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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.*

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 ________ day of APR 04 2019, 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. [illegible] CEBU CITY [illegible]
IBP LIFETIME NO. 019431 - CEBU CITY

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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.

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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.

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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

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	₱1,023,456,698	₱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

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.

VIVANT CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

<u>HDFE</u>
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.

<u>Estimates and Assumptions</u>
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	₱45,982,264	₱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)	(215,249)	–	–	–	(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)					

Category	Volume	2018 Outstanding Balance 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

Category	Volume	Outstanding Balance Receivables	Payables	Terms	Conditions
	2017				
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.

<u>Liquidity Risk</u>
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*

<u>Foreign Currency Risk</u>

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

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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