 14,833,860 | – | payable on demand; noninterest-bearing | Unsecured; no impairment |
| PEI | – | 1,532,400 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | – | 9,543 | – | 30-60 days, noninterest-bearing | Unsecured, no impairment |
| Dividends receivable (see Note 16g): | | | | | |
| CPPC | 147,144,000 | 67,572,000 | – | noninterest-bearing | Unsecured; no impairment |
| Operating lease (see Note 16f): | | | | | |
| VECO | 4,033,844 | 336,154 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| Management fees (see Note 16d): | | | | | |
| NR | 6,848,196 | 35,166 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Delta P | 2,160,000 | – | – | 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 | 293,469 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances to (see Note 16a): | | | | | |
| Delta P | 9,058,146 | 8,544,525 | – | noninterest-bearing | Unsecured; no impairment |
| CIPC | 8,513,640 | 13,710,247 | – | noninterest-bearing | Unsecured; no impairment |
| NR | 3,553,483 | 1,878,179 | – | noninterest-bearing | Unsecured; no impairment |
| Dividends receivable (see Note 16g): | | | | | |
| Delta P | 72,000,000 | 65,000,000 | – | noninterest-bearing | Unsecured; no impairment |
| Advances from (see Note 16b): | | | | | |
| NR | 1,594,169 | – | 72,736,575 | payable on demand; noninterest-bearing | Unsecured |
| Notes payable (see Note 16b): | | | | | |
| Delta P | – | – | 39,302,898 | payable on demand; noninterest-bearing | Unsecured |
| **Stockholders with Significant Influence** | | | | | |
| Management fees (see Note 16e) | | | | | |
| GPI | 28,350,000 | – | – | payable on demand; noninterest-bearing | Unsecured |
| JDC | 11,552,449 | – | 873,000 | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 17,328,674 | – | 1,309,500 | 30-60 days; noninterest-bearing | Unsecured |
| Advances from (see Note 16c) | 5,600,000 | – | 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 current portions of the 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 associates, 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 3.6577% 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. Interest expense amounted to ₱2.9 million in 2014.

   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, 2016 and 2015 amounted to ₱23.5 million and ₱14.4 million, respectively (see Note 7).

e. The Group also entered into a 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 2016, 2015 and 2014 in the consolidated statements of comprehensive income.

   Outstanding balance from these service agreements included as part of "Trade and other payables" in the consolidated statements of financial position amounted to nil and ₱2.2 million as of December 31, 2016 and 2015, respectively.

f. The Group has a lease agreement with VECO (see Note 23c). VECO leased an office space owned by the Group to be utilized as their Customer Care Office. The monthly rental is ₱0.4 million in 2016, ₱0.3 million in 2015 and 2014, 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 ₱4.4 million in 2016, ₱4.0 million in 2015 and ₱3.9 million in 2014 representing rent income received from VECO.

g. In 2016, CPPC declared dividends amounting to ₱99.6 million to be paid in 2017 and which amounts are currently lodged under "Dividends receivable" (see Note 7).

In 2015, CPPC and DPI declared additional dividends which amounted to ₱67.6 million and ₱65.0 million, respectively. These were received in 2016 (see Note 7).

h. The Group has an energy supply agreement with VECO (see Note 23h). 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.

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.

j. In 2016, the Company 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.

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 ₱32.1 million and ₱28.6 million as of December 31, 2016 and 2015, respectively (see Note 19). Other than the contributions to the Fund, the Group does not have any other transactions with the Fund in 2016 and 2015.

Compensation and Benefits of Key Management Personnel

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

| | **2016** | 2015 | 2014 |
|---|---|---|---|
| Short-term employee benefits | **₱64,896,506** | ₱66,228,084 | ₱43,724,019 |
| Post-employment pension benefits (see Note 19) | **3,964,194** | 7,706,704 | 7,762,263 |
| | **₱68,860,700** | ₱73,934,788 | ₱51,486,282 |

## 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, 2016:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Purchased power (see Notes 23d and 23g) | ₱937,236,875 | ₱1,072,539,060 | ₱187,127,482 |
| Heavy fuel oil (see Note 8 and 23b) | 314,834,946 | 576,700,359 | 1,275,706,992 |
| Rent (see Note 23e) | 161,522,025 | 156,817,500 | 152,942,787 |
| Depreciation and amortization (see Note 11) | 87,412,714 | 33,587,391 | 4,175,702 |
| Contractual and outside services | 80,399,590 | 99,716,894 | 75,744,391 |
| Salaries, wages and employee benefits (see Note 18) | 53,414,742 | 46,997,457 | 44,632,098 |
| Professional fees (see Note 16e) | 28,718,707 | 28,350,000 | 28,721,765 |
| Supply and metering charges | 26,481,857 | 3,835,803 | 25,870,207 |
| Insurance | 24,522,116 | 28,218,713 | 29,479,302 |
| Repairs and maintenance | 20,828,591 | 60,249,828 | 33,486,643 |
| Royalty fees (see Note 23e) | 15,816,036 | 15,695,063 | 25,465,567 |
| Lube oil (see Note 8) | 15,167,289 | 29,822,110 | 38,419,158 |
| Light fuel oil (see Note 8) | 11,032,325 | 15,407,776 | 21,738,955 |
| Materials and supplies (see Note 8) | 6,982,993 | 108,831,134 | 113,996,076 |
| Market fees (see Notes 23d and 23g) | 2,395,880 | 4,352,798 | 2,718,005 |
| Light and power | 1,504,463 | 1,700,256 | 1,679,477 |
| Transportation | 701,132 | 841,726 | 994,791 |
| Taxes and licenses | 436,242 | 3,321,867 | 1,026,444 |
| Others | 3,528,971 | 5,385,255 | 3,736,177 |
| | ₱1,792,937,494 | ₱2,292,370,990 | ₱2,067,662,019 |

Other Operating Expenses

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Project costs written off (see Note 13) | ₱21,172,701 | ₱– | ₱720,290 |
| Stand-by letter of credit | 11,055,353 | 12,710,011 | 2,112,152 |
| Outside services | 6,548,326 | 3,437,441 | 947,494 |
| Office supplies | 5,544,422 | 5,886,977 | 2,954,389 |
| Directors' per diem (see Note 18) | 4,014,968 | 3,749,245 | 3,588,302 |
| Repairs and maintenance | 3,537,743 | 3,602,583 | 1,053,181 |
| Corporate social responsibility | 2,352,179 | 3,115,981 | 1,855,165 |
| Regulatory expenses | 2,104,086 | 2,861,470 | 1,827,780 |
| Stockholders' meeting expenses | 744,503 | 618,479 | 639,566 |
| Others | 14,443,886 | 11,469,888 | 9,313,822 |
| | ₱71,518,167 | ₱47,452,075 | ₱25,012,141 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries, wages and employee benefits | ₱179,192,634 | ₱163,522,616 | ₱116,831,717 |
| Directors' compensation and benefits | 4,014,968 | 3,749,245 | 3,588,302 |
| Pension expense (see Note 19) | 8,838,434 | 10,802,650 | 11,591,504 |
| | ₱192,046,036 | ₱178,074,511 | ₱132,011,523 |

## 19. Retirement Plan

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:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current service cost | ₱8,111,854 | ₱10,245,500 | ₱10,485,193 |
| Net interest cost | 726,580 | 810,211 | 1,106,311 |
| Past service cost | – | (253,061) | – |
| Pension expense | ₱8,838,434 | ₱10,802,650 | ₱11,591,504 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Actuarial loss (gain) on defined benefit plan | (₱3,290,367) | (₱8,250,895) | ₱1,430,925 |
| Return on assets excluding amount included in net interest cost | 248,789 | 512,109 | 410,175 |
| | (₱3,041,578) | (₱7,738,786) | ₱1,841,100 |

The pension liability pertaining to the Parent Company's funded retirement plan as of December 31, 2016 and 2015, follows:

| | 2016 | 2015 |
|---|---|---|
| Present value of defined benefit obligation | ₱35,329,225 | ₱27,967,048 |
| Fair value of plan assets | (14,611,824) | (13,783,090) |
| Pension liability | ₱20,717,401 | ₱14,183,958 |

The pension liability (asset) pertaining to 1590 EC's funded retirement plan as of December 31, 2016 and 2015, follows:

| | 2016 | 2015 |
|---|---|---|
| Present value of defined benefit obligation | ₱14,588,890 | ₱15,401,851 |
| Fair value of plan assets | (17,463,681) | (14,815,166) |
| Pension liability (asset) | (₱2,874,791) | ₱586,685 |

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

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱43,368,899 | ₱40,040,490 |
| Current service cost | 8,111,854 | 10,245,500 |
| Interest cost on defined benefit obligation | 2,008,966 | 1,586,865 |
| Past service cost | – | (253,061) |
| Actuarial loss (gain) due to: | | |
| Changes in demographic assumptions | (1,759,766) | (8,203,235) |
| Changes in financial assumptions | (1,483,919) | (5,827,239) |
| Experience adjustments | (46,682) | 5,779,579 |
| Benefits paid | (281,237) | – |
| At December 31 | ₱49,918,115 | ₱43,368,899 |

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

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱28,598,256 | ₱16,831,464 |
| Contributions to the retirement fund | 2,724,889 | 11,502,247 |
| Interest income included in net interest cost | 1,282,386 | 776,654 |
| Return on assets excluding amount included in net interest cost | (248,789) | (512,109) |
| Benefits paid | (281,237) | – |
| At December 31 | ₱32,075,505 | ₱28,598,256 |

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

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱14,770,643 | ₱23,209,026 |
| Pension expense for the year | 8,838,434 | 10,802,650 |
| Actuarial loss (gain) recognized for the year | (3,041,578) | (7,738,786) |
| Contributions to retirement fund | (2,724,889) | (11,502,247) |
| At December 31 | ₱17,842,610 | ₱14,770,643 |

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

| | 2016 | 2015 |
|---|---|---|
| Fixed income securities: | | |
| Unitized investment trust funds | 44.35% | – |
| Time certificate of deposit | 27.17% | – |
| Due from Bangko Sentral ng Pilipinas | 26.37% | 75.70% |
| Savings deposit | 0.11% | 24.17% |
| Investment in government securities | 1.90% | – |
| Accrued interest receivable | 0.10% | 0.13% |
| Total plan assets | 100.00% | 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:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 5.54%–5.50% | 5.39%–5.05% |
| Future salary increase rate | 7.00%–6.00% | 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, 2016 and 2015, assuming all other assumptions were held constant:

| | Increase (Decrease) | Present Value Change of Defined Benefit Obligation | |
|---|---|---|---|
| | | 2016 | 2015 |
| Discount rate | +100 basis points | (₱4,818,307) | (₱4,163,341) |
| | −100 basis points | 5,942,776 | 5,083,910 |
| Future salary increase rate | +100 basis points | 5,747,650 | 4,943,204 |
| | −100 basis points | (4,813,409) | (4,136,078) |

The average duration of the defined benefit obligation as of December 31, 2016 is 19.2 years and 24.7 years, and as of December 31, 2015, average duration of the defined benefit obligation is 19.9 years and 23.2 years for the Parent Company and 1590 EC, respectively.

The Group expects to contribute ₱11.2 million to the defined benefit plan in 2017.

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, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Less than one year | ₱16,117,322 | ₱10,359,311 |
| More than one year to five years | 8,525,165 | 12,015,549 |
| More than five years to 10 years | 12,563,210 | 13,070,910 |
| More than 10 years to 15 years | 62,910,540 | 50,592,642 |
| More than 15 years to 20 years | 123,559,178 | 98,481,346 |
| More than 20 years | 232,518,527 | 240,102,252 |
| Total | ₱456,193,942 | ₱424,622,010 |

## 20. Income Taxes

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current | ₱115,629,566 | ₱90,190,909 | ₱213,065,461 |
| Final | 8,744,210 | 8,978,227 | 6,381,578 |
| | 124,373,776 | 99,169,136 | 219,447,039 |
| Deferred | 7,601,411 | 71,546,935 | 7,406,522 |
| | ₱131,975,187 | ₱170,716,071 | ₱226,853,561 |

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:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income before income tax | ₱1,560,557,874 | ₱1,420,678,616 | ₱1,922,308,461 |
| Tax calculated at 30% statutory rate | ₱468,167,362 | ₱426,203,585 | ₱576,692,538 |
| Adjustments for the tax effects of: | | | |
| Equity in net earnings of associates | (386,499,901) | (302,912,871) | (333,228,616) |
| Unrecognized NOLCO and MCIT | 56,341,026 | 65,498,521 | 41,725,476 |
| Interest income subject to final tax | (7,282,461) | (8,686,576) | (6,293,605) |
| Effect of change in income tax rate | (6,517,926) | – | – |
| Non-deductible expenses | 5,143,800 | 9,354,063 | 4,513,032 |
| Difference of OSD over deductible expenses | 4,312,599 | (18,658,706) | (56,549,861) |
| Availment of tax incentive from donation | (172,545) | – | – |
| Others | (1,516,767) | (81,945) | (5,403) |
| | ₱131,975,187 | ₱170,716,071 | ₱226,853,561 |

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

| | 2016 | 2015 |
|---|---|---|
| Deferred income taxes recognized in profit or loss: | | |
| Deferred income tax assets on: | | |
| Allowance for impairment losses | ₱13,923,329 | ₱13,923,329 |
| Net pension liability | 9,116,357 | 7,645,375 |
| Unrealized foreign exchange loss | – | 100,325 |
| | 23,039,686 | 21,669,029 |
| Deferred income tax liabilities on: | | |
| Unamortized debt issue costs | (5,524,596) | (6,727,889) |
| Unrealized foreign exchange gain | (1,159,203) | (791,201) |
| | (6,683,799) | (7,519,090) |
| Deferred income tax liability related to defined benefit obligation recognized as other comprehensive income | (1,986,871) | (1,568,206) |
| Net deferred income tax assets | ₱14,369,016 | ₱12,581,733 |

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

| | 2016 | 2015 |
|---|---|---|
| Unrealized fair value gain on investment property | ₱99,740,267 | ₱99,740,267 |
| Accrued rent | 57,211 | 26,741 |
| Advances for plant repairs and maintenance | 9,776,889 | – |
| | ₱109,574,367 | ₱99,767,008 |

In 2016 and 2015, 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:

| | 2016 | 2015 |
|---|---|---|
| NOLCO | **₱535,013,480** | ₱371,489,166 |
| MCIT | **1,679,053** | 1,256,423 |

NOLCO and MCIT as of December 31, 2016 and 2015 can be claimed as deduction against future taxable income and income tax due in the next three years until 2019 and 2018, respectively.

## 21. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2016 and 2015.

| | |
|---|---|
| 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, 2016 and 2015, the Parent Company's issued capital stock all consists of common shares.

The Parent Company has 1,443, 1,449 and 1,467 stockholders as of December 31, 2016, 2015 and 2014, respectively, 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:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Date of declaration | **May 12, 2016** | May 27, 2015 | June 25, 2014 |
| Date of record | **June 3, 2016** | June 9, 2015 | July 9, 2014 |
| Date of payment | **June 29, 2016** | July 3, 2015 | July 31, 2014 |
| Dividends declared: | | | |
| Regular dividends | **₱192,921,585** | ₱192,921,585 | ₱175,420,478 |
| Special dividends | **75,019,375** | 75,019,375 | 50,047,033 |
| | **₱267,940,960** | ₱267,940,960 | ₱225,467,511 |
| Dividends per share | **₱0.2618** | ₱0.2618 | ₱0.2203 |

Appropriation of Retained Earnings for Business Expansion
On December 20, 2013, a resolution was passed and duly approved by the BOD allowing the participation and investment by the Group in prospective power plant projects in the Visayas and Mindanao. In the same board meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to ₱1.9 billion to be used for future investments in these projects which was started in the first quarter of 2014 and are expected to be completed within the next three (3) years.

Out of the 2013 retained earnings appropriation, the Group invested ₱491.9 million in 2014 in two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

The BOD has determined, in a board meeting held on December 19, 2014, that the Group'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 ₱1.4 billion to be used for future investments in these projects which were implemented starting 2015 and are expected to be completed starting 2017.

Out of the 2014 retained earnings appropriation, the Group invested ₱851.2 million in 2015 in the same two power plant projects 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.

Unappropriated Retained Earnings
The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint ventures amounting to ₱3.5 billion and ₱2.7 billion as at December 31, 2016 and 2015, 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 2014, VMHI received additional cash for stock subscription amounting to ₱8.8 million. Of this amount, ₱2.9 million is attributable to 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.

## 22. Earnings Per Share (EPS)

The amounts of earnings per share are computed as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income attributable to shareholders of the parent | **₱1,293,430,993** | ₱1,052,735,864 | ₱1,348,042,824 |
| Weighted average number of outstanding common shares | **1,023,456,698** | 1,023,456,698 | 1,023,456,698 |
| Basic and diluted EPS | **₱1.264** | ₱1.029 | ₱1.317 |

There are no potential dilutive shares as of December 31, 2016, 2015 and 2014.

## 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. Total revenue from the IPSA with Meralco amounted to ₱849.0 million, ₱1,324.6 million and ₱1,359.4 million in 2016, 2015 and 2014, 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 and ₱147.4 million in 2016 and 2015, respectively.

On April 4, 2014, 1590 EC entered into a Contract to Purchase Generated Energy with Trans-Asia Oil and Energy Development Corporation (TAO) to supply 20MW for the period starting April 4 to June 25, 2014. The contract entered with TAO was extended for 1 month from June 26 to July 25, 2014. Total revenue from the IPSA with TAO amounted to nil in 2016 and 2015 while ₱168.6 million in 2014.

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 and ₱60.3 million in 2016 and 2015, respectively.

b. Supply Agreement for Heavy Fuel and Purchased Power

On April 1, 2012, 1590EC 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 ₱314.8 million, ₱576.7 million and ₱1,275.7 million in 2016, 2015 and 2014, 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 and ₱20.6 million in 2016 and 2015, respectively.

c. Operating Leases - Group as Lessor

The Group entered into lease agreements with third parties to lease out its land and building classified under "Investment properties" in the consolidated statements of financial position (see Note 12)

The Group also leased out an office space to VECO (see Note 16f). The lease agreement has no lease term and can be terminated upon mutual agreement of parties and upon 30 days prior written notice.

d. Participation in WESM

The revenue from sale of power recognized by 1590 EC amounting to ₱681.6 million in 2016, ₱414.0 million in 2015 and ₱1,680.0 million in 2014 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. The Petition is still pending as of December 31, 2016.

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 ₱150.1 million, ₱294.9 million and ₱189.8 million in 2016, 2015 and 2014, 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 ₱96.1 million and ₱113.2 million as of December 31, 2016 and 2015 respectively (see Note 7).

e. 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 the continued operation, preservation, maintenance and management of the BDPP. The MOA is for a period of one year commencing immediately after the expiration of the first MOA or on June 26, 2013, provided that it shall be renewed under the same terms and conditions set forth in the MOA for another one year. The new MOA provides 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.

Total rent expense from this operating lease amounted to ₱161.5 million, ₱156.8 million and ₱152.9 million in 2016, 2015 and 2014, respectively, and total royalty fees recognized in the consolidated statements of comprehensive income amounted to ₱15.8 million, ₱15.7 million and ₱25.5 million in 2016, 2015 and 2014, respectively (see Note 17).

f. 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, 1590EC 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, 2016 and 2015.

g. 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 ₱789.5 million, ₱761.4 million and nil in 2016, 2015 and 2014, respectively.

h. Energy Supply Agreement (ESA) with VECO

In October 2014, VEC entered into an energy supply agreement 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 agreement became effective on December 26, 2014 and is valid until July 25, 2021. Total revenue from the ESA with VECO amounted to ₱834.7 million and ₱805.9 million in 2016 and 2015, respectively, were presented under "Sale of power" in the consolidated statements 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.

## 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 joint ventures, 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 ALECO which is fully provided with allowance for impairment and portion of the receivables 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 doubtful accounts, amounted to ₱5,715.7 million and ₱4,947.7 million as of December 31, 2016 and 2015, 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:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither | Past Due But not Impaired | | | | | |
| | Past Due nor Impaired | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| Loans and Receivables | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,437,126,262 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱4,437,126,262 |
| Trade and other receivables | 352,561,843 | 789,717 | 5,246,240 | 3,608,158 | 76,380,967 | 34,458,046 | 473,044,971 |
| Advances to associates and stockholders | 1,273,776 | 3,549,210 | 1,014,815 | 15,306,805 | 32,380,872 | – | 53,525,478 |
| 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 |
| | ₱5,569,541,797 | ₱4,484,269 | ₱6,305,757 | ₱19,684,442 | ₱115,645,929 | ₱88,281,227 | ₱5,803,943,421 |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither Past Due nor Impaired | Past Due But not Impaired | | | | Impaired | Total |
| | | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | | |
| Loans and Receivables | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,067,920,800 | ₱– | ₱– | ₱– | ₱– | ₱– | ₱4,067,920,800 |
| Trade and other receivables | 206,525,089 | 78,133,944 | 8,278,346 | 1,172,730 | 58,010,783 | 34,458,046 | 386,578,938 |
| Advances to associates and stockholders | 1,732,089 | 381,317 | 177,539 | 578,964 | 15,156,009 | – | 18,025,918 |
| Advances to other parties (under "Prepayments and other current assets") | 555,131,336 | – | – | – | – | – | 555,131,336 |
| Due from RFM Corporation under "Other noncurrent assets" | – | – | – | – | – | 46,078,063 | 46,078,063 |
| Restricted cash (under "Other noncurrent assets") | 775,000 | – | – | – | – | – | 775,000 |
| AFS Investments | 3,750,631 | – | – | – | – | – | 3,750,631 |
| | ₱4,835,834,945 | ₱78,515,261 | ₱8,455,885 | ₱1,751,694 | ₱73,166,792 | ₱80,536,109 | ₱5,078,260,686 |

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

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | Past Due or Individually Impaired |
| | Total | High Grade | Standard | Substandard | |
| Loans and Receivables | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,437,126,262 | ₱4,437,126,262 | ₱– | ₱– | ₱– |
| Trade and other receivables | 473,044,971 | 352,561,843 | – | – | 120,483,128 |
| Advances to associates and stockholders | 53,525,478 | 1,273,776 | – | – | 52,251,702 |
| Advances to other parties (under "Prepayments and other current assets") | 782,022,898 | 774,179,285 | – | – | 7,843,613 |
| 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 | 11,495,749 | 3,750,631 | – | – | 7,745,118 |
| | ₱5,803,943,421 | ₱5,569,541,797 | ₱– | ₱– | ₱234,401,624 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | Past Due or Individually Impaired |
| | Total | High Grade | Standard | Substandard | |
| Loans and Receivables | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,067,920,800 | ₱4,067,920,800 | ₱– | ₱– | ₱– |
| Trade and other receivables | 386,578,938 | 206,525,089 | – | – | 180,053,849 |
| Advances to associates and stockholders | 18,025,918 | 1,732,089 | – | – | 16,293,829 |
| Advances to other parties (under "Prepayments and other current assets") | 555,131,336 | 555,131,336 | – | – | – |
| Due from RFM Corporation (under "Other noncurrent assets") | 46,078,063 | – | – | – | 46,078,063 |
| Restricted cash (under "Other noncurrent assets") | 775,000 | 775,000 | – | – | – |
| AFS Investments | 3,750,631 | 3,750,631 | – | – | – |
| | ₱5,078,260,686 | ₱4,835,834,945 | ₱– | ₱– | ₱242,425,741 |

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* - 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 pertains to receivables from customers or parties who have established good credit standing with the Group.
- *Advances to associates and stockholders* - high grade since these pertains to advances to related parties who are consistent in the payment of its accounts.
- *AFS investments* - high grade since these pertains to investments in AFS securities, which include listed shares of companies with good credit standing.

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:

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Contractual Undiscounted Payments | | | | |
| | Total Carrying Amount | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,437,126,262 | ₱4,437,126,262 | ₱3,794,924,114 | ₱ 642,202,148 | ₱– | ₱– |
| Trade and other receivables | 348,674,873 | 348,674,873 | – | 343,970,471 | 4,704,402 | – |
| Advances to associates and stockholders | 53,525,478 | 53,525,478 | 16,535,636 | 27,004,513 | 9,985,329 | – |
| Advances to other parties (under "Prepayments and other current assets") | 782,022,898 | 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 | – | – | – | 46,078,063 |
| Restricted cash (under "Other noncurrent assets") | 650,000 | 650,000 | – | – | 650,000 | – |
| AFS Investments | 3,750,631 | 3,750,631 | 3,750,631 | – | – | – |
| | 5,671,828,205 | 5,671,828,205 | 4,586,971,942 | 1,014,205,294 | 24,261,330 | 46,389,639 |
| **Financial Liabilities** | | | | | | |
| Other financial liabilities: | | | | | | |
| Trade and other payables* | 1,113,286,935 | 1,113,286,935 | 830,608,929 | 277,514,622 | 5,163,384 | – |
| Short-term note payable | 103,500,000 | 103,500,000 | – | 103,500,000 | – | – |
| Long-term note payable | 3,591,671,252 | 3,591,671,252 | – | 191,753,621 | 609,917,631 | 2,790,000,000 |
| Advances from related parties | 143,933,390 | 143,933,390 | 102,634,757 | 31,375,398 | 9,923,235 | – |
| | 4,952,391,577 | 4,952,391,577 | 933,243,686 | 604,143,641 | 625,004,250 | 2,790,000,000 |
| Net Financial Assets (Liabilities) | ₱719,436,628 | ₱719,436,628 | ₱3,653,728,256 | ₱410,061,653 | (₱600,742,920) | (₱2,743,610,361) |

**Excluding statutory payables and unearned income*

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | Contractual Undiscounted Payments | | | | |
| | Total Carrying Amount | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱4,067,920,800 | ₱4,067,920,800 | ₱4,061,567,003 | ₱6,353,797 | ₱– | ₱– |
| Trade and other receivables | 352,120,892 | 352,120,892 | – | 351,761,047 | 359,845 | – |
| Advances to associates and stockholders | 18,025,919 | 18,025,919 | 15,697,217 | 2,328,702 | – | – |
| Advances to other parties (under "Prepayments and other current assets") | 555,131,336 | 555,131,336 | – | 552,827,723 | 2,303,613 | – |
| Due from RFM Corporation (under "Other noncurrent assets") | – | – | | – | – | – |
| Restricted cash (under "Other noncurrent assets") | 775,000 | 775,000 | – | – | 775,000 | – |
| AFS Investments | 3,750,631 | 3,750,631 | 3,750,631 | – | – | – |
| | 4,997,724,578 | 4,997,724,578 | 4,081,014,851 | 913,271,269 | 3,438,458 | – |
| **Financial Liabilities** | | | | | | |
| Other financial liabilities: | | | | | | |
| Trade and other payables* | 1,383,546,695 | 1,383,546,695 | 830,608,929 | 552,937,766 | – | – |
| Short-term note payable | 33,000,000 | 33,000,000 | – | 33,000,000 | – | – |
| Long-term note payable | 2,947,573,704 | 3,785,086,583 | – | 193,415,331 | 757,352,851 | 2,834,318,401 |
| Advances from related parties | 113,052,117 | 113,052,117 | 82,140,569 | 30,911,548 | – | – |
| | 4,477,172,516 | 5,314,685,395 | 912,749,498 | 774,688,490 | 757,352,851 | 2,834,318,401 |
| **Net Financial Assets (Liabilities)** | ₱520,552,062 | (₱316,960,817) | ₱3,168,265,353 | (₱138,582,779) | (₱753,914,393) | (₱2,834,318,401) |

**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 Group recognized net foreign exchange gain of ₱1.5 million and ₱4.3 million in 2016 and 2014 and net foreign exchange loss of ₱0.3 million 2015, respectively.

The tables below demonstrate the sensitivity to a reasonable 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, 2016 and 2015.

| | Change in Philippine Peso to US Dollar | |
|---|---|---|
| | 4.41% Appreciation | 3.52% Depreciation |
| Effect in income before income tax: | | |
| **2016** | **₱1,075,513** | **₱858,460** |
| 2015 | 723,423 | (635,469) |

| | Change in Philippine Peso to Euro | |
|---|---|---|
| | 1.55% Appreciation | 1.72% Depreciation |
| Effect in income before income tax: | | |
| **2016** | **₱820** | **₱909** |
| 2015 | (1,163) | 1,324 |

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

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

| | 2016 | | |
|---|---|---|---|
| | **USD** | **EUR** | **Php Equivalent** |
| Asset: | | | |
| Cash | **US$89,319** | **€1,020** | **₱4,493,818** |
| Trade and other receivables | **401,189** | | **19,947,117** |
| | **US$490,508** | **€1,020** | **₱24,440,935** |

| | 2015 | | |
|---|---|---|---|
| | USD | EUR | Php Equivalent |
| Asset: | | | |
| Cash | US$1,402,988 | €518 | ₱66,051,456 |
| Liability: | | | |
| Accruals | 1,870,233 | – | 88,013,166 |
| | (US$467,245) | €518 | (₱21,961,710) |

The December 31 exchange rate used follows:

| | **2016** | 2015 |
|---|---|---|
| US Dollar | **₱49.72 to US$1** | ₱47.06 to US$1 |
| Euro Dollar | **₱51.84 to €1** | ₱51.74 to €1 |

Fair Value of Financial Instruments

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, 2016 and 2015, 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 ₱3.2 billion as of December 31, 2016 and 2015, 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, 2016 and 2015, 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, 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%) |

| Description | Fair Value as of December 31, 2015 | Valuation Technique | Key Observable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Long term notes payable | ₱3,182,938,807 | Discounted Cash Flow Approach | Risk-free interest rate | 2.43%–4.27% (3.88%) |

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, 2016 and 2015, 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:

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

| | 2015 | | | |
|---|---|---|---|---|
| | | Fair Value Measurement Using | | |
| | Total | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets Measured at Fair Value | | | | |
| Investment properties (see Note 12): | | | | |
| Land | ₱511,423,557 | ₱– | ₱– | ₱511,423,557 |
| Buildings and improvements | 3,378,000 | – | – | 3,378,000 |
| | ₱514,801,557 | ₱– | ₱– | ₱514,801,557 |

Unrealized gain on fair value remeasurement of investment properties, recognized in the consolidated statements of comprehensive income, amounted to nil in 2016, ₱240.7 million in 2015, and nil in 2014 (see Note 12). Unrealized gain on AFS investments recognized in the consolidated statements of comprehensive income ₱0.2 million in 2014. The Group did not recognize any unrealized gain on AFS investments in 2016 and 2015. 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, 2016, 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, 2016 and 2015:

- 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.

| | 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 |

| | 2015 | | | |
|---|---|---|---|---|
| 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 2016, 2015 and 2014.

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 long-term debt and notes payable less cash and cash equivalents.

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

| | 2016 | 2015 |
|---|---|---|
| Notes payable | ₱3,025,084,679 | ₱2,980,573,704 |
| Less: Cash and cash equivalents | 4,437,776,262 | 4,068,285,801 |
| Net cash and cash equivalents (a) | (1,412,691,583) | (1,087,712,097) |
| Equity | 9,457,039,460 | 8,430,441,480 |
| Equity and net cash and cash equivalents (b) | ₱8,044,347,877 | ₱7,342,729,383 |
| Gearing ratio (a/b) | (0.18):1.00 | (0.15):1.00 |

## 25. Operating Segment Information

The Group is currently organized into two operating segments: power generation and distribution operations and 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 UI GPP 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 and VIDC, 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:

| | 2016 | | |
|---|---|---|---|
| | Power Generation and Distribution | Investing in Shares of Stock | 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 | 2,505,879,692 |
| 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) |
| | 3,606,938,872 | 263,143,416 | 3,870,082,288 |
| 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 (expense) | 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 for 2016 | ₱501,511,055 | ₱927,071,632 | ₱1,428,582,687 |

| | 2015 | | |
|---|---|---|---|
| | Power Generation and Distribution | Investing in Shares of Stock | 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 | 2,611,574,775 |
| 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 for 2015 | ₱792,958,189 | ₱457,004,356 | ₱1,249,962,545 |

| | 2014 | | |
|---|---|---|---|
| | Power Generation and Distribution | Investing in Shares of Stock | Consolidated |
| Revenues from external customers | ₱3,207,748,349 | ₱– | ₱3,207,748,349 |
| Revenue from inter-segment, associates and affiliates | 681,782,147 | 1,638,090,348 | 2,319,872,495 |
| Equity in net earnings of associates and joint ventures | 1,110,762,054 | – | 1,110,762,054 |
| Interest income | 8,483,847 | 42,229,098 | 50,712,945 |
| Inter-segment revenues | (681,782,147) | (1,499,174,433) | (2,180,956,580) |
| | 4,326,994,250 | 181,145,013 | 4,508,139,263 |
| Income from operations | 921,033,221 | 1,073,615,666 | 1,994,648,887 |
| Finance cost | – | (140,546,624) | (140,546,624) |
| Foreign exchange gain | 4,269,158 | – | 4,269,158 |
| Other income (expense) | 54,737,097 | 9,199,943 | 63,937,040 |
| Income before income tax | 980,039,476 | 942,268,985 | 1,922,308,461 |
| Income tax expense | (211,210,515) | (15,643,046) | (226,853,561) |
| Net income for 2014 | ₱768,828,961 | ₱926,625,939 | ₱1,695,454,900 |

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 40% and 22% pertains to energy fees in 2016, 44% and 18% in 2015, and 71% and nil in 2014, of 1590 EC and VEC, respectively.

Revenue from sale of power to two major customers amounted to ₱1.7 billion representing 71% and ₱2.1 billion representing 75% of the total revenue from sale of power in 2016 and 2015, respectively.

In 2014, revenue from sale of power from a single customer amounted to ₱1.4 billion, representing 45% 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:

| | 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 |

| | 2014 | | |
|---|---|---|---|
| | Power Generation | Investing in Shares of Stock | Consolidated |
| Assets | ₱1,676,195,418 | ₱10,781,208,787 | ₱12,457,404,205 |
| Liabilities | 1,331,968,721 | 3,134,807,659 | 4,466,776,380 |
| Capital expenditures | 544,226,697 | 7,646,401,128 | 7,990,627,825 |

Other segment information included in the consolidated statements of comprehensive income for the years ended December 31, 2016, 2015 and 2014 is as follows:

| | Power Generation | Investing in Shares of Stock | Consolidated |
|---|---|---|---|
| Depreciation and amortization: | | | |
| **2016** | **₱89,655,679** | **₱18,594,212** | **₱108,249,891** |
| 2015 | 35,643,824 | 16,611,304 | 52,255,128 |
| 2014 | 8,217,035 | 13,337,375 | 21,554,410 |

SGV
Building a better working world

## 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, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, included in this Form 17-A, and have issued our report thereon dated March 31, 2017. 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. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 7693446, January 7, 2017, Cebu City

March 31, 2017

VIVANT CORPORATION

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

FOR THE YEAR ENDED DECEMBER 31, 2016

| Items | Amount |
|---|---|
| **Unappropriated Retained Earnings, Beginning** | P1,015,662,237 |
| **Adjustment:** | |
| Deferred income tax assets that reduced the amount of provision for income tax | (21,183,800) |
| Deferred income tax liabilities that increased the amount of provision for income tax | 6,737,039 |
| **Unappropriated Retained Earnings, as Adjusted, Beginning** | 1,001,215,476 |
| **Net Income Based on the Face of AFS** | 569,277,994 |
| **Less: Non-actual/Unrealized Income Net of Tax** | |
| 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 | (1,525,232) |
| Deferred income tax liabilities that reduced the amount of provision for income tax | (1,185,164) |
| **Add: Non-actual Losses** | |
| 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 | – |
| **Net Income Actual/Realized** | 566,567,598 |
| **Add (Less)** | |
| Dividend declarations during the period | (267,940,960) |
| Appropriations of retained earnings during the period | (690,500,000) |
| Reversals of appropriations | 405,301,000 |
| Effects of prior period adjustments | – |
| Treasury shares | – |
| TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION | P1,014,643,114 |

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE A - FINANCIAL ASSETS

RECEIVABLES, AVAILABLE-FOR-SALE INVESTMENTS AND OTHER SHORT-TERM INVESTMENTS

DECEMBER 31, 2016

| 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 | – | ₱4,437,776,262 | ₱4,437,776,262 | ₱59,249,869 |
| Trade and other receivables: | | | | |
| Trade receivables | – | 248,447,465 | 248,447,465 | – |
| Dividends receivable | – | 99,572,000 | 99,572,000 | – |
| Receivable from GLEDC | | 39,289,553 | 39,289,553 | – |
| Advances to shareholders of a joint venture | – | 25,792,000 | 25,792,000 | – |
| Accounts receivable | – | 23,481,186 | 23,481,186 | – |
| Insurance claims receivable | – | 19,947,117 | 19,947,117 | – |
| Advances to officers and employees | – | 4,959,370 | 4,959,370 | – |
| Accrued interest | – | 3,886,969 | 3,886,969 | – |
| Others | – | 12,442,858 | 12,442,858 | – |
| | | 477,818,518 | 477,818,518 | 2,535,687,095 |
| Advances to associates and stockholders | – | 20,155,989 | 20,155,989 | – |
| 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 | – |
| Total financial assets | – | ₱4,939,501,400 | ₱4,939,501,400 | ₱2,594,936,964 |

*See Notes 6, 7, 8, 13 and 16 of the Consolidated Financial Statements.*

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
### DECEMBER 31, 2016

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Collections | Reversals | Write Offs | Balance at End of Period | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | Current | Noncurrent | Total |
| Amlan Hydroelectric Power Corporation | ₱15,176,083 | ₱1,013,868 | (₱70,112) | ₱- | ₱- | ₱16,119,839 | ₱- | ₱16,119,839 |
| Calamian Islands Power Corp | 13,710,247 | 1,688,224 | (15,117,143) | - | - | 281,328 | - | 281,328 |
| Cebu Private Power Corporation | 69,598,755 | 111,919,850 | (69,254,730) | - | - | 112,263,875 | - | 112,263,875 |
| Delta P, Inc | 73,544,525 | 261,159,112 | (333,642,868) | - | - | 1,060,769 | - | 1,060,769 |
| Minergy Power Corporation | 299,883 | - | | (299,883) | - | - | - | - |
| Vivant-Sta. Clara Northern Renewables Generation Corporation | 1,913,345 | 10,703,311 | (11,728,537) | - | - | 888,119 | - | 888,119 |
| Prism Energy, Inc | 1,532,400 | | | - | - | 1,532,400 | - | 1,532,400 |
| Visayan Electric Company, Inc | 80,400,606 | 874,157,714 | (868,553,126) | - | - | 86,005,194 | - | 86,005,194 |
| Global Luzon Energy Development Corporation | - | 39,289,553 | - | - | - | 39,289,553 | - | 39,289,553 |
| Advances to officers and employees | 8,755,973 | - | (3,796,603) | - | - | 4,959,370 | - | 4,959,370 |
| | ₱264,791,593 | ₱1,299,931,632 | (₱1,302,083,186) | (₱299,883) | ₱- | ₱262,480,380 | ₱- | ₱262,480,380 |

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS

DECEMBER 31, 2016

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Collections | Write Offs | Balance at End of Period | | |
|---|---|---|---|---|---|---|---|
| | | | | | Current | Noncurrent | Total |
| Vivant Energy Corporation | P1,271,923 | P624,100 | (P1,780,192) | P- | P115,831 | P- | P115,831 |
| Hijos de F. Escaño, Inc | 4,620 | 886,730 | (889,326) | - | 2,024 | - | 2,024 |
| Vivant Geo Power Corp | 6,611 | 903 | (7,111) | - | 403 | - | 403 |
| Vicsi-Amlan Holdings Corp | 21,030,338 | 134 | (4,897) | - | 21,025,575 | - | 21,025,575 |
| Vivant Isla Inc | 68,962 | 134 | (68,962) | - | 134 | - | 134 |
| Southern Grove Properties and Development Corp | 9,932,548 | 1,201,391 | (1,210,293) | - | 9,923,646 | - | 9,923,646 |
| 1590 Energy Corp | 2,302,996 | 2,300,314 | (2,228,378) | - | 2,374,932 | - | 2,374,932 |
| Vivant Renewable Energy Corporation | 7,603 | 107,229 | (111,965) | - | 2,867 | - | 2,867 |
| Vivant -Malogo Hydropower, Inc | 17,448 | 917,446 | (272,030) | - | 662,864 | - | 662,864 |
| Cotabato Inc | 8,106 | 192,606 | (15,338) | - | 185,374 | - | 185,374 |
| Vivant Powercore Active Inc | - | 7,171 | - | - | 7,171 | - | 7,171 |
| Vivant Enercore Integrated Inc | - | 7,321 | - | - | 7,321 | - | 7,321 |
| Vivant Integrated Generation Corporation | 15,622 | 961,124 | (553,744) | - | 423,002 | - | 423,002 |
| Vivant Integrated Diesel Corporation | 3,177 | 134 | (3,177) | | 134 | - | 134 |
| | P34,669,954 | P7,206,737 | (P7,145,413) | P- | P34,731,278 | P- | P34,731,278 |

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

DECEMBER 31, 2016

| Description | Beginning Balance | Additions of Cost | Charged to Cost and Expenses | Charged to Other Accounts | Other Changes Additions (Deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Goodwill | P42,559,451 | P- | P- | P- | P- | P42,559,451 |
| Software cost | 1,974,006 | 1,645,533 | (2,491,649) | - | - | 1,127,890 |
| | P44,533,457 | P1,645,533 | (P2,491,649) | P- | P- | P43,687,341 |

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

### SCHEDULE E - LONG-TERM DEBT

DECEMBER 31, 2016

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Current Portion of Long-term Debt | Long-term Debt |
|---|---|---|---|
| Fixed Rate Corporate Notes (FRCN) | ₱2,940,000,000 | ₱30,000,000 | ₱2,910,000,000 |
| Unamortized debt issue cost | (18,415,321) | (4,187,256) | (14,228,065) |
| | 2,921,584,679 | 25,812,744 | 2,895,771,935 |
| Pension liability | 20,717,401 | - | 20,717,401 |
| | ₱2,942,302,080 | ₱25,812,744 | ₱2,916,489,336 |

*SGVCEB02047*

VIVANT CORPORATION AND SUBSIDIARIES

SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2016

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

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2016

| 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 – | | |

*SGVCEB02047*

## VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE II - CAPITAL STOCK

DECEMBER 31, 2016

| 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 |

*SGVCEB02047*

# VIVANT CORPORATION AND SUBSIDIARIES

## SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS

AS OF DECEMBER 31, 2016

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| **Framework for the Preparation and Presentation of Financial Statements**<br>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 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 | | | ✓ |
| 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 | | | ✓ |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PFRS 4: Financial Guarantee Contracts | | | ✓ |
| | Amendments to PFRS 4: Insurance Contracts – Applying PFRS 9, Financial Instruments, with PFRS 4 | | | ✓ |
| PFRS 5 | Noncurrent Assets Held for Sale and Discontinued Operations | | | ✓ |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | 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 | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures | ✓ | | |
| | Amendment to PFRS 7, Servicing Contracts | ✓ | | |
| | Amendment to PFRS 7, Applicability of Amendment to PFRS 7, Condensed Financial Statements | ✓ | | |
| PFRS 8 | Operating Segments | ✓ | | |
| | Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total Reportable Segments' Assets to Entity's Assets | ✓ | | |
| PFRS 9 | Financial Instruments | ✓ | | |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | ✓ | | |
| | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | ✓ | | |
| PFRS 11 (Amended) | Joint Arrangements | ✓ | | |
| | Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PFRS 12, Clarification of the Scope of the Standard | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |
| | Amendments to PFRS 13: Short-term receivables and payable | ✓ | | |
| | Amendments to PFRS 13: Portfolio exception | | | ✓ |
| PFRS 14 | Regulatory Deferral Accounts | | | ✓ |
| IFRS 15 | Revenue from Contracts with Customers | | ✓ | |
| | Amendments to PFRS 15: Clarifications to PFRS 15 | | ✓ | |
| IFRS 16 | Leases | | ✓ | |
| **Philippine Accounting Standards** | | | | |
| PAS 1 (Revised) | 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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| | Amendments to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| | Amendments to PAS 1: Disclosure Initiative | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| | Amendments to PAS 7, Statement of Cash Flows: Disclosure Initiative | | ✓ | |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Reporting Period | ✓ | | |
| PAS 11 | Construction Contracts | | | ✓ |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| | Amendment to PAS 12, Recognition of Deferred Tax Assets for Unrealized Losses | | ✓ | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| | Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization | ✓ | | |
| | Amendments to PAS 16 and PAS 41: Bearer Plants | | | ✓ |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 (Revised) | Employee Benefits | ✓ | | |
| | Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures | | | ✓ |
| | Amendments to PAS 19: Defined Benefit Plans: Employee Contributions | | | ✓ |
| | Amendments to PAS 19, Discount Rate: Regional Market Issue | | | ✓ |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | | | ✓ |
| PAS 23 (Revised) | Borrowing Costs | | | ✓ |
| PAS 24 (Revised) | Related Party Disclosures | ✓ | | |
| | Amendments to PAS 24: Key Management Personnel | ✓ | | |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 (Amended) | Separate Financial Statements | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities | | | ✓ |
| | Amendments to PAS 27: Equity Method in Separate Financial Statements | | | ✓ |
| | Investments in Associates and Joint Ventures | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 28 (Amended) | Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | | | ✓ |
| | Amendments to PFRS 10, PFRS 12 and PAS 28: Investment Entities: Applying the Consolidation Exception | | | ✓ |
| | Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value | | ✓ | |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Disclosure and Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | | | ✓ |
| | Amendment to PAS 32: Classification of Rights Issues | | | ✓ |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| | Amendment to PAS 34, Disclosure of Information 'Elsewhere in the Interim Financial Report' | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets | ✓ | | |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | 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 | ✓ | | |
| PAS 39 | 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 | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| PAS 40 | Investment Property | ✓ | | |
| | Amendments to PAS 40: Investment Property: Transfers of Investment Property | | | ✓ |
| | Amendment to PAS 40: Transfers of Investment Property | | ✓ | |
| PAS 41 | Agriculture | | | ✓ |
| | Amendments to PAS 16 and PAS 41: Bearer Plants | | | ✓ |
| **Philippine Interpretations** | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| IFRIC 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| IFRIC 6 | Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies | | | ✓ |
| IFRIC 8 | Scope of PFRS 2 | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives | | | ✓ |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | | | ✓ |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 11 | PFRS 2- Group and Treasury Share Transactions | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | 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 | | | ✓ |
| IFRIC 15 | Agreements for the Construction of Real Estate | | | ✓ |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners | | | ✓ |
| IFRIC 18 | Transfers of Assets from Customers | | | ✓ |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | | | ✓ |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine | | | ✓ |
| IFRIC 21 | Levies | | | ✓ |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | | ✓ | |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---|---|---|
| SIC-15 | Operating Leases - Incentives | | | ✓ |
| 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 | | | ✓ |

Standards tagged as "Not applicable" have been adopted by the Company but have no significant covered transactions for the period ended December 31, 2016.

Standards tagged as "Not adopted" are the standards issued but not yet effective as of December 31, 2016. The Company will adopt the Standards and Interpretation when these become effective.

FS FOR FILING WITH SEC

AFTER THE BIR HAS DULY STAMPED "RECEIVED."

# COVER SHEET

for

**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

| | | | | | 1 | 7 | 5 | 2 | 2 | 2 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

VIVANT CORPORATION

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

Unit 907-908, Ayala Life-FGU Center, Mindanao Avenue Corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City, Philippines 6000

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| vivant@vivant.com.ph | (032) 234-2256 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 1,443 | 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**

15th Floor Ayala Life FGU Center, Mindanao Avenue corner Biliran Road, Cebu Business Park, Cebu City

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

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

SEC

Cebu Extension Office

APR 12 2017

By:

VIVANT

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **VIVANT CORPORATION** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2016 and 2015, 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

**RAMONITO E. GARCIA**
Chief Executive Officer

**MINUEL CARMELA N. FRANCO**
Chief Financial Officer

Signed this _____ day of MAR 31 2017, 2017.

Unit 907-908, 9th Floor, Ayala Life-FGU Center
Mindanao Avenue corner Biliran Road
Cebu Business Park, Cebu City, Philippines 6000
vivant@vivant.com.ph

Tel. no. (6332) 234-2256
Telefax: (6332) 234-2285
E-mail:

www.vivant.com.ph

**SUBSCRIBED AND SWORN TO BEFORE ME,** a Notary Public for and in the City of Cebu, this 31st day of March 2017. Affiants personally appeared **DENNIS N.A. GARCIA** with his Philippine Passport with No. EC0044262 issued on January 20, 2014 at DFA Cebu, **RAMONTITO E. GARCIA** exhibited to me his Philippine Passport with No. EC5751689 issued on October 20, 2020 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. 341 ;
Page No. 69 ;
Book No. I ;
Series of 2017.

ATTY. NYERA HYSSEM O. YU
ROLL NO. 65101
NOTARY PUBLIC
CEBU CITY, PHILIPPINES

ATTY. NYERA HYSSEM O. YU
NOTARIAL COMMISSION NO. 024-17
NOTARY PUBLIC
UNTIL DECEMBER 31, 2018
UNIT 1501 PDCP ACADEMY CONVENTION
CEBU BUSINESS PARK, CEBU CITY
ROLL NO. 65101
PTR NO. 1124295 / CEBU CITY / 01/03/17
IBP LIFETIME NO. 01 / 2015

SGV
Building a better working world

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

Tel: (032) 266 2047 to 49
Fax: (032) 266 2313
ey.com/ph

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

# INDEPENDENT AUDITOR'S REPORT

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

## Report on the Audit of the Parent Company Financial Statements

### Opinion

We have audited the parent company financial statements of Vivant Corporation (the Company), which comprise the parent company statements of financial position as at December 31, 2016 and 2015, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016, in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the parent company financial statements, including the disclosures, and whether the parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

SGV
Building a better working world



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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 20 to the parent company financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Vivant Corporation. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

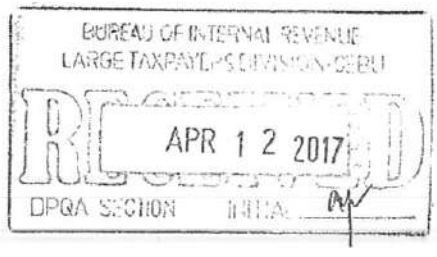
The engagement partner on the audit resulting in this independent auditor's report is Leovina Mae V. Chu.

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. 08-001998-96-2015,
January 5, 2015, valid until January 4, 2018
PTR No. 7693446, January 7, 2017, Cebu City

March 31, 2017



# VIVANT CORPORATION
## PARENT COMPANY STATEMENTS OF FINANCIAL POSITION

| | December 31 | |
|---|---|---|
| | 2016 | 2015 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 6) | ₱3,042,355,997 | ₱3,268,062,021 |
| Trade and other receivables (Note 7) | 81,295,573 | 43,275,067 |
| Prepaid expenses and other current assets (Note 8) | 77,219,687 | 51,132,906 |
| **Total Current Assets** | 3,200,871,257 | 3,362,469,994 |
| **Noncurrent Assets** | | |
| Investments and advances to a subsidiary (Note 9) | 4,563,319,833 | 4,117,518,833 |
| Property and equipment (Note 10) | 50,643,851 | 50,247,999 |
| Deferred income tax assets - net (Note 16) | 15,409,355 | 12,376,911 |
| Other noncurrent assets (Note 11) | 5,669,212 | 5,553,095 |
| **Total Noncurrent Assets** | 4,635,042,251 | 4,185,696,838 |
| **TOTAL ASSETS** | ₱7,835,913,508 | ₱7,548,166,832 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Current portion of notes payable (Note 13) | ₱25,812,744 | ₱25,989,025 |
| Trade and other current liabilities (Note 12) | 47,153,539 | 40,536,870 |
| **Total Current Liabilities** | 72,966,283 | 66,525,895 |
| **Noncurrent Liabilities** | | |
| Notes payable - net of current portion (Note 13) | 2,895,771,935 | 2,921,584,679 |
| Pension liability (Note 15) | 20,717,401 | 14,183,958 |
| **Total Noncurrent Liabilities** | 2,916,489,336 | 2,935,768,637 |
| **Total Liabilities** | 2,989,455,619 | 3,002,294,532 |
| **Equity** | | |
| Capital stock (Note 17) | 1,023,456,698 | 1,023,456,698 |
| Additional paid-in capital | 8,339,452 | 8,339,452 |
| Remeasurement of employee benefits (Note 15) | 4,078,207 | 4,829,652 |
| Retained earnings (Note 17) | | |
| Appropriated for business expansion | 2,778,783,261 | 2,493,584,261 |
| Unappropriated | 1,031,800,271 | 1,015,662,237 |
| **Total Equity** | 4,846,457,889 | 4,545,872,300 |
| **TOTAL LIABILITIES AND EQUITY** | ₱7,835,913,508 | ₱7,548,166,832 |

*See accompanying Notes to Financial Statements*

SEC
APR 12 2017
By:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RECEIVED
APR 12 2017
DPQA SECTION INITIAL

# VIVANT CORPORATION
## PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **INCOME** | | | |
| Dividend income (Note 9) | ₱713,260,234 | ₱633,145,640 | ₱1,083,234,433 |
| Management fees (Note 14) | 209,482,223 | 181,209,346 | 220,755,915 |
| Interest income (Note 6) | 46,493,674 | 46,035,016 | 33,403,947 |
| Reversal of allowance for impairment loss on investment (Note 9) | – | 122,468,104 | – |
| Others (Note 14) | 41,783,003 | 10,442,065 | 9,640,105 |
| | 1,011,019,134 | 993,300,171 | 1,347,034,400 |
| **EXPENSES** | | | |
| Salaries and employee benefits (Notes 15 and 18) | 112,134,666 | 103,556,585 | 63,327,227 |
| Professional fees (Note 14) | 56,862,508 | 54,323,131 | 79,093,701 |
| Travel | 20,084,848 | 16,602,040 | 12,767,692 |
| Depreciation (Note 10) | 15,413,285 | 14,200,552 | 11,975,643 |
| Taxes and licenses | 8,302,675 | 5,485,908 | 1,903,517 |
| Rent and association dues | 8,210,744 | 6,228,328 | 3,872,991 |
| Outside Services | 6,548,326 | 3,437,441 | 947,494 |
| Representation | 5,282,804 | 3,044,982 | 3,254,177 |
| Supplies | 5,184,073 | 5,235,699 | 2,709,679 |
| Communication and utilities | 5,055,604 | 3,831,987 | 3,653,313 |
| Director's per diem | 4,014,968 | 3,749,245 | 3,588,302 |
| Corporate social responsibility | 2,352,179 | 3,115,981 | 1,855,165 |
| Repairs and maintenance | 2,192,912 | 3,127,901 | 870,918 |
| Meetings and conferences | 743,595 | 611,578 | 639,566 |
| Impairment loss on investment (Note 9) | – | – | 618,701,560 |
| Others | 5,671,826 | 7,715,378 | 2,503,565 |
| | 258,055,013 | 234,266,736 | 811,664,510 |
| **INCOME FROM OPERATIONS** | 752,964,121 | 759,033,435 | 535,369,890 |
| **FINANCE CHARGES** | | | |
| Interest expense (Note 13) | 174,992,188 | 170,030,841 | 136,993,330 |
| Other financing charges | 2,218,359 | 6,173,102 | 2,197,688 |
| | 177,210,547 | 176,203,943 | 139,191,018 |
| **INCOME BEFORE INCOME TAX** | 575,753,574 | 582,829,492 | 396,178,872 |
| **PROVISION FOR INCOME TAX** (Note 16) | 6,475,580 | 7,776,119 | 13,522,618 |
| **NET INCOME** | 569,277,994 | 575,053,373 | 382,656,254 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| Other comprehensive income (loss) that will not be reclassified to profit or loss: | | | |
| Remeasurement gain (loss) on employee benefits (Note 15) | (1,073,493) | 7,526,904 | 24,761 |
| Income tax effect | 322,048 | (2,258,071) | (7,428) |
| Other comprehensive income (loss) for the year, net of tax | (751,445) | 5,268,833 | 17,333 |
| **TOTAL COMPREHENSIVE INCOME** | ₱568,526,549 | ₱580,322,206 | ₱382,673,587 |
| **EARNINGS PER SHARE (BASIC/DILUTED)** (Note 17) | ₱0.556 | ₱0.562 | ₱0.374 |

*See accompanying Notes to Financial Statements.*

APR 1 2 2017
BPQA SECTION

# VIVANT CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
### FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

| | Capital Stock | Additional Paid-in Capital | Remeasurement of Employee Benefits (Note 15) | Retained Earnings (Note 17) Appropriated | Retained Earnings (Note 17) Unappropriated | Total |
|---|---|---|---|---|---|---|
| At January 1, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱4,829,652 | ₱2,493,584,261 | ₱1,015,662,237 | ₱4,545,872,300 |
| Total comprehensive income (loss) | – | – | (781,445) | – | 569,277,994 | 568,526,549 |
| Appropriation for business expansion | – | – | – | 690,500,000 | (690,500,000) | – |
| Reversal of appropriation for business expansion | – | – | – | (405,301,000) | 405,301,000 | – |
| Cash dividends declared | – | – | – | – | (267,940,960) | (267,940,960) |
| At December 31, 2016 | ₱1,023,456,698 | ₱8,339,452 | ₱4,078,207 | ₱2,778,783,261 | ₱1,031,800,271 | ₱4,846,457,889 |
| At January 1, 2015 | ₱1,023,456,698 | ₱8,339,452 | (₱439,181) | ₱2,810,784,261 | ₱391,349,824 | ₱4,233,491,054 |
| Total comprehensive income | – | – | 5,268,833 | – | 575,053,373 | 580,322,206 |
| Appropriation for business expansion | – | – | – | 534,000,000 | (534,000,000) | – |
| Reversal of appropriation for business expansion | – | – | – | (851,200,000) | 851,200,000 | – |
| Cash dividends declared | – | – | – | – | (267,940,960) | (267,940,960) |
| At December 31, 2015 | ₱1,023,456,698 | ₱8,339,452 | ₱4,829,652 | ₱2,493,584,261 | ₱1,015,662,237 | ₱4,545,872,300 |
| At January 1, 2014 | ₱1,023,456,698 | ₱8,339,452 | (₱456,514) | ₱1,856,476,291 | ₱1,188,469,051 | ₱4,076,284,978 |
| Total comprehensive income | – | – | 17,333 | – | 382,656,254 | 382,673,587 |
| Appropriation for business expansion | – | – | – | 1,446,242,399 | (1,446,242,399) | – |
| Reversal of appropriation for business expansion | – | – | – | (491,934,429) | 491,934,429 | – |
| Cash dividends declared | – | – | – | – | (225,467,511) | (225,467,511) |
| At December 31, 2014 | ₱1,023,456,698 | ₱8,339,452 | (₱439,181) | ₱2,810,784,261 | ₱391,349,824 | ₱4,233,491,054 |

*See accompanying Notes to Financial Statements.*

# VIVANT CORPORATION
## PARENT COMPANY STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | P575,753,574 | P582,829,492 | P396,178,872 |
| Adjustments for: | | | |
| Dividend income (Note 9) | (713,260,234) | (633,145,640) | (1,083,234,433) |
| Interest expense (Note 13) | 174,992,188 | 170,030,841 | 136,993,330 |
| Interest income (Note 6) | (46,493,674) | (46,035,016) | (33,403,947) |
| Depreciation (Note 10) | 15,413,285 | 14,200,552 | 11,975,643 |
| Pension expense (Note 15) | 5,459,950 | 7,706,704 | 8,956,894 |
| Gain on disposal of property and equipment (Note 10) | (639,636) | (1,020,345) | – |
| Unrealized foreign exchange loss (gain) | (60,434) | (64,626) | 215,205 |
| Reversal of allowance for impairment loss on investment (Note 9) | – | (122,468,104) | – |
| Impairment loss on investment (Note 9) | – | – | 618,701,560 |
| Operating income (loss) before working capital changes | 11,165,019 | (27,966,142) | 56,383,124 |
| Decrease (increase) in: | | | |
| Trade and other receivables | (38,133,793) | 44,071,617 | 96,636,080 |
| Prepaid expenses and other current assets | (26,528,548) | (24,348,489) | (20,258,435) |
| Increase (decrease) in trade and other current liabilities | 4,421,576 | 630,055 | (33,668,887) |
| Net cash generated from (used in) operations | (49,075,746) | (7,612,959) | 99,091,882 |
| Interest paid | (170,194,087) | (167,836,907) | (107,992,529) |
| Contributions to the retirement fund (Note 15) | – | (8,062,808) | (5,589,786) |
| Income taxes paid (Note 16) | – | – | (1,948,940) |
| Net cash flows used in operating activities | (219,269,833) | (183,512,674) | (16,439,373) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Dividends received from subsidiaries and an associate (Note 9) | 713,260,234 | 627,982,256 | 1,083,234,433 |
| Interest received | 39,266,146 | 35,920,441 | 25,553,420 |
| Additions to: | | | |
| Investments and advances to a subsidiary (Note 9) | (445,801,000) | (911,200,000) | (888,842,450) |
| Property and equipment (Note 10) | (16,885,672) | (18,467,185) | (12,951,567) |
| Other noncurrent assets | (116,117) | (608,856) | (360,001) |
| Proceeds from disposal of property and equipment | 517,700 | 954,871 | – |
| Net cash flows from (used in) investing activities | 290,241,291 | (265,418,473) | 206,633,835 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issuance of notes payable (Note 13) | – | – | 3,000,000,000 |
| Payments of: | | | |
| Cash dividends (Note 17) | (266,737,916) | (267,615,337) | (225,043,657) |
| Notes payable (Note 13) | (30,000,000) | (30,000,000) | – |
| Debt issue costs (Note 13) | – | – | (29,567,922) |
| Settlement of related party financing (Note 14) | – | – | (171,003,646) |
| Net cash flows from (used in) financing activities | (296,737,916) | (297,615,337) | 2,574,384,775 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | (225,766,458) | (746,546,484) | 2,764,579,237 |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | 60,434 | 64,626 | (215,205) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | 3,268,062,021 | 4,014,543,879 | 1,250,179,847 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | P3,042,355,997 | P3,268,062,021 | P4,014,543,879 |

*See accompanying Notes to 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's shares are listed in the Philippine Stock Exchange (PSE) with 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% in 2016, 2015 and in 2014. MRC and JDC are entities incorporated and domiciled in the Philippines.

The principal office address of the Parent Company is located at Unit 907-908, Ayala Life-FGU Center, Mindanao Avenue Corner Biliran Road, Cebu Business Park, Barangay Luz, Cebu City, Philippines 6000.

Details of the Parent Company's equity interests in its subsidiaries and associates as of December 31, 2016 and 2015 are shown below:

| | Percentage of Direct Ownership |
|---|---|
| **Subsidiaries** | |
| Hijos De F. Escaño (HDFE) | 50.94 |
| Southern Grove Properties & Development Corp. (SGPDC) | 100.00 |
| Vivant Energy Corporation (VEC) | 100.00 |
| **Associates** | |
| Visayan Electric Company, Inc. (VECO) | 34.81 |
| Prism Energy, Inc. (PEI) | 40.00 |

The parent company financial statements as at and for the years ended December 31, 2016, 2015 and 2014 were approved and authorized for issuance by the Board of Directors (BOD) on March 31, 2017.

## 2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The financial statements of the Parent Company have been prepared on a historical cost basis and 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 financial statements of the Parent Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

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 Interpretations which were applied starting January 1, 2016.

Adoption of these pronouncements did not have a significant impact on the Parent Company's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, Investment Entities: Applying the Consolidation Exception

  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

  These amendments do not have any impact to the Parent Company.

- Amendments to PFRS 11, *Joint Arrangements*, Accounting for Acquisitions of Interests in Joint Operations

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

  These amendments do not have any impact on the Parent Company as there has been no interest acquired in a joint operation during the period.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRSs. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on

the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

Since the Parent Company is an existing PFRSs preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements*, Disclosure Initiative

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions;
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated;
  - That entities have flexibility as to the order in which they present the notes to financial statements; and,
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

  These amendments do not have any impact to the Parent Company.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, Clarification of Acceptable Methods of Depreciation and Amortization

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

  These amendments do not have any impact to the Parent Company, given that it has not used a revenue-based method to depreciate or amortize its property and equipment.

- Amendments to PAS 16 and PAS 41, *Agriculture*: Bearer Plants

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

  The amendments are applied retrospectively and do not have any impact to the Parent Company since it is not engaged in agriculture business.

- Amendments to PAS 27, *Separate Financial Statements*, Equity Method in Separate Financial Statements

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRSs and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

  These amendments do not have any impact on the Parent Company's financial statements.

Annual Improvements to PFRSs 2012--2014 Cycle

The Annual Improvements to PFRSs (2012–2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and do not have any material impact to the Company. They include:

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, Changes in Methods of Disposal

  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures*, Servicing Contracts

  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits*, Discount Rate: Regional Market Issue

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting*, Disclosure of Information 'Elsewhere in the Interim Financial Report'

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

New Standards and Interpretation Issued and Effective after December 31, 2016
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Parent Company does not expect that the future adoption of the said pronouncements to have a significant impact on its financial statements. The Parent Company intends to adopt the following pronouncements when they become effective.

*Effective Beginning on or after January 1, 2017*

- Amendment to PFRS 12, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014–2016 Cycle)
  The amendment clarifies 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.

  The amendment does not have any impact on the Parent Company's financial position and results of operation.

- Amendments to PAS 7, *Statement of Cash Flows*, Disclosure Initiative
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Parent Company.

- 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 on the reversal of that deductible temporary difference. 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.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.



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.

The Parent Company is currently assessing the impact of adopting this standard and plans to adopt the new standard on the required effective date, once adopted locally.

- 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. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. 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 adoption of PFRS 9 will have an effect on the classification and measurement of and impairment methodology for the Parent Company's financial assets, but will have no impact on the classification and measurement of its financial liabilities. The adoption of PFRS 9 is not expected to have any significant impact on the financial statements of the Parent Company.

- 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 Parent Company 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.



These amendments are not expected to have any impact on the Parent Company.

*Effective beginning on or after January 1, 2018*

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

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

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

  These amendments do not apply to the Parent Company 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 forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Company since it has no activities that are predominantly connected with insurance or issue insurance contracts.

- 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.

These amendments do not have any impact on the Parent Company since it does not have any investment property.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*
  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary 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. The interpretation may be applied on a fully retrospective basis. Entities 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 to the Parent Company.

*Effective Beginning on or After January 1, 2019*

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

  The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

  The Parent Company is currently assessing the impact of adopting PFRS 16 and plans to adopt the new standard on the required effective date, once adopted locally.

*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 Parent Company's financial statements.

## 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 Parent Company recognizes a financial asset or a financial liability in the parent company 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 liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. 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 (AFS). The Parent Company 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 parent company statement 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, 2016 and 2015, 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 the 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 Parent Company's cash and cash equivalents and trade and other receivables.

*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 parent company statement of comprehensive income.

The Parent Company has AFS investments of P3.7 million as of December 31, 2016 and 2015, and is presented as part of "Other Noncurrent Assets" account in the parent company 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 Parent Company's accounts payable, notes payable and accrued interest payable.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company 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

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 Parent Company.

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

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

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

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

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

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

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

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 Parent Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or,

- The Parent Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Parent Company 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 Parent Company'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 Parent Company 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 Parent Company's continuing involvement is the amount of the transferred asset that the Parent Company 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 Parent Company'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 parent company statement of comprehensive income.

*Impairment of Financial Assets.* The Parent Company assesses at each balance sheet 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 parent company statement of comprehensive income.

  The Parent Company 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 parent company 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 Parent Company 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 parent company statement of comprehensive income, is transferred from equity to the parent company statement of comprehensive income. Reversals in respect of equity instruments classified as AFS are not recognized in the parent company statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed in the parent company 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 parent company 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 changes in value.

Prepaid Expenses 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 parent company 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 parent company statement of comprehensive income.

Investments in Subsidiaries and Associates

A subsidiary is an entity over which the Parent Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity.

An associate is an entity over which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture. 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.

Investments in and advances to subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Parent Company recognizes income from the investments only to the extent that the Parent Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

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

Initially, an item of property 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 Parent Company. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

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 |
|---|---|
| Condominium units, buildings and improvements | 5–40 |
| Leasehold improvements | 3–10 |
| Office furniture and equipment | 2–10 |
| Transportation equipment | 5 |
| Other equipment | 3–5 |

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.

Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (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 are recognized in the parent company statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Parent Company 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

*Capital Stock.* Capital stock is recognized as issued when the stock is paid for or subscribed under a binding subscribing 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 economic benefits will flow to the Parent Company and revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The Parent Company 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.

- *Dividends.* Dividends are recognized when the stockholders' right to receive the payment is established.

- *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.* Interest income is recognized as the interest accrues, taking into account the effective yield on the asset.

- *Other Income such as Intercompany Charges, Rental Income and Gain on Disposal of Property and Equipment.* These are generally recognized when earned. Revenue from intercompany charges are recognized when the related services are rendered based on agreed hourly billing rates. Rental income is recognized on a straight-line basis over the term of the lease while gain on disposal of property 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 Expense Recognition

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 parent company statement of comprehensive income when incurred.

Related Party Transactions

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

Provisions

Provisions are recognized when the Parent Company 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 Parent Company 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 parent company 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; and,
- 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 parent company statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability 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 parent company statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to parent company statement of 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 Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Taxes

*Current Income Tax.* Current 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 balance sheet 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 balance sheet 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 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 parent company statement of comprehensive income.

Deferred tax assets and deferred tax 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.



*Sales Tax.* Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and,

- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the parent company statement of financial position.

Contingencies
Contingent liabilities are not recognized in the parent company financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the parent company 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 Parent Company's position at the reporting date (adjusting events) are reflected in the parent company 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 Parent Company 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 Parent Company 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 of December 31, 2016 and 2015, the Parent Company does not have dilutive common stock equivalents.

## 5. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the parent company financial statements in compliance with PFRSs requires the Parent Company to make judgments, estimates and assumptions that affect the amounts reported in the parent company financial statements and related notes. In preparing these parent company financial statements, the Parent Company 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 in future periods.

The Parent Company believes that the following represent a summary of these significant accounting judgments and estimates and the related impact and associated risks in the parent company financial statements.

Judgments

In the process of applying the Parent Company'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 parent company financial statements:

*Determining Fair Value of Financial Instruments.* The Parent Company carries certain financial assets and liabilities at fair value which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of changes in fair values would differ if the Parent Company utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would affect the parent company statement of comprehensive income and parent company statement of changes in equity.

Where the fair value of the financial assets and financial liabilities recorded in the parent company 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 parent company financial statements.

As of December 31, 2016 and 2015, the carrying values of the Parent Company's financial instruments, except for the notes payable, approximate their fair values due to their relatively short-term maturity (see Note 19).

*Determination of Control or Significant Influence Over an Investee Company.* Control is presumed to exist when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. On the other hand, significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control or joint control of those policies. Management has determined that by virtue of its ownership in its subsidiaries and associates as of December 31, 2016 and 2015, the Parent Company has the ability to exercise control over the subsidiaries and has significant influence over the associates (see Note 1).

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.* The Parent Company maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Parent Company's relationship with its clients, client's current credit status and other known market factors. The Parent Company 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 Parent Company made different judgment or utilized different estimates. An increase in the Parent Company's allowance for impairment will increase the Parent Company's recorded expenses and decrease current assets.

No provisions for impairment were recognized in 2016, 2015 and 2014. As of December 31, 2016 and 2015, allowance for impairment losses amounted to P0.3 million (see Note 7). Trade and other receivables amounted to P81.3 million and P43.3 million as of December 31, 2016 and 2015, respectively (see Note 7).

*Estimating Allowance for Impairment of Losses on Investments and Advances to a Subsidiary.* Investments and advances to a subsidiary are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2014, it was determined that the carrying value of the investment in HDFE exceeded its recoverable amount. As a result, an impairment loss amounting to P618.7 million was recognized. However, in 2015, there was an increase in the fair market value of the assets of HDFE which consequently increased the carrying value of Vivant's investment in HDFE resulting to a reversal of allowance for impairment loss amounting to P122.5 million (see Note 9).

*Estimating Provision for Pension Expense.* The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The pension liability as of December 31, 2016 and 2015 amounted to P20.7 million and P14.2 million, respectively (see Note 15).

Further details about the assumptions used are provided in Note 15.

*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 Parent Company'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 Parent Company.

Deferred income tax assets amounted to P22.7 million and P21.2 million as of December 31, 2016 and 2015, respectively. Deferred income tax assets have not been recognized on net operating loss carry-over (NOLCO) of P462.1 million and P303.8 million as of December 31, 2016 and 2015, respectively, and minimum corporate income tax (MCIT) of P1.5 million and P1.1 million as of December 31, 2016 and 2015, respectively (see Note 16).

*Estimating Contingencies.* The Parent Company does not have any administrative protests as of December 31, 2016. The estimate of probable costs for the resolution of certain administrative matters under protest in 2015 is based upon an analysis of potential results of investigation. No provision for probable losses arising from these contingencies was recognized in the parent company financial statements as of December 31, 2015.

## 6. Cash and Cash Equivalents

| | 2016 | 2015 |
|---|---|---|
| Cash on hand and in banks | ₱26,791,633 | ₱21,063,745 |
| Short-term investments | 3,015,564,364 | 3,246,998,276 |
| | ₱3,042,355,997 | ₱3,268,062,021 |

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 Parent Company, and earn interest at the respective short-term investment rates.

Interest income recognized from cash in banks and short-term investments amounted to ₱46.5 million, ₱46.0 million and ₱33.4 million in 2016, 2015 and 2014, respectively.

## 7. Trade and Other Receivables

| | 2016 | 2015 |
|---|---|---|
| Accounts receivable: | | |
| Third parties | ₱6,579,775 | ₱5,062,213 |
| Related parties (see Note 14) | 47,154,899 | 9,156,273 |
| Advances to related parties (see Note 14) | 14,177,244 | 13,962,897 |
| Dividends receivable (see Notes 9 and 14) | 5,163,384 | 5,163,384 |
| Advances to officers and employees | 4,133,449 | 5,541,963 |
| Accrued interest receivable | 2,025,415 | 3,542,094 |
| Others | 2,394,439 | 1,179,275 |
| | 81,628,605 | 43,608,099 |
| Less allowance for impairment losses | 333,032 | 333,032 |
| | ₱81,295,573 | ₱43,275,067 |

Accounts receivable represent amounts owed by related parties for consultancy, management, technical and other related services rendered by the Parent Company. These are noninterest-bearing and collectible within 10 to 30 days.

Advances to officers and employees pertain to cash advanced to the Parent Company's officers and employees for official business expenses which are subject to liquidation upon completion of the purpose for which the cash is advanced.

There was no movement in the allowance for impairment losses as of December 31, 2016 and 2015.

## 8. Prepaid Expenses and Other Current Assets

| | 2016 | 2015 |
|---|---|---|
| Creditable withholding tax | ₱68,219,210 | ₱42,160,817 |
| Prepayments | 5,115,654 | 4,548,356 |
| Input value-added tax (VAT) | – | 832,890 |
| Others | 3,884,823 | 3,590,843 |
| | ₱77,219,687 | ₱51,132,906 |

Creditable withholding taxes pertain to taxes withheld by customers on income payments to the Parent Company for sales of services that can be applied against its income tax liabilities.

Prepayments include prepaid rentals and advance payments for various insurance coverage.

Others include dues and subscriptions and unused office supplies.

## 9. Investments and Advances to a Subsidiary

The components of the carrying values of investments accounted for under the cost method and advances to a subsidiary are as follows:

| | Nature of Business | Ownership | 2016 | 2015 |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| VEC | Power generation | 100.00 | ₱3,377,662,790 | ₱2,931,861,790 |
| HDFE | Holding company | 50.94 | 760,507,362 | 760,507,362 |
| SGPDC (formerly VNI) | Real estate | 100.00 | 1,250,000 | 1,250,000 |
| | | | 4,139,420,152 | 3,693,619,152 |
| Less allowance for impairment loss | | | 496,233,456 | 496,233,456 |
| | | | 3,643,186,696 | 3,197,385,696 |
| **Associates** | | | | |
| VECO | Power distribution | 34.81 | 919,633,137 | 919,633,137 |
| PEI | Retail electricity supplier | 40.00 | 500,000 | 500,000 |
| | | | 920,133,137 | 920,133,137 |
| | | | ₱4,563,319,833 | ₱4,117,518,833 |

Subsidiaries

VEC, HDFE and SGPDC qualify as the Parent Company's subsidiaries. The relevant operations of the subsidiaries are as follows:

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 the following direct equity shareholdings:

| | Nature of Business | Percentage of Direct Ownership 2016 | 2015 | 2014 |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Vivant Integrated Generation Corporation (VIGC) | Holding company | 100 | 100 | 100 |
| Vivant Renewable Energy Corporation (VREC) | Holding company | 100 | 100 | 100 |
| Corenergy Inc. (Corenergy) | RES | 100 | 100 | 100 |
| Vivant Isla Inc. (VII) | Power generation | 100 | 100 | 100 |
| Vivant Integrated Diesel Corporation (VIDC) | Holding company | 100 | 100 | – |
| Vivant Enercore Integrated Inc. (VEII) | Power generation | 100 | – | – |
| Vivant Powercore Active Inc. (VPAI) | Power generation | 100 | – | – |
| Vivant-Malogo Hydropower, Inc. (VMHI) | Power generation | 67 | 67 | 67 |
| VICS-Amlan Holdings Corp. (Vics-Amlan) | Holding company | 60 | 60 | 60 |
| 1590 Energy Corp. (1590 EC) | Power generation | 53 | 53 | 53 |
| **Associates** | | | | |
| Cebu Private Power Corporation (CPPC) | Power generation | 40 | 40 | 40 |
| Delta P, Inc. (Delta P) | Power generation | – | – | 35 |
| **Joint Ventures** | | | | |
| Calamian Islands Power Corp. (CIPC) | Power generation | 50 | 50 | 50 |
| Delta P | Power generation | 50 | 50 | – |

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) Megawatt (MW) of geothermal power from ULGPP beginning January 1, 2015, the start of commercial operations.

VEC declared dividends to the Parent Company amounting to nil in 2016 and 2015, and ₱532.8 million in 2014.

In 2014, the Parent Company made additional investments in VEC amounting to ₱396.9 million. Pending the approval by the SEC of VEC's application for increase in capital stock and issuance of shares, the amount has been lodged as a long-term advance for conversion to equity of VEC as of December 31, 2014.

On June 29, 2015, VEC's application for increase in capital stock and issuance of shares has been approved by SEC thereby converting the long-term advance of ₱396.9 million to equity of VEC. Moreover, additional investments in VEC were made in 2015 amounting to ₱911.2 million. The conversion of long-term advance and additional investments in VEC represents 81,617,138 common shares with par value of ₱1.00 per share and 817,041,518 preferred shares with par value of ₱1.00 per share. Additional paid-in capital related to the issuance of the common shares and preferred shares amounted to ₱343.6 million and ₱65.9 million, respectively.

In 2016, the Parent Company made additional investments in VEC amounting to ₱445.8 million, which represents 40,000,000 common shares with par value of ₱1.00 per share and 405,801,000 preferred shares with par value of ₱1.00 per share.

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.

In 2013, HDFE declared the remaining 50% of its investment in VECO shares as property dividends to the Parent Company amounting to P174.0 million. Such declaration correspondingly increased the Parent Company's investment in VECO by the same amount.

As at December 31, 2014, the Parent Company determined that the carrying value of the Parent Company's investment in HDFE exceeded its recoverable amount mainly due to the declaration of property dividends to the Parent Company. Accordingly, impairment loss amounting to P618.7 million was recognized in the 2014 parent company statements of comprehensive income.

As at December 31, 2015, an appraisal of HDFE's investment properties showed an increase in their fair market value, thereby increasing the carrying value of the Parent Company's investment in HDFE. Reversal of allowance for impairment loss amounting to P122.5 million was recognized in the 2015 parent company statements of comprehensive income.

SGPDC

SGPDC was incorporated on December 8, 2004 and its primary purpose is 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. SGPDC also renders IT services to the companies under its parent 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 were approved by the SEC on October 8, 2015.

On January 6, 2016, the SEC approved its application for change in corporate name from VC Ventures Net, Inc. to Southern Grove Properties and Development Corp. and its primary purpose to engage in real estate business in all its branches and ramifications, to hold, construct, develop, manage, administer, sell, convey, encumber, purchase, acquire, rent or otherwise deal in and dispose of, for itself or for others, all kinds of real property such as lands, buildings, commercial centers, housing projects, mixed-use property projects, industrial, urban or other kinds of real property, or to act as real estate broker, for itself or for others, for such fees as may be legal and proper.

SGPDC declared dividends to the Parent Company amounting to nil, P5.2 million and P2.7 million in 2016, 2015 and 2014, respectively.

Associates
VECO and PEI qualify as associates of the Parent Company.

VECO
VECO was incorporated on February 22, 1961 and whose corporate term was extended for another 50 years from and after the date of its expiration on February 23, 2011. 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.

VECO declared cash dividends to the Parent Company amounting to P713.3 million, P628.0 million and P547.8 million in 2016, 2015 and 2014, respectively.

PEI
PEI was incorporated on March 24, 2009 as a retail electricity supplier. As of December 31, 2016, it has not yet started commercial operations.

## 10. Property and Equipment

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Condominium Units and Improvements | Transportation Equipment | Office Furniture and Equipment | Leasehold Improvements | Other Equipment | Total |
| Cost | | | | | | |
| At January 1 | P36,159,099 | P22,509,214 | P23,879,197 | P8,807,935 | P2,767,318 | P94,122,763 |
| Additions | 262,504 | 7,536,636 | 4,340,254 | 1,360,938 | 3,385,340 | 16,885,672 |
| Reclassification | – | – | – | – | – | – |
| Disposals and others | – | (3,151,351) | (490,623) | – | – | (3,641,974) |
| At December 31 | 36,421,603 | 26,894,499 | 27,728,828 | 10,168,873 | 6,152,658 | 107,366,461 |
| Accumulated Depreciation | | | | | | |
| At January 1 | 16,131,660 | 11,098,007 | 14,242,068 | 1,350,474 | 1,052,555 | 43,874,764 |
| Additions | 2,708,307 | 5,036,484 | 5,455,981 | 503,872 | 1,708,641 | 15,413,285 |
| Reclassification | – | – | – | – | – | – |
| Disposals and others | – | (2,083,309) | (482,130) | – | – | (2,565,439) |
| At December 31 | 18,839,967 | 14,051,182 | 19,215,919 | 1,854,346 | 2,761,196 | 56,722,610 |
| Net Book Value | P17,581,636 | P12,843,317 | P8,512,909 | P8,314,527 | P3,391,462 | P50,643,851 |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Condominium Units and Improvements | Transportation Equipment | Office Furniture and Equipment | Leasehold Improvements | Other Equipment | Total |
| Cost | | | | | | |
| At January 1 | P25,924,832 | P19,590,672 | P20,562,938 | P16,772,706 | P– | P82,851,148 |
| Additions | 2,590,688 | 7,610,143 | 6,747,100 | 965,211 | 554,043 | 18,467,185 |
| Reclassification | 8,699,141 | – | (1,982,434) | (8,929,982) | 2,213,275 | – |
| Disposals and others | (1,055,562) | (4,691,601) | (1,448,407) | – | – | (7,195,570) |
| At December 31 | 36,159,099 | 22,509,214 | 23,879,197 | 8,807,935 | 2,767,318 | 94,122,763 |
| Accumulated Depreciation | | | | | | |
| At January 1 | 9,291,211 | 9,766,079 | 12,147,765 | 5,330,201 | – | 36,535,256 |
| Additions | 3,496,678 | 4,356,915 | 5,143,966 | 449,640 | 753,353 | 14,200,552 |
| Reclassification | 4,399,333 | 1,332,088 | (1,601,256) | (4,429,367) | 299,202 | – |
| Disposals and others | (1,055,562) | (4,357,075) | (1,448,407) | – | – | (6,861,044) |
| At December 31 | 16,131,660 | 11,098,007 | 14,242,068 | 1,350,474 | 1,052,555 | 43,874,764 |
| Net Book Value | P20,027,439 | P11,411,207 | P9,637,129 | P7,457,461 | P1,714,763 | P50,247,999 |

Fully depreciated property and equipment costing P13.9 million and P7.4 million as of December 31, 2016 and 2015, respectively, are still being used by the Parent Company.

## 11. Other Noncurrent Assets

| | 2016 | 2015 |
|---|---|---|
| AFS investments | ₱3,700,000 | P3,700,000 |
| Others - net of allowance for impairment loss of P46.1 million | 1,969,212 | 1,853,095 |
| | ₱5,669,212 | P5,553,095 |

a. AFS Investments
This account is composed of investments in shares of stock as of December 31, 2016 and 2015 as follows:

| | |
|---|---|
| Cebu Country Club, Inc. | P3,400,000 |
| Tower Club, Inc. | 300,000 |
| | ₱3,700,000 |

Cebu Country Club, Inc.
In 2012, the Parent Company acquired proprietary ownership shares in the Cebu Country Club, Inc. The non-listed equity security is stated at cost, as its fair value cannot be reliably measured, less any impairment in value.

Tower Club, Inc.
In 2014, the Parent Company acquired proprietary ownership shares in the Tower Club, Inc. The non-listed equity security is stated at cost, as its fair value cannot be reliably measured, less any impairment in value.

b. Others
Others include receivable from RFM Corporation, the Parent Company's previous owner, which has been fully provided with allowance for impairment losses as of December 31, 2016 and 2015.

## 12. Trade and Other Current Liabilities

| | 2016 | 2015 |
|---|---|---|
| Accrued interest (see Note 13) | ₱25,712,776 | P24,925,650 |
| Accounts payable | 9,737,155 | 7,004,150 |
| Accrued expenses | 7,087,426 | 8,366,719 |
| Output VAT | 4,010,014 | – |
| Others | 606,168 | 240,351 |
| | ₱47,153,539 | P40,536,870 |

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

Others include payable to HDMF, SSS, and PHIC contributions and withholding taxes.

13. Notes Payable

| | 2016 | 2015 |
|---|---|---|
| Fixed Rate Corporate Notes (FRCN) | | |
| ₱1.0 billion at 5.7271% interest per annum | ₱980,000,000 | ₱990,000,000 |
| ₱2.0 billion at 5.4450% interest per annum | 1,960,000,000 | 1,980,000,000 |
| | 2,940,000,000 | 2,970,000,000 |
| Less unamortized debt issue costs | 18,415,321 | 22,426,296 |
| | 2,921,584,679 | 2,947,573,704 |
| Less current portion - net of unamortized debt issue costs of ₱4.2 million in 2016 and ₱4.0 million in 2015 | 25,812,744 | 25,989,025 |
| | ₱2,895,771,935 | ₱2,921,584,679 |

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 6 years and 94% at maturity. Interest is payable quarterly.

Repayments of outstanding principal amounts are scheduled as follows:

| | 2016 | 2015 |
|---|---|---|
| Within one year | ₱30,000,000 | ₱30,000,000 |
| More than one year but not more than five years | 120,000,000 | 120,000,000 |
| More than five years | 2,790,000,000 | 2,820,000,000 |
| | ₱2,940,000,000 | ₱2,970,000,000 |

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, 2016 and 2015.

Interest expense recognized in the parent company statements of comprehensive income related to these notes payable amounted to ₱175.0 million, ₱170.0 million and ₱137.0 million in 2016, 2015 and 2014 respectively, and the related accrued interest expense as of December 31, 2016 and 2015 amounted to ₱25.7 million and ₱24.9 million, respectively (see Note 12).

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.

## 14. 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 Parent Company enters into transactions with related parties principally consisting of the following:

| | | 2016 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| Subsidiaries | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| 1590 EC | P49,200,000 | P3,300,000 | P– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 840,000 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VEC | 6,000,000 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SGPDC | 1,200,000 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service income (see Note 14a): | | | | | |
| 1590 EC | 24,149,310 | 24,134,929 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 6,938,674 | 1,001,472 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Dividend income (see Note 9): | | | | | |
| SGPDC | – | 5,163,384 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| VEC | 624,100 | 92,765 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| 1590 EC | 2,296,942 | 1,169,590 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SGPDC | 1,257 | 9,923,512 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 314,248 | 59,666 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIGC | 835,047 | 332,870 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VGPC | 769 | 269 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CORENERGY | 182,325 | 175,093 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 46,596 | 1,890 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VREC | 24,554 | 2,733 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VICS-AMLAN | 470 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VII | 510 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Associates | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| VECO | 30,056,400 | 4,059,118 | – | 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 14a): | | | | | |
| CPPC | 347,850 | 336,875 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | 12,750 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | | 2016 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| AHPC | P106,242 | P176,354 | P– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| AHPC | 129,508 | 331,507 | – | 30-60 days; 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 |
| Operating lease (see Note 14d): | | | | | |
| VECO | 4,437,229 | 791,306 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| Management fees (see Note 14a): | | | | | |
| Delta P | 20,156,216 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| NR | 6,536,452 | 87,646 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CIPC | 1,620,000 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service fees (see Note 14a): | | | | | |
| NR | 1,597,359 | P41,662 | – | 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 (see Note 14c): | | | | | |
| NR | 711,425 | – | 68,049 | 30-60 days; noninterest-bearing | Unsecured |
| CIPC | 15,424 | 1,611 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Delta P | 1,219,320 | 578,711 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Stockholders** | | | | | |
| Management fees (expense) (see Note 14b): | | | | | |
| JDC | 9,221,786 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 13,832,679 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Advances (see Note 14c): | | | | | |
| Shareholder | – | 42,676 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

| | | 2015 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| **Subsidiaries** | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| 1590 EC | P46,200,000 | P– | P– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 840,000 | – | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VEC | 2,500,000 | 2,425,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VNI | 500,000 | 485,000 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service income (see Note 14a): | | | | | |
| 1590 EC | 1,317,756 | 1,097,654 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Dividend income (see Note 9) | | | | | |
| SGPDC | 5,163,384 | 5,163,384 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | 2015 | | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| Advances (see Note 14c) | | | | | |
| VEC | P907,310 | P1,265,915 | P- | 30-60 days; noninterest-bearing | Unsecured, no impairment |
| 1590 EC | 479,630 | 830,355 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| SGPDC | 9,936,027 | 9,932,548 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VMHI | 48,728 | 12,240 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIGC | 31,033 | 15,931 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VGPC | 6,705 | 6,611 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CORENERGY | 8,106 | 8,106 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| HDFE | 6,083 | - | 27,703 | 30-60 days; noninterest-bearing | Unsecured |
| VREC | 589,309 | 7,603 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VICS-AMLAN | 4,967 | 4,897 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VIDC | P3,177 | 3,177 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VII | 5,603 | 5,103 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Associates** | | | | | |
| Management fees (income) (see Note 14a): | | | | | |
| VECO | 30,156,400 | 2,429,559 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CPPC | 10,658,000 | - | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service income (see Note 14a): | | | | | |
| CPPC | 25,126,750 | 1,949,615 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| AHPC | 180,273 | 201,999 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| VECO | - | 9,543 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| MPC | 329 | 329 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| PEI | - | 1,532,400 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Operating lease (see Note 14d): | | | | | |
| VECO | 4,033,844 | 359,684 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Joint Ventures** | | | | | |
| Management fees (see Note 14a): | | | | | |
| Delta P | 2,160,000 | - | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| NR | 6,848,196 | 34,111 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| CIPC | 1,620,000 | - | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Service fees (see Note 14a): | | | | | |
| NR | 392,941 | 70,125 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Delta P | 305,525 | 305,525 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| Advances (see Note 14c): | | | | | |
| NR | 345,110 | - | 53,209 | 30-60 days; noninterest-bearing | Unsecured |
| CIPC | 13,640 | 10,289 | - | 30-60 days; noninterest-bearing | Unsecured; no impairment |

(Forward)

| | | 2015 | | | |
|---|---|---|---|---|---|
| | | Outstanding Balance | | | |
| Category | Volume | Receivable | Payable | Terms | Conditions |
| Delta P | ₱567,708 | ₱154,087 | ₱– | 30-60 days; noninterest-bearing | Unsecured; no impairment |
| **Stockholders** | | | | | |
| Management fees (expense) (see Note 14b): | | | | | |
| JDC | 7,952,449 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| MRC | 11,928,674 | – | – | 30-60 days; noninterest-bearing | Unsecured |
| Advances (see Note 14c): | | | | | |
| Shareholder | 856 | 42,676 | – | 30-60 days; noninterest-bearing | Unsecured; no impairment |

The transactions above are generally settled in cash.

a. Management fees and service income from subsidiaries and associates represent compensation for consultancy, management, technical and other related services rendered by the Parent Company and use of the Parent Company's facilities in accordance with the terms of the respective agreements with the related parties. Services covered by Service Level Agreements (SLAs) or Management Contracts are recognized as part of the "Management fees" account while those not within the scope of work in the SLAs and rendered to the subsidiaries and associates on irregular bases are recognized as part of the "Other income" account in the parent company statements of comprehensive income.

b. The Parent Company entered into agreements with MRC and JDC, its stockholders, to perform consultancy services. For the consideration of the services rendered by MRC and JDC, the Parent Company will pay management fees agreed upon by the parties, without need for further demand. These are recognized as part of "Professional fees" in the statements of comprehensive income.

c. Advances to and from subsidiaries, associates, joint ventures, and shareholders pertain to advances for working capital requirements. Advances to shareholder pertains to the life insurance plan advanced by the Parent Company for a member of its BOD.

d. The Parent Company has a lease agreement with VECO. VECO leases an office space owned by the Parent Company to be utilized as its Customer Care Office. The monthly rental is ₱0.4 million in 2016 and ₱0.3 in 2015, subject to an annual increase of 10%. There is no lease term. However, the lease can be terminated upon mutual agreement of the parties and upon 30 days' prior written notice.

   The Parent Company recognized, as part of "Others" account in the parent company statements of comprehensive income, the amount of ₱4.4 million in 2016 and ₱4.0 million in 2015 representing rent income received from VECO.

The above transactions are generally settled through cash.

The retirement fund (the Fund) of the Parent Company 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 ₱14.6 million and ₱13.8 million as of December 31, 2016 and 2015, respectively (see Note 15). The Parent Company does not have any other transactions with the Fund in 2016 and 2015.

Compensation and Benefits of Key Management Personnel
The compensation of the Parent Company's key management personnel by benefit type follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Short-term employee benefits | ₱64,896,506 | ₱66,228,084 | ₱43,724,019 |
| Post-employment pension benefits (see Note 15) | 3,964,194 | 7,706,704 | 7,762,263 |
| | ₱68,860,700 | ₱73,934,788 | ₱51,486,282 |

## 15. Retirement Plan

The Parent Company has a funded, noncontributory, defined benefit pension plan ("the Plan") covering all regular, permanent employees. The Plan provides 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 Parent Company.

The retirement fund for the Parent Company'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 parent company statements of comprehensive income and the funded status and amounts recognized in the parent company statements of financial position for the pension plan.

The components of the pension expense recognized under "Salaries and employee benefits" in the parent company statements of comprehensive income follow:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current service cost | ₱4,695,435 | ₱6,949,142 | ₱7,762,263 |
| Interest cost | 764,515 | 757,562 | 1,194,631 |
| Pension expense | ₱5,459,950 | ₱7,706,704 | ₱8,956,894 |

Remeasurement effects recognized in the parent company statements of comprehensive income follow:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Actuarial gains (losses) on defined benefit obligation | (₱1,392,012) | ₱7,680,723 | ₱– |
| Actuarial gains (losses) on plan assets | 318,519 | (153,819) | 24,761 |
| | (₱1,073,493) | ₱7,526,904 | ₱24,761 |

The Parent Company's pension liability as of December 31, 2016 and 2015 follows:

| | 2016 | 2015 |
|---|---|---|
| Present value of defined benefit obligation | ₱35,329,225 | ₱27,967,048 |
| Fair value of plan assets | (14,611,824) | (13,783,090) |
| Pension liability | ₱20,717,401 | ₱14,183,958 |

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

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱27,967,048 | ₱27,681,513 |
| Current service cost | 4,695,435 | 6,949,142 |
| Actuarial loss (gain) due to: | | |
| Experience adjustments | 1,722,744 | 5,097,650 |
| Changes in financial assumptions | (330,732) | (4,813,041) |
| Changes in demographic assumptions | – | (7,965,332) |
| Interest cost on defined benefit obligation | 1,274,730 | 1,017,116 |
| At December 31 | ₱35,329,225 | ₱27,967,048 |

Changes in the fair value of plan assets are as follow:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱13,783,090 | ₱5,614,547 |
| Interest income included in net interest cost | 510,215 | 259,554 |
| Gains (losses) on return on plan assets | 318,519 | (153,819) |
| Contributions to the retirement fund | – | 8,062,808 |
| At December 31 | ₱14,611,824 | ₱13,783,090 |

Changes in the amounts recognized in the parent company statements of financial position for pension liability follow:

| | 2016 | 2015 |
|---|---|---|
| At January 1 | ₱14,183,958 | ₱22,066,966 |
| Pension expense | 5,459,950 | 7,706,704 |
| Actuarial (gains) losses recognized for the year | 1,073,493 | (7,526,904) |
| Contributions to the retirement fund | – | (8,062,808) |
| At December 31 | ₱20,717,401 | ₱14,183,958 |

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

| | 2016 | 2015 |
|---|---|---|
| Fixed income securities: | | |
| Unitized investment trust funds | 99.85% | – |
| Savings deposit | 0.15% | 50.10% |
| Due from Bangko Sentral ng Pilipinas (BSP) | – | 49.83% |
| Accrued interest receivable | – | 0.07% |
| Total plan assets | 100.00% | 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 Parent Company's defined benefit pension plan is guided by the objective of providing the necessary funding for the benefits payable under the plan and achieving such liquidity as deemed appropriate in the circumstances.

The principal assumptions used in determining pension liability obligations for the Parent Company's plan as of December 31 are shown below:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | 5.50% | 5.39% |
| Future salary increase rate | 7.00% | 7.00% |

The Parent Company is expected to contribute ₱8,228,447 to the retirement fund in 2017.

The sensitivity analysis below has been determined based on reasonable possible changes of the significant assumptions on the present value of the defined benefit obligation as of December 31, assuming all other assumptions were held constant:

| | | Increase (Decrease) in the Present Value of Defined Benefit Obligation | |
|---|---|---|---|
| | Increase (decrease) | 2016 | 2015 |
| Discount rate | +100 basis points | (₱2,820,470) | (₱2,195,311) |
| | −100 basis points | 3,404,893 | 2,657,415 |
| Future salary increase rate | +100 basis points | 3,182,508 | 2,483,384 |
| | −100 basis points | (2,706,760) | (2,107,544) |

The average duration of the defined benefit obligation at the end of the reporting period is 19.2 years and 19.9 years as of December 31, 2016 and 2015, respectively.

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:

| | 2016 | 2015 |
|---|---|---|
| Less than one year | ₱16,033,298 | ₱8,634,265 |
| More than 1 year to 5 years | 4,045,273 | 9,732,410 |
| More than 5 years to 10 years | 4,611,700 | 3,047,184 |
| More than 10 years to 15 years | 41,193,564 | 29,433,836 |
| More than 15 years to 20 years | 96,271,479 | 70,756,869 |
| More than 20 years | 91,122,785 | 108,989,572 |
| | ₱253,278,099 | ₱230,594,136 |

16. Income Tax

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current tax: | | | |
| Minimum Corporate Income Tax (MCIT) (at 2%) | ₱441,767 | ₱46,356 | ₱1,048,596 |
| Final (at 20% and 7.5%) | 8,744,209 | 8,978,225 | 6,381,578 |
| | 9,185,976 | 9,024,581 | 7,430,174 |
| Deferred | (2,710,396) | (1,248,462) | 6,092,444 |
| | ₱6,475,580 | ₱7,776,119 | ₱13,522,618 |

The reconciliation of the income tax expense computed at the statutory tax rate to provision for income tax reported in the parent company statements of comprehensive income follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income before income tax | ₱575,753,574 | ₱582,829,492 | ₱396,178,872 |
| Income tax computed at 30% | ₱172,726,072 | ₱174,848,848 | ₱118,853,662 |
| Adjustments to income tax resulting from: | | | |
| Nontaxable dividend income | (213,978,070) | (189,943,692) | (324,970,330) |
| Unrecognized deferred income tax asset on net operating loss carry-over (NOLCO) and MCIT | 47,905,203 | 58,483,438 | 33,763,366 |
| Interest income subjected to final tax | (12,662,622) | (13,809,548) | (9,979,118) |
| Final taxes paid | 8,744,209 | 8,978,225 | 6,381,578 |
| Nondeductible expenses | 5,018,350 | 5,959,279 | 3,862,992 |
| Nontaxable interest income from UITF | (1,277,562) | – | – |
| Nontaxable reversal of allowance for impairment loss | – | (36,740,431) | – |
| Nondeductible impairment loss | – | – | 185,610,468 |
| | ₱6,475,580 | ₱7,776,119 | ₱13,522,618 |

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

| | 2016 | 2015 |
|---|---|---|
| Deferred income taxes recognized in profit or loss: | | |
| Deferred income tax assets on: | | |
| Allowance for impairment losses | ₱13,923,328 | ₱13,923,328 |
| Net pension liability | 7,963,023 | 6,325,038 |
| Unamortized past service cost | 822,681 | 935,434 |
| | 22,709,032 | 21,183,800 |

(Forward)

| | | |
|---|---|---|
| Deferred income tax liabilities on: | | |
| Unamortized debt issue costs | (₱5,524,596) | (₱6,727,889) |
| Unrealized foreign exchange gain | (27,279) | (9,150) |
| | (5,551,875) | (6,737,039) |
| Deferred income tax liability related to defined benefit obligation recognized as other comprehensive income | (1,747,802) | (2,069,850) |
| Net deferred income tax assets | ₱15,409,355 | ₱12,376,911 |

As of December 31, 2016, the Parent Company has accumulated NOLCO and MCIT which can be claimed as deduction against future taxable income and income tax due, respectively, as follows:

| Year Incurred | Expiry Date | As at December 31, 2015 | Additions | Applied | Expired | As at December 31, 2016 |
|---|---|---|---|---|---|---|
| NOLCO | | | | | | |
| 2016 | 2019 | ₱- | ₱158,211,454 | ₱- | ₱- | ₱158,211,454 |
| 2015 | 2018 | 194,790,272 | - | - | - | 194,790,272 |
| 2014 | 2017 | 109,049,234 | - | - | - | 109,049,234 |
| | | ₱303,839,506 | ₱158,211,454 | ₱- | ₱- | ₱462,050,960 |
| MCIT | | | | | | |
| 2016 | 2019 | ₱- | ₱441,767 | ₱- | ₱- | ₱441,767 |
| 2015 | 2018 | 46,356 | - | - | - | 46,356 |
| 2014 | 2017 | 1,048,596 | - | - | - | 1,048,596 |
| | | ₱1,094,952 | ₱441,767 | ₱- | ₱- | ₱1,536,719 |

The Parent Company did not recognize deferred income tax assets for the NOLCO and MCIT because management believes that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

## 17. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2016 and 2015.

| | |
|---|---|
| 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, 2016 and 2015, the Parent Company's issued capital stock all consists of common shares.

The Parent Company has 1,443, 1,449 and 1,467 stockholders as of December 31, 2016, 2015 and 2014, respectively, 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:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Date of declaration | May 12, 2016 | May 27, 2015 | June 25, 2014 |
| Date of record | June 3, 2016 | June 9, 2015 | July 9, 2014 |
| Date of payment | June 29, 2016 | July 3, 2015 | July 31, 2014 |
| Dividends declared: | | | |
| Regular dividends | ₱192,921,585 | ₱192,921,585 | ₱175,420,478 |
| Special dividends | 75,019,375 | 75,019,375 | 50,047,033 |
| | ₱267,940,960 | ₱267,940,960 | ₱225,467,511 |
| Dividends per share | ₱0.2618 | ₱0.2618 | ₱0.2203 |

Appropriation of Retained Earnings for Business Expansion
On December 20, 2013, a resolution was passed and duly approved by the BOD allowing the participation and investment by the Parent Company in prospective power plant projects in the Visayas and Mindanao. In the same BOD meeting, a resolution was approved allocating and restricting part of its retained earnings amounting to P1,856.5 million to be used for future investments in these projects which was started in the first quarter of 2014 and are expected to be completed within the next three (3) years.

Out of the 2013 retained earnings appropriation, the Parent Company invested ₱491.9 million in 2014 in two power plant projects in the Visayas and Mindanao, which amount was then reverted to unappropriated retained earnings.

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 P1,446.2 million to be used for future investments in these projects which were implemented starting 2015 and are expected to be completed starting 2017.

Out of the 2014 retained earnings appropriation, the Parent Company 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 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.

Earnings per Share
The earnings per share as of December 31 are computed as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net income for the year | ₱569,277,994 | ₱575,053,373 | ₱382,656,254 |
| Number of outstanding common shares | 1,023,456,698 | 1,023,456,698 | 1,023,456,698 |
| Basic and diluted earnings per share | ₱0.556 | ₱0.562 | ₱0.374 |

There are no potential dilutive shares as of December 31, 2016, 2015 and 2014.

## 18. Personnel Expenses

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Salaries and employee benefits | ₱106,674,716 | ₱95,849,881 | ₱54,370,333 |
| Pension expense (see Note 15) | 5,459,950 | 7,706,704 | 8,956,894 |
| | ₱112,134,666 | ₱103,556,585 | ₱63,327,227 |

## 19. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash and cash equivalents, trade and other receivables, advances to related parties, AFS investments, trade and other current liabilities and notes payable. The main purpose of these financial instruments is to raise funds for the Parent Company's operations.

The main risks arising from the Parent Company's financial instruments are credit risk and liquidity 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 a customer contract, leading to a financial loss. The Parent Company 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 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 Due from RFM Corporation, which is fully provided with allowance for impairment, and portion of the receivables provided with allowance amounting to ₱0.3 million as of December 31, 2016 and 2015 (see Note 7), management evaluated that the Parent Company's financial assets as summarized above are of high grade and of good credit quality.

The maximum exposure to credit risk, net of allowance for doubtful accounts, amounted to ₱3,127.1 million and ₱3,314.9 million as of December 31, 2016 and 2015, respectively.

There are no significant concentrations of credit risk within the Parent Company.

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:

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither | Past Due But not Impaired | | | | | |
| | Past Due nor Impaired | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,042,140,997 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱3,042,140,997 |
| Trade and other receivables: | | | | | | | |
| Accounts receivable | 38,066,517 | - | 2,832,087 | 3,722 | 12,499,316 | 333,032 | 53,734,674 |
| Advances to related parties | - | 2,797,833 | 236,697 | 472,945 | 10,627,093 | - | 14,134,568 |
| Dividends receivable | - | - | - | - | 5,163,384 | - | 5,163,384 |
| Advances to officers and employees | - | 150,130 | 1,704 | 418 | 3,981,197 | - | 4,133,449 |
| Accrued interest receivable | 2,025,415 | - | - | - | - | - | 2,025,415 |
| Advances to shareholders | - | - | - | - | 42,676 | - | 42,676 |
| Others | - | 77,597 | 1,559,201 | - | 757,641 | - | 2,394,439 |
| Due from RFM Corporation (under "Other noncurrent assets") | - | - | - | - | - | 46,078,063 | 46,078,063 |
| AFS investments | 3,700,000 | - | - | - | - | - | 3,700,000 |
| | ₱3,085,932,929 | ₱3,025,560 | ₱4,629,689 | ₱477,085 | ₱33,071,307 | ₱46,411,095 | ₱3,173,547,665 |

| | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Neither | Past Due But not Impaired | | | | | |
| | Past Due nor Impaired | Less than 30 Days | 31-60 Days | 61-90 Days | Over 90 days | Impaired | Total |
| **Loans and Receivables** | | | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,267,947,021 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱3,267,947,021 |
| Trade and other receivables: | | | | | | | |
| Accounts receivable | 13,870,379 | 15,075 | - | - | - | 333,032 | 14,218,486 |
| Advances to related parties | - | 381,317 | 177,539 | 578,964 | 12,782,401 | - | 13,920,221 |
| Dividends receivable | 5,163,384 | - | - | - | - | - | 5,163,384 |
| Advances to officers and employees | - | 182,557 | 127,109 | 234,092 | 4,998,205 | - | 5,541,963 |
| Accrued interest receivable | 3,542,094 | - | - | - | - | - | 3,542,094 |
| Advances to shareholders | - | - | - | - | 42,676 | - | 42,676 |
| Others | - | 9,039 | 400,200 | 20,800 | 749,236 | - | 1,179,275 |
| Due from RFM Corporation (under "Other noncurrent assets") | - | - | - | - | - | 46,078,063 | 46,078,063 |
| AFS Investments | 3,700,000 | - | - | - | - | - | 3,700,000 |
| | ₱3,294,222,878 | ₱587,988 | ₱704,848 | ₱833,856 | ₱18,572,518 | ₱46,411,095 | ₱3,361,333,183 |

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

| | 2016 | | | | |
|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | Past Due or Individually Impaired |
| | Total | High Grade | Standard | Substandard | |
| **Loans and Receivables** | | | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,042,140,997 | ₱3,042,140,997 | ₱- | ₱- | ₱- |
| Trade and other receivables: | | | | | |
| Accounts receivable | 53,734,674 | 38,066,517 | - | - | 15,668,157 |
| Advances to related parties | 14,134,568 | - | - | - | 14,134,568 |
| Dividends receivable | 5,163,384 | - | - | - | 5,163,384 |
| Advances to officers and employees | 4,133,449 | - | - | - | 4,133,449 |
| Accrued interest receivable | 2,025,415 | 2,025,415 | - | - | - |
| Advances to shareholders | 42,676 | - | - | - | 42,676 |
| Others | 2,394,439 | - | - | - | 2,394,439 |
| Due from RFM Corporation (under "Other noncurrent assets") | 46,078,063 | - | - | - | 46,078,063 |
| AFS Investments | 3,700,000 | 3,700,000 | - | - | - |
| | ₱3,173,547,665 | ₱3,085,932,929 | ₱- | ₱- | ₱87,614,736 |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | | Neither Past Due nor Impaired | | | Past Due or Individually |
| | Total | High Grade | Standard | Substandard | Impaired |
| **Loans and Receivables** | | | | | |
| Cash and cash equivalents (excluding cash on hand) | P3,267,947,021 | P3,267,947,021 | P- | P- | P- |
| Trade and other receivables: | | | | | |
| Accounts receivable | 14,218,486 | 13,870,379 | - | - | 348,107 |
| Advances to related parties | 13,920,221 | - | - | - | 13,920,221 |
| Advances to officers and employees | 5,541,963 | - | - | - | 5,541,963 |
| Dividends receivable | 5,163,384 | 5,163,384 | - | - | - |
| Accrued interest receivable | 3,542,094 | 3,542,094 | - | - | - |
| Advances to shareholders | 42,676 | - | - | - | 42,676 |
| Others | 1,179,275 | - | - | - | 1,179,275 |
| Due from RFM Corporation (under "Other noncurrent assets") | 46,078,063 | - | - | - | 46,078,063 |
| AFS Investments | 3,700,000 | 3,700,000 | - | - | - |
| | P3,361,333,183 | P3,294,222,878 | P- | P- | P67,110,305 |

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

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

Standard and substandard 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* - high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Accounts receivable, Advances to officers and employees, Advances to shareholders, and others* - high grade since these pertain to receivables from customers or parties who have established good credit standing with the Parent Company.
- *Accrued interest receivable* - high grade since these arise from cash and cash equivalents which are deposited in reputable banks with good bank standing, thus credit risk is minimal.
- *Advances to related parties* - high grade since these pertain to advances to related parties who are consistent in the payment of their accounts.
- *AFS investments* - high grade since these pertain to investments in AFS securities of companies with good credit standing.

Liquidity Risk

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

The Parent Company 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 Parent Company's trade receivables are maintained to meet maturing obligations. The Parent Company, in general, matches the appropriate long-term funding instruments with the general nature of its equity instruments.

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

| | 2016 | | | | | |
|---|---|---|---|---|---|---|
| | | Contractual Undiscounted Payments | | | | |
| | Total Carrying Amount | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents | ₱3,042,355,997 | ₱3,042,355,997 | ₱3,042,355,997 | ₱– | ₱– | ₱– |
| Trade and other receivables: | | | | | | |
| Accounts receivable | 53,401,642 | 53,401,642 | – | 53,342,154 | 59,488 | – |
| Advances to related parties | 14,134,568 | 14,134,568 | – | 4,211,333 | 9,923,235 | – |
| Dividends receivable | 5,163,384 | 5,163,384 | – | – | 5,163,384 | – |
| Advances to officers and employees | 4,133,449 | 4,133,449 | – | 2,852,438 | 1,281,011 | – |
| Accrued interest receivable | 2,025,415 | 2,025,415 | – | 2,025,415 | – | – |
| Advances to shareholders | 42,676 | 42,676 | – | – | 42,676 | – |
| Others | 2,394,439 | 2,394,439 | – | 2,076,315 | 318,124 | – |
| AFS investments | 3,700,000 | 3,700,000 | 3,700,000 | – | – | – |
| | 3,127,351,570 | 3,127,351,570 | 3,046,055,997 | 64,507,655 | 16,787,918 | – |
| **Financial Liabilities** | | | | | | |
| Other financial liabilities: | | | | | | |
| Accounts payable | 9,737,155 | 9,737,155 | – | 9,737,155 | – | – |
| Accrued interest payable | 25,712,776 | 25,712,776 | – | 25,712,776 | – | – |
| Notes payable | 2,921,584,679 | 3,591,671,252 | – | 191,753,621 | 609,917,631 | 2,790,000,000 |
| | 2,957,034,610 | 3,627,121,183 | – | 227,203,552 | 609,917,631 | 2,790,000,000 |
| **Net Financial Assets (Liabilities)** | ₱170,316,960 | (₱499,769,613) | ₱3,046,055,997 | (₱162,695,897) | (₱593,129,713) | (₱2,790,000,000) |

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | | Contractual Undiscounted Payments | | | | |
| | Total Carrying Amount | Total | On Demand | Less than 1 Year | 1 to 5 Years | More than 5 Years |
| **Financial Assets** | | | | | | |
| Loans and receivables: | | | | | | |
| Cash and cash equivalents | ₱3,268,062,021 | ₱3,268,062,021 | ₱3,268,062,021 | ₱– | ₱– | ₱– |
| Trade and other receivables: | | | | | | |
| Accounts receivable | 13,885,454 | 13,885,454 | – | 13,885,454 | – | – |
| Advances to related parties | 13,920,221 | 13,920,221 | – | 13,920,221 | – | – |
| Advances to officers and employees | 5,541,963 | 5,541,963 | – | 5,541,963 | – | – |
| Dividends receivable | 5,163,384 | 5,163,384 | – | 5,163,384 | – | – |
| Accrued interest receivable | 3,542,094 | 3,542,094 | – | 1,136,350 | 2,405,744 | – |
| Advances to shareholders | 42,676 | 42,676 | – | 856 | 41,820 | – |
| Others | 1,179,275 | 1,179,275 | – | 861,250 | 318,025 | – |
| AFS investments | 3,700,000 | 3,700,000 | 3,700,000 | – | – | – |
| | 3,315,037,088 | 3,315,037,088 | 3,271,762,021 | 40,509,478 | 2,765,589 | – |
| **Financial Liabilities** | | | | | | |
| Other financial liabilities: | | | | | | |
| Accounts payable | 7,004,150 | 7,004,150 | – | 7,004,150 | – | – |
| Accrued interest payable | 24,925,650 | 24,925,650 | – | 24,925,650 | – | – |
| Notes payable | 2,947,573,704 | 3,785,086,583 | – | 193,415,331 | 757,352,851 | 2,834,318,401 |
| | 2,979,503,504 | 3,817,016,383 | – | 225,345,131 | 757,352,851 | 2,834,318,401 |
| Net Financial Assets (Liabilities) | ₱335,533,584 | (₱501,979,295) | ₱3,271,762,021 | (₱184,835,653) | (₱754,587,262) | (₱2,834,318,401) |

Fair Value of Financial Instruments

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 Parent Company 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, 2016 and 2015, the carrying values of the Parent Company's financial instruments, except for the notes payable, approximate fair values due to their relatively short-term maturity.

The Parent Company considers the notes payable with fair value of P3.1 billion and P3.2 billion as of December 31, 2016 and 2015, respectively, under Level 3 classification.

Although the Parent Company has an AFS investment, which is classified under Level 3, it is measured at cost less any impairment in value since its fair value cannot be reliably measured (see Note 11).

As of December 31, 2016 and 2015, there were no transfers into and out of Level 3 fair value measurements.

Valuation Techniques Used to Derive Level 3 Fair Values
The tables below presents the following for the Parent Company's notes payable:

| Description | Fair Value as of December 31, 2016 | Valuation Technique | Key Observable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Notes payable | P3,050,730,103 | Discounted Cash Flow Approach | Risk-free interest rate | 1.17%–4.68% (4.33%) |

| Description | Fair Value as of December 31, 2015 | Valuation Technique | Key Observable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| Notes payable | P3,182,938,807 | Discounted Cash Flow Approach | Risk-free interest rate | 2.43%–4.27% (3.88%) |

Capital Management
The Parent Company considers its total equity as its capital. The primary objective of the Parent Company'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 Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company 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 2016, 2015 and 2014.

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

Gearing ratios of the Parent Company as of December 31 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Notes payable | ₱2,921,584,679 | ₱2,947,573,704 |
| Less: Cash and cash equivalents | 3,042,355,997 | 3,268,062,021 |
| Net cash and cash equivalents (a) | (120,771,318) | (320,488,317) |
| Equity | 4,846,457,889 | 4,545,872,300 |
| Equity and net cash and cash equivalents (b) | ₱4,725,686,571 | ₱4,225,383,983 |
| Gearing ratio (a/b) | (0.03):1.00 | (0.08):1.00 |

## 20. Supplementary Information Required under Revenue Regulations 15-2010

In compliance with the requirements set forth by the RR 15-2010, hereunder are the information on taxes, duties, and license fees paid or accrued by the Parent Company in 2016:

Details of the Parent Company's net sales, output VAT and input VAT accounts are as follows:

Value-Added Tax (VAT)

*Output VAT.* The Parent Company is a VAT-registered company for the year. The Parent Company's sources of revenue are management and service fees from subsidiaries, associates, and joint ventures. The VAT rate is 12.0%.

Net Sales/Receipts and Output VAT Declared in the Parent Company's VAT Returns

| | Net Sales/ Receipts | Output VAT |
|---|---|---|
| Net sales | ₱200,926,566 | ₱24,111,188 |

The Parent Company's taxable sales are based on actual collections received, hence, may not be the same as the amounts accrued under "Management fees" and "Others" in the parent company statement of comprehensive income.

*Input VAT.* The Parent Company recognized input VAT for the purchases of goods and services from other VAT-registered individuals or corporations in 2016 amounting to P14,106,863. Total input VAT available for application as of December 31, 2016 is as follows:

| | |
|---|---|
| Balance at January 1 | P832,890 |
| Current year's domestic purchases or payments for: | |
| Services lodged under expenses | 11,680,355 |
| Capital goods subject to amortization | 566,143 |
| Goods other than capital goods | 1,860,365 |
| Total | 14,939,753 |
| Adjustments: | |
| Amortization of Input VAT from capital goods | (269,104) |
| Claims against output vat | (12,442,137) |
| At December 31 | P2,228,512 |

Documentary Stamp Tax

The Parent Company paid documentary stamp tax amounting to P2,848,409 in 2016 arising from penalty on FAN, P3,738 arising from the advances from related parties, P4,713 arising from lease contracts, and P51,313 on other transactions entered during the year.

Customs Duties

The Parent Company does not engage in import/export transactions, hence, no customs duties were paid or recorded during the year.

Withholding Taxes

The amount of taxes withheld in 2016 follows:

| | |
|---|---|
| Expanded withholding taxes | P44,002,087 |
| Creditable withholding taxes | 26,596,929 |
| Withholding taxes on compensation and benefits | 22,673,824 |
| Final withholding taxes | 116,226 |
| | P93,389,066 |

Other Taxes and Licenses

Other taxes paid during the year recognized under "Taxes and Licenses" account under Expenses in the 2016 parent company statement of comprehensive income are as follows:

| | |
|---|---|
| Business permit | P965,284 |
| Fringe benefit tax | 381,563 |
| Real property tax | 172,429 |
| Community tax | 10,500 |
| BIR annual registration fee | 500 |
| Others | 3,864,226 |
| | P5,394,502 |

Tax Assessments and Cases

The Parent Company does not have any pending tax cases outside the administration of the BIR.

# VIVANT CORPORATION

## RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION

### FOR THE YEAR ENDED DECEMBER 31, 2016

| Items | Amount |
|---|---|
| **Unappropriated Retained Earnings, Beginning** | P1,015,662,237 |
| **Adjustment:** | |
| Deferred income tax assets that reduced the amount of provision for income tax | (21,183,800) |
| Deferred income tax liabilities that increased the amount of provision for income tax | 6,737,039 |
| **Unappropriated Retained Earnings, as Adjusted, Beginning** | 1,001,215,476 |
| **Net Income Based on the Face of AFS** | 569,277,994 |
| **Less: Non-actual/Unrealized Income Net of Tax** | |
| 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 | (1,525,232) |
| Deferred income tax liabilities that reduced the amount of provision for income tax | (1,185,164) |
| **Add: Non-actual Losses** | |
| 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 | – |
| **Net Income Actual/Realized** | 566,567,598 |
| **Add (Less)** | |
| Dividend declarations during the period | (267,940,960) |
| Appropriations of retained earnings during the period | (690,500,000) |
| Reversals of appropriations | 405,301,000 |
| Effects of prior period adjustments | – |
| Treasury shares | – |
| **TOTAL RETAINED EARNINGS, END AVAILABLE FOR DIVIDEND DECLARATION** | P1,014,643,114 |