

ANNEX B

**Alsons Consolidated Resources, Inc. and
Subsidiaries**

Consolidated Financial Statements
December 31, 2017 and 2016
And Years Ended December 31, 2017, 2016 and 2015

And

Independent Auditors report



Alsons Consolidated Resources, Inc.
(Listed in the Philippine Stock Exchange Trading Symbol "ACR")
2nd Floor, Alsons Building
2286 Chino Roces Ext., (formerly P. Tamo Ext.) Makati City
1231 Metro Manila Philippines
Tel. Nos.: (632) 982-3000 Fax Nos.: (632) 982-3077
Website: www.acr.com.ph

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION,
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

The management of Alsons Consolidated Resources, Inc., is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

SyCip Gorres Velayo & Co., the independent auditors appointed by the stockholders, has audited the consolidated 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.


TOMAS I. ALCANTARA
Chairman and President


TIRSO G. SANTILLAN, JR.
Executive Vice-President

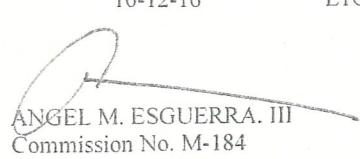

ROBERT F. YENKO
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 10 2018 of affiants exhibiting to me their Identifications, as follows:

Name	Identification No.	Date	Place of Issue
Tomas I. Alcantara	PP#EB8610644	07-09-13	DFA Manila
Tirso G. Santillan, Jr.	DL#N17-72-000977	02-13-18	LTO Q.C.
Robert F. Yenko	DL#N01-16-031117	10-12-16	LTO San Juan

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ANGEL M. ESGUERRA, III
Commission No. M-184
Notary Public for Makati City. Until December 31, 2019
Roll No. 34787: 06/01/87
IBP Lifetime No. 00259: 06/01/95: Pasay Chapter
PTR OR No. 6614781: 01/04/18: Makati City
Alsons Bldg.. 2286 Chino Roces Ave.. Makati City



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Alsons Consolidated Resources, Inc.
Alsons Building, 2286 Chino Roces Avenue
Makati City, Metro Manila, Philippines

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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



Recoverability of Goodwill

Under PFRSs, the Group is required to review the goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at December 31, 2017, the Group's goodwill that is attributable to the Group's two power generation cash-generating units (CGUs) amounted to ₦807 million, which is significant to the consolidated financial statements. In addition, management's assessment process requires significant management judgment about future market conditions and estimation based on assumptions, specifically tariff rates, contracted and dispatchable capacity and discount rates. The Group's disclosures about goodwill are included in Note 14 to the consolidated financial statements.

Audit Response

We involved our internal specialist in evaluating the methodology and the assumptions used, which include tariff rates, contracted and dispatchable capacity and discount rates. We compared the key assumptions used, such as contracted and dispatchable capacity against the historical performance of the CGUs, market outlook and other relevant external data. For tariff rates, we compared the rates used against the rates in the provisionally approved power sales agreements. We tested the parameters used in the determination of the discount rates against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill.

Other Information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 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.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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



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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Martin C. Guantes.

SYCIP GORRES VELAYO & CO.



Martin C. Guantes

Partner

CPA Certificate No. 88494

SEC Accreditation No. 0325-AR-3 (Group A),

August 25, 2015, valid until August 24, 2018

Tax Identification No. 152-884-272

BIR Accreditation No. 08-001998-52-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621267, January 9, 2018, Makati City

March 22, 2018



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 7)	₱4,383,802,048	₱2,050,586,516
Short-term cash investments (Note 7)	258,319,976	58,172,400
Trade and other receivables (Notes 8 and 20)	2,509,001,577	2,089,455,903
Real estate inventories (Note 10)	638,560,688	646,886,864
Spare parts and supplies - at cost (Note 9)	687,330,947	651,649,055
Prepaid expenses and other current assets (Notes 15 and 18)	780,007,296	587,051,018
Total Current Assets	9,257,022,532	6,083,801,756
Noncurrent Assets		
Noncurrent portion of installment receivables (Note 8)	6,319,792	6,557,239
Investments in real estate (Note 10)	181,102,370	176,276,075
Investments in associates (Note 11)	2,176,644,762	2,175,644,762
Property, plant and equipment (Note 12)	22,729,706,881	18,708,877,299
Available-for-sale (AFS) financial assets (Note 13)	2,353,233,021	2,343,630,303
Goodwill (Note 14)	806,687,320	806,687,320
Net retirement assets (Note 28)	26,160,832	29,607,129
Deferred financing cost (Note 18)	157,956,627	–
Deferred income tax assets - net (Note 29)	35,454,305	30,321,457
Other noncurrent assets	506,424,762	448,322,409
Total Noncurrent Assets	28,979,690,672	24,725,923,993
TOTAL ASSETS	₱38,236,713,204	₱30,809,725,749
 LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 16)	₱3,726,252,547	₱1,572,066,165
Loans payable (Note 17)	975,708,681	667,030,719
Income tax payable	19,367,867	58,789,821
Current portion of long-term debts (Note 18)	869,013,234	612,245,238
Total Current Liabilities	5,590,342,329	2,910,131,943
Noncurrent Liabilities		
Long-term debts - net of current portion (Note 18)	17,840,908,713	16,278,965,915
Deferred income tax liabilities - net (Note 29)	739,187,192	700,463,748
Retirement benefits liabilities (Note 28)	30,900,051	32,051,884
Decommissioning liability (Notes 12 and 19)	205,731,535	176,117,468
Total Noncurrent Liabilities	18,816,727,491	17,187,599,015
Total Liabilities	24,407,069,820	20,097,730,958

(Forward)



	December 31	
	2017	2016
Equity (Note 21)		
Capital stock	₱6,326,883,333	₱6,322,483,333
Equity reserves	2,494,305,135	1,774,513,933
Retained earnings:		
Unappropriated	887,872,315	1,013,611,249
Appropriated	1,300,000,000	1,300,000,000
Attributable to equity holders of the Parent Company	11,009,060,783	10,410,608,515
Non-controlling interests (Notes 1 and 21)	2,820,582,601	301,386,276
Total Equity	13,829,643,384	10,711,994,791
TOTAL LIABILITIES AND EQUITY	₱38,236,713,204	₱30,809,725,749

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
SALES OF SERVICES:			
Energy fees (Note 33)	₱6,494,068,927	₱7,077,431,332	₱4,977,252,644
Rental income (Note 30)	12,158,045	12,139,877	10,724,872
Management fees (Note 33)	—	7,610,515	25,443,600
	6,506,226,972	7,097,181,724	5,013,421,116
REAL ESTATE SALES (Note 33)	12,673,806	9,616,156	8,275,233
TOTAL REVENUE	6,518,900,778	7,106,797,880	5,021,696,349
COSTS AND EXPENSES			
Cost of services (Note 22)	(4,573,651,777)	(4,679,482,911)	(3,065,882,264)
Cost of real estate sold (Note 10)	(9,498,425)	(4,982,828)	(6,150,862)
General and administrative expenses (Note 23)	(562,111,244)	(530,807,093)	(434,114,967)
	(5,145,261,446)	(5,215,272,832)	(3,506,148,093)
OTHER INCOME (CHARGES)			
Finance charges (Note 26)	(1,200,295,515)	(865,152,744)	(324,360,188)
Interest income (Notes 7 and 18)	37,863,224	41,961,539	24,034,525
Others - net (Note 27)	70,152,948	(155,059,373)	(83,857,875)
	(1,092,279,343)	(978,250,578)	(384,183,538)
INCOME BEFORE INCOME TAX	281,359,989	913,274,470	1,131,364,718
PROVISION FOR INCOME TAX (Note 29)			
Current	143,551,013	206,066,372	272,708,907
Deferred	34,331,187	71,420,419	167,719,203
	177,882,200	277,486,791	440,428,110
NET INCOME	₱103,477,789	₱635,787,679	₱690,936,608
Attributable to:			
Equity holders of the Parent Company	(₱21,033,147)	₱316,595,386	₱188,141,930
Non-controlling interests	124,510,936	319,192,293	502,794,678
	₱103,477,789	₱635,787,679	₱690,936,608
Basic/diluted earnings (losses) per share attributable to equity holders of the Parent Company (Note 21)	(₱0.004)	₱0.050	₱0.029

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	₱103,477,789	₱635,787,679	₱690,936,608
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gains (losses) on defined benefit plan (Note 28)	(3,141,328)	(5,927,934)	(20,781,658)
Effect of changes in asset ceiling (Note 28)	3,056,014	14,388,164	16,026,964
Tax effect (Note 29)	(246,394)	825,575	2,009,180
	(331,708)	9,285,805	(2,745,514)
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Unrealized gains (losses) on fair valuation of AFS financial assets (Note 13)	9,602,718	(1,942,968)	7,263,540
Translation adjustments	1,155,929	12,232,870	147,110,294
	10,758,647	10,289,902	154,737,834
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	10,426,939	19,575,707	151,992,320
TOTAL COMPREHENSIVE INCOME	₱113,904,728	₱655,363,386	₱842,928,928
Attributable to:			
Equity holders of the Parent Company	(₱10,023,797)	₱327,898,507	₱340,874,763
Non-controlling interests	123,928,525	327,464,879	502,054,165
	₱113,904,728	₱655,363,386	₱842,928,928

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015

Attributable to Equity Holders of the Parent Company

	Other Equity Reserves					Attributable to Equity Holders of the Parent Company
	Remeasurement Gains (Losses)	Unrealized Gains (Losses) on Defined Benefit Plan	Cumulative Translation Adjustments	Equity Reserves (Note 21)	Total	Retained Earnings (Note 21)
	Capital Stock (Note 21)	(Notes 21 and 28)	(Notes 13 and 21)	(Note 21)	Total	Unappropriated Appropriated
BALANCES AS AT DECEMBER 31, 2014	₱6,313,683,333	₱5,487,847	₱1,520,279,471	₱105,480,697	₱1,613,004,480	₱10,700,000,000
Net income	—	—	—	154,639,010	188,141,930	502,794,678
Other comprehensive income (loss)	—	265,176	7,263,540	147,110,294	(1,906,177)	152,732,833
Total comprehensive income	—	265,176	7,263,540	147,110,294	154,639,010	340,874,763
Collection of subscriptions receivable	4,400,000	—	—	—	—	4,400,000
Investment in a subsidiary (Note 1)	—	—	—	—	—	—
Disposal of subsidiaries without loss of control (Note 1)	—	—	—	—	—	—
Disposal of a subsidiary through property dividend	—	—	—	—	(208,056,231)	(208,056,231)
Cash dividends declaration (Note 21)	—	—	—	—	(70,460,750)	(70,460,750)
Reversal of appropriation	—	—	—	—	400,000,000	(400,000,000)
BALANCES AS AT DECEMBER 31, 2015	₱6,318,083,333	₱5,753,023	(50,979,995)	1,667,389,765	145,480,697	1,767,643,490
Net income	—	—	—	797,647,185	797,647,185	10,183,374,008
Other comprehensive income (loss)	—	(996,789)	(1,942,968)	9,810,200	—	316,595,386
Total comprehensive income (loss)	—	(996,789)	(1,942,968)	9,810,200	6,870,443	4,432,678
Collection of subscriptions receivable	4,400,000	—	—	—	321,028,064	—
Cash dividends declaration (Note 21)	—	—	—	—	—	—
BALANCES AS AT DECEMBER 31, 2016	₱6,322,483,333	₱4,756,234	(52,922,963)	1,677,199,965	145,480,697	1,774,513,933
Net income (loss)	—	—	—	—	1,013,611,249	1,300,000,000
Other comprehensive income (loss)	—	(105,414)	9,602,718	1,153,833	—	(21,033,147)
Total comprehensive income (loss)	—	(105,414)	9,602,718	1,153,833	10,651,137	358,213
Collection of subscriptions receivable	4,400,000	—	—	—	10,651,137	(20,674,934)
Cash dividends declaration (Note 21)	—	—	—	—	—	—
BALANCES AS AT DECEMBER 31, 2017	₱6,326,983,333	₱4,650,820	(₱43,320,245)	₱1,678,355,798	₱854,620,762	₱2,494,305,135
Net income (loss)	—	—	—	—	—	—
Other comprehensive income (loss)	—	(105,414)	9,602,718	1,153,833	—	(21,033,147)
Total comprehensive income (loss)	—	(105,414)	9,602,718	1,153,833	10,651,137	358,213
Collection of subscriptions receivable	4,400,000	—	—	—	—	—
Cash dividends declaration (Note 21)	—	—	—	—	—	—
Additional investment in a subsidiary (Note 1)	—	—	—	—	—	—
Disposal of a subsidiary without loss of control (Note 1)	—	—	—	709,140,065	—	709,140,065
BALANCES AS AT DECEMBER 31, 2017	₱6,326,983,333	₱4,650,820	(₱43,320,245)	₱1,678,355,798	₱854,620,762	₱2,494,305,135
Non-controlling interests (Note 1)	—	—	—	—	—	—
Total	—	—	—	—	—	—
						₱10,700,000,000
						₱10,116,616,226
						₱291,754,035
						₱10,408,370,261

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱281,359,989	₱913,274,470	₱1,131,364,718
Adjustments for:			
Finance charges (Note 26)	1,200,295,515	865,152,744	324,360,188
Depreciation and amortization (Note 25)	881,533,932	712,151,736	348,954,644
Interest income (Notes 7 and 18)	(37,863,224)	(41,961,539)	(24,034,525)
Gain on sale of investment (Notes 11 and 27)	(34,339,109)	—	—
Recovery of impairment loss on investment due to sale (Notes 11 and 27)	(13,725,000)	—	—
Movements in net retirement assets and retirement benefits liabilities (Notes 24 and 28)	1,962,756	33,162,646	13,088,469
Loss (gain) on sale of property, plant and equipment and investments in real estate (Note 27)	(1,829,595)	2,960,574	35,649,469
Unrealized foreign exchange loss - net (Note 27)	1,474,920	17,639,653	143,965,908
Recovery of impairment loss on real estate inventories due to sale (Notes 10 and 27)	(1,172,249)	(476,624)	(1,112,121)
Income from decrease in decommissioning liability (Note 27)	—	(4,842,058)	(5,933,564)
Impairment loss on goodwill (Note 14)	—	245,376,216	—
Income from insurance claim (Notes 8 and 27)	—	(69,699,527)	—
Mark-to-market gain on derivative liability (Notes 27 and 33)	—	—	(27,595,736)
Operating income before working capital changes	2,277,697,935	2,672,738,291	1,938,707,450
Decrease (increase) in:			
Trade and other receivables	(93,699,757)	(200,943,196)	169,064,975
Real estate inventories	9,498,425	5,066,790	6,877,373
Spare parts and supplies	(35,681,892)	(155,298,062)	(254,786,969)
Prepaid expenses and other current assets	1,504,811	352,502,110	(20,589,716)
Increase (decrease) in accounts payable and other current liabilities	382,993,349	6,353,118	(118,271,723)
Cash flows generated from operations	2,542,312,871	2,680,419,051	1,721,001,390
Income taxes paid including creditable withholding taxes	(194,705,758)	(298,528,042)	(352,781,304)
Net cash flows from operating activities	2,347,607,113	2,381,891,009	1,368,220,086
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Property, plant and equipment (Note 12)	(4,633,150,298)	(3,279,688,376)	(1,589,833,820)
Investments in associates (Note 11)	(1,000,000)	(581,018,200)	(57,317,300)
Investments in real estate (Note 10)	(5,019,774)	(502,881)	(559,426)
Computer software	(8,604,103)	(14,416,454)	(60,697)
Decrease (increase) in:			
Short-term cash investments (Note 7)	(199,877,387)	114,240,535	(138,499,937)
Other noncurrent assets	(57,043,578)	(41,236,029)	(55,143,340)
Increase in accounts payable and other current liabilities (Note 16)	1,879,463,723	—	—
Granting of advances to related parties	(253,993,200)	(43,141,593)	(109,853,804)
Interest received	32,527,366	41,568,862	23,535,345
Proceeds from insurance claims (Notes 8 and 27)	29,538,950	40,160,577	—
Proceeds from disposals of:			
Subsidiary without loss of control (Note 1)	2,116,805,184	—	—
Investment in associate	48,064,109	—	—
Property, plant and equipment	2,117,591	2,060,124	1,678,359
Investment in real estate (Notes 10 and 11)	—	953,457,022	23,946,931
Net cash flows used in investing activities	(1,050,171,417)	(2,808,516,413)	(1,902,107,689)

(Forward)



	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment of loans and long-term debts (Notes 17 and 18)	₱3,979,777,962	₱667,030,719	₱9,678,853,418
Proceeds from additional investment in a subsidiary (Note 1)	1,125,000,000	-	-
Payments of:			
Loans and long-term debts (Notes 17 and 18)	(1,860,220,000)	(588,798,053)	(5,428,392,395)
Interest and transaction costs (Note 18)	(1,497,323,519)	(998,033,628)	(1,331,956,527)
Dividends (Note 21)	(325,664,000)	(543,484,565)	(452,566,240)
Debt issue costs (Note 18)	(206,030,383)	-	-
Increase in interest reserve account (Notes 15 and 18)	(183,468,889)	-	(507,870,487)
Net cash flows from (used in) financing activities	<u>1,032,071,171</u>	(1,463,285,527)	1,958,067,769
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	2,329,506,867	(1,889,910,931)	1,424,180,166
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
	3,708,665	649,893	3,284,013
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
	<u>2,050,586,516</u>	3,939,847,554	2,512,383,375
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)			
	<u>₱4,383,802,048</u>	₱2,050,586,516	₱3,939,847,554

See accompanying Notes to Consolidated Financial Statements.



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

Corporate Information

Alsons Consolidated Resources, Inc. (ACR or Parent Company) is a stock corporation organized on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. in March 1995 and to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. ACR's primary purpose was consequently changed to that of an investment holding company and oil exploration was relegated as a secondary purpose.

ACR's ultimate parent company is Alsons Corporation (AC), a company incorporated in the Philippines.

The registered office address of ACR is Alsons Building, 2286 Chino Roces Avenue, Makati City, Metro Manila, Philippines.

The consolidated financial statements include the accounts of ACR and the subsidiaries (collectively referred to as "the Group") listed in the table below:

Subsidiaries	Nature of business	Percentage of Ownership			
		2017		2016	
		Direct	Indirect	Direct	Indirect
Conal Holdings Corporation (CHC)	Investment holding	100.00	—	100.00	—
Alsing Power Holdings, Inc. (APHI)	Investment holding	20.00	80.00	20.00	80.00
Western Mindanao Power Corporation (WMPC)	Power generation	—	55.00	—	55.00
Southern Philippines Power Corporation (SPPC)	Power generation	—	55.00	—	55.00
Alto Power Management Corporation (APMC)	Management services	—	60.00	—	60.00
APMC International Limited (AIL)	Management services	—	100.00	—	100.00
Mapalad Power Corporation (MPC)	Power generation	—	100.00	—	100.00
FGen Northern Power Corp. (FGNPC)	Power generation	—	60.00	—	60.00
Alsons Thermal Energy Corporation (ATEC)	Investment holding	50.00*	—	100.00	—
Sarangani Energy Corporation (Sarangani)	Power generation	—	37.50	75.00	—
ACES Technical Services Corporation (ACES)	Management services	—	50.00	100.00	—
San Ramon Power Inc. (SRPI)	Power generation	—	50.00	100.00	—
Alsons Renewable Energy Corporation (AREC)	Investment holding	80.00	—	80.00	—
Siguil Hydro Power Corporation (Siguil)	Power generation	—	80.00	—	80.00
Kalaong Power Corporation (Kalaong)	Power generation	—	80.00	—	80.00
Alsons Power International Limited (APIL)	Power generation	100.00	—	100.00	—
Alsons Land Corporation (ALC)	Real estate	99.55	—	99.55	—
MADE (Markets Developers), Inc. (MADE)	Distribution	80.44	—	80.44	—
Kamanga Agro-Industrial Ecozone Development Corporation (KAED)	Real estate	100.00	—	100.00	—
Alsons Power Supply Corporation (APSC)	Customer service	100.00	—	100.00	—

*50% ownership interest plus 1 share of the voting and total outstanding capital stock.

SPPC and WMPC are Independent Power Producers (IPPs) with Energy Conversion Agreements (ECAs) with the Philippine government through the National Power Corporation (NPC). SPPC's and WMPC's ECAs ended on April 28, 2016 and December 12, 2015, respectively (see Note 33).

Except for AIL and APIL, which are incorporated in the British Virgin Islands (BVI), all of the subsidiaries are incorporated in the Philippines.



Power and Energy

CHC and Subsidiaries. The Board of Directors (BOD) of Northern Mindanao Power Corporation (NMPC), a subsidiary under CHC, approved on April 25, 2008 the amendments to NMPC's Articles of Incorporation to shorten its corporate life up to November 15, 2009. After November 15, 2009, NMPC was dissolved. Consequently, NMPC's remaining assets and liabilities have all been transferred to CHC's books as at December 31, 2009. CHC is responsible for the final liquidation of NMPC's net assets and the payment to the non-controlling shareholders. In 2013, CHC has fully liquidated the net distributable assets of NMPC and paid the non-controlling shareholders.

CHC organized and incorporated MPC on July 13, 2010 as a wholly owned subsidiary to rehabilitate and operate the 103 mega-watts (MW) Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II located in Iligan City. On June 27, 2011, ACR acquired full control of MPC through an agreement with CHC, wherein CHC assigned all shares to ACR. The deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. On August 1, 2013, ACR transferred MPC to CHC for a total consideration of ₱0.3 million. MPC entered into Power Supply Agreements (PSAs) with various distribution utilities and electric cooperatives (see Note 33). On September 6, 2013, MPC started operating 98 MW of the 103 MW Bunker-Fired IDPPs. MPC completed the rehabilitation and operated the balance of 5 MW in 2014.

On July 7, 2015, CHC subscribed and paid 60% of FGNPC's outstanding common shares amounting to ₱0.04 million. Investment of non-controlling interest amounted to ₱0.02 million in 2015.

On February 14, 2017, CHC and subsidiaries notified the Philippine Securities and Exchange Commission (SEC) of the change in its functional currency from US dollar to Philippine peso which was adopted prospectively from the date of change, which is January 1, 2016.

ATEC and Subsidiaries

ATEC. On November 23, 2015, ACR organized ATEC primarily to develop and invest in energy projects, including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱1 million.

On October 13, 2016, ACR and ATEC executed an assignment of share agreement wherein the Parent Company assigned and transferred its ownership interests in ACES to ATEC for a total consideration of ₱20 million. Accordingly, ACES became wholly owned subsidiary of ATEC.

On May 24, 2017, ACR and ATEC executed an assignment of share agreement wherein ACR assigned and transferred its ownership interests in SRPI to ATEC amounting to ₱1.2 million for a total consideration of ₱0.3 million, net of subscriptions payable amounting to ₱0.9 million. Accordingly, SRPI became a wholly owned subsidiary of ATEC. Subsequently, on May 31, 2017, ACR and ATEC executed a deed of assignment of advances wherein ACR assigned to ATEC its advances to SRPI totaling to ₱231 million.

On November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock in ATEC equivalent to 14,952,678 common shares to Global Business Power Corporation (GBPC) for a total consideration amounting to ₱2,378 million, inclusive of retention receivable amounting to ₱100 million to be received upon issuance by the Bureau of Internal Revenue (BIR) of the Certificate of Authorizing Registration (see Note 8). The Parent Company recognized a gain amounting to ₱709 million, net of transaction costs totaling to ₱169 million (see Note 21). Subsequently, on December 1, 2017, the Parent Company, GBPC and ATEC executed a deed of assignment of advances wherein the Parent Company assigned and transferred to GBPC its right to collect 50% of its advances to ATEC amounting to ₱1,880 million (see Note 16).



Sarangani. CHC organized Sarangani on October 15, 2010 as a wholly owned subsidiary to construct, commission and operate power generating plant facilities of electricity in Maasim, Sarangani Province. On June 27, 2011, ACR acquired full control of Sarangani through an agreement with CHC, wherein CHC assigned all its shares to ACR. On December 10, 2012, ACR entered into a shareholders agreement with Toyota Tsusho Corporation (TTC), a company incorporated in Japan, wherein TTC subscribed and paid ₱355 million worth of Sarangani shares representing 25% of the total equity of Sarangani. In accordance with the shareholders agreement, ACR increased its investment in Sarangani to 75% of the total equity of Sarangani by converting its advances and additional cash infusion.

The construction of the Sarangani's SM200 project is in two phases. Construction of Phase 1 (105 MW) of the Project commenced in January 2013 and was completed in April 2016. The construction of Phase 2 (105 MW) commenced in January 2017 and is expected to be completed in April 2019.

In 2015, ACR made additional cash infusion and conversion of advances totaling to ₱572 million, primarily to meet the funding requirements of Sarangani's SM200 project.

On April 20, 2016, ACR subscribed to ATEC's increase in authorized capital stock to the amount of ₱2,989 million worth of shares of stock. The subscription was paid by way of ACR's investment in Sarangani and cash amounting to ₱14 million.

On February 6, 2017, ATEC's BOD authorized the conversion its advances to Sarangani amounting to ₱3,375 million into equity by way of subscription to the increase in authorized capital stock of Sarangani. The Philippine SEC approved Sarangani's increase in authorized capital stock on March 20, 2017. Also, TTC subscribed to additional common shares amounting to ₱1,125 million which was settled through cash infusion. As at December 31, 2017 and 2016, Sarangani is 75% owned by ATEC.

SRPI. ACR organized and incorporated SRPI on July 22, 2011 as a wholly owned subsidiary. SRPI was incorporated primarily to acquire, construct, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPI has obtained its Environmental Compliance Certificate (ECC) on March 20, 2012 for the planned 105 MW coal fired power plant to be located in Zamboanga Ecozone. SRPI's expected construction of the power plant that was previously forecasted to commence in the latter part of 2013, has been deferred at a later time. The total project cost is estimated at ₱13 billion. As at March 22, 2018, SRPI has not yet started the construction of the power plant.

ACES. ACR organized and incorporated ACES on July 7, 2011 primarily to provide operations and maintenance services to the Group's coal power plants.

AREC and Subsidiaries

Sigil and Kalaong. ACR organized and incorporated Sigil and Kalaong on July 22, 2011 as wholly owned subsidiaries. Sigil and Kalaong were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. Sigil's 17 MW Hydro Power Project is in Maasim, Sarangani while Kalaong's 22 MW Hydro Power Project is in Bago, Negros Oriental. These projects are expected to augment power supply in the cities of General Santos and Bacolod, respectively, once they are completed. As at March 22, 2018, Sigil and Kalaong have not yet started commercial operations.

AREC. On September 18, 2014, ACR organized AREC primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱31 million.



On July 10, 2015, ACR and AREC executed an assignment of share agreement wherein ACR assigned and transferred its ownership interests in Siguil and Kalaong to AREC. Accordingly, Siguil and Kalaong became subsidiaries of AREC. Also, ACR sold its 20% interest to ACIL, Inc., an entity under common control. Accordingly, ACR's interest in AREC was reduced from 100% to 80%.

Property Development

ALC. On November 25, 1994, ACR incorporated ALC to acquire, develop, sell and hold for investment or otherwise, real estate of all kinds, sublease office spaces and manufacture door and house frames.

KAED. On September 3, 2010, ACR incorporated KAED to establish, develop, operate and maintain an agro-industrial economic zone and provides the required infrastructure facilities and utilities such as power and water supply and distribution system, sewerage and drainage system, waste management system, pollution control device, communication facilities and other facilities as may be required for an agro-industrial economic zone.

Other Investments

MADE. MADE, which is in the distribution business, has incurred significant losses in prior years resulting in capital deficiency. Because of the recurring losses, MADE decided to cease operations effective April 30, 2006 and terminated its employees. These factors indicate the existence of a material uncertainty which may cast significant doubt on the MADE's ability to continue as a going concern. As at March 22, 2018, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading operations.

APSC. ACR organized and incorporated APSC on October 13, 2016 primarily to provide services necessary or appropriate in relation to the supply and delivery of electricity.

Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements upon recommendation for approval by the Audit Committee on March 15, 2018, were authorized for issuance by the BOD on March 22, 2018.

2. Basis of Preparation and Statement of Compliance

Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for AFS financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Parent Company. All amounts 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). PFRSs includes statements named PFRSs, Philippine Accounting Standards (PASs), and Philippine Interpretations of International Financial Reporting Interpretations Committee (IFRIC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year (see Note 1).

The Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),



- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

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

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

The Group re-assesses 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 financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributable to equity holders of the parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to 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.

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

A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

Non-controlling interests represent the portion of profits or losses and net assets of subsidiaries not held by the equity holders of the Parent Company and are presented separately in the consolidated statement of income and consolidated statement of comprehensive income and within equity in the consolidated balance sheet, separately from equity attributable to the equity holders of the Parent Company.

Material Partly-Owned Subsidiaries

The tables below show details of materially partly-owned subsidiaries of ACR either directly or indirectly:

Name of Subsidiary	Place of Incorporation and Operation	Principal Activity	Proportion Ownership Interest and Voting Rights Held by Non-controlling Interests		
			2017	2016	2015
SPPC	Philippines	Power generation	45.0%	45.0%	45.0%
WMPC	Philippines	Power generation	45.0%	45.0%	45.0%
Sarangani	Philippines	Power generation	62.5%	25.0%	25.0%



The summarized financial information in respect of the subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

Summarized balance sheets as at December 31 are as follows:

	2017			2016		
	SPPC	WMPC	Sarangani	SPPC	WMPC	Sarangani
(Amounts in Thousands)						
Current assets	₱344,105	₱695,571	₱2,116,655	₱546,999	₱724,237	₱2,395,716
Noncurrent assets	364,648	418,808	20,193,848	416,740	398,329	16,027,380
Current liabilities	(220,961)	(457,032)	(2,171,183)	(216,687)	(385,687)	(4,931,426)
Noncurrent liabilities	(68,326)	(82,718)	(10,411,478)	(73,064)	(82,452)	(8,631,235)
Equity	₱419,466	₱574,629	₱9,727,842	₱673,988	₱654,427	₱4,860,435
Equity attributable to:						
Equity holders of the Parent Company	₱229,392	₱304,243	₱7,278,072	₱370,693	₱359,935	₱3,645,326
Non-controlling interests	190,074	270,386	2,449,770	303,295	294,492	1,215,109
	₱419,466	₱574,629	₱9,727,842	₱673,988	₱654,427	₱4,860,435

Summarized statements of comprehensive income for each of the three years in the period ended December 31, 2017 are as follows:

	2017			2016			2015		
	SPPC	WMPC	Sarangani	SPPC	WMPC	Sarangani	SPPC	WMPC	Sarangani
Revenue and other income									
₱522,471	₱1,454,871	₱3,433,443	₱711,504	₱1,652,261	₱3,503,115	₱742,145	₱1,485,698	₱17,717	
(391,061)	(1,341,781)	(3,016,538)	(442,682)	(1,517,641)	(2,557,505)	(278,933)	(503,644)	(6,586)	
Provision for income tax	(35,056)	(42,391)	(26,652)	(56,195)	(48,457)	(52,374)	(97,802)	(207,776)	–
Net income	96,354	70,699	390,253	212,627	86,163	893,236	365,410	774,278	11,131
Other comprehensive income (loss)	(876)	(498)	(346)	6,571	4,285	–	(359)	2,268	–
Total comprehensive income	₱95,478	₱70,201	₱389,907	₱219,198	₱90,448	₱893,236	₱365,051	₱776,546	₱11,131
Equity holders of the Parent Company	₱52,513	₱38,611	₱280,246	₱120,559	₱49,746	₱669,927	₱200,778	₱427,100	₱8,348
Non-controlling interests	42,965	31,590	109,661	98,639	40,702	223,309	164,273	349,446	2,783
	₱95,478	₱70,201	₱389,907	₱219,198	₱90,448	₱893,236	₱365,051	₱776,546	₱11,131

Summarized statements of cash flows for each of the three years in the period ended December 31, 2017 are as follows:

	2017			2016			2015		
	SPPC	WMPC	Sarangani	SPPC	WMPC	Sarangani	SPPC	WMPC	Sarangani
(Amounts in Thousands)									
Operating	₱263,694	₱70,659	₱1,498,098	₱187,423	₱140,462	₱1,797,552	₱487,480	₱1,034,800	(₱111,076)
Investing	176,389	158,143	(4,345,899)	(225,655)	103,854	(3,089,795)	(42,501)	64,841	(2,008,205)
Financing	(407,779)	(157,804)	2,317,129	(150,648)	(600,591)	1,855,008	(326,469)	(822,323)	1,696,358
Net increase (decrease) in cash and cash equivalents	₱32,304	₱70,998	(₱530,672)	(₱188,880)	(₱356,275)	₱562,765	₱118,510	₱277,318	(₱422,923)
Dividends paid to non-controlling interests	₱157,500	₱67,500	₱–	₱105,282	₱336,902	₱–	₱122,850	₱266,175	₱–



3. Changes in Accounting Policies and Disclosures

New Standards Effective Starting January 1, 2017

The Group applied for the first time certain pronouncements, which are effective for annual periods beginning on or after January 1, 2017. Adoption of these standards and amendments did not have a significant impact on the Group's financial position or performance unless otherwise indicated.

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

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

The amendments do not have any impact on the Group's financial position and results of operation. As required by the amendments to PFRS 12, the Group continues to apply the disclosure requirements of PFRS 12, other than the summarized financial information, in Note 11.

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

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

The Group has provided the required information in Note 35 to the consolidated financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

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

Standards Issued but not yet Effective

The following are the new and revised standards and interpretations that will become effective subsequent to December 31, 2017. The Group does not expect the adoption of these new and amended PFRSs, PASs and Philippine Interpretations to have any significant impact on its financial statements.

Effective beginning on or after January 1, 2018

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

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



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

The amendments are not applicable to the Group.

- **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 is currently assessing the impact of PFRS 9 and plans to adopt the new standard on the required effective date.

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

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

The amendments are not applicable to the Group.

- **PFRS 15, *Revenue from Contracts with Customers***

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

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

The Group is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.



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

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

The amendments should be applied retrospectively, with earlier application permitted.

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

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

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

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

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

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

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



Effective beginning on or after January 1, 2019

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

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

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

- *PFRS 16, Leases*

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

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

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

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

Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. The Group is currently assessing the impact of adopting PFRS 16.

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

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

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

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

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the



scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

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

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

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

Deferred effectiveness

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

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

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

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

The Group continues to assess the impact of the above new and amended accounting standards and interpretations effective subsequent to December 31, 2017 on Group's consolidated financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the consolidated financial statements when these amendments are adopted.

4. Summary of Significant Accounting and Financial Reporting Policies

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated balance sheets based on current or 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 or cash equivalent 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;
- held primarily for the purpose of trading;
- expected to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer 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 and retirement benefits assets and liabilities are classified as noncurrent assets and liabilities, respectively.

Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date. Also, fair values of financial and non-financial instruments are disclosed in Note 32.

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 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 best economic interest.

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

The 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.

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 of 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 of input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level of 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 of input that is significant to the fair value measurement as a whole) at the end of each reporting period.



The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. 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.

Cash and Cash Equivalents

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

Short-term Cash Investments

Short-term cash investments are short-term, highly liquid investments that are convertible to known amounts of cash with original maturities of more than three months but less than one year from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Date of recognition

The Group recognizes a financial asset in the consolidated balance sheet when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

Initial recognition of financial instrument

Financial instruments are recognized initially at fair value. Except for financial assets and financial liabilities at fair value through profit or loss (FVPL), the initial measurement of financial instruments includes transaction costs.

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.

“Day 1” difference

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

Categories of Financial Instruments

The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. Financial liabilities are further classified as financial liabilities at FVPL or other financial liabilities. The classification



depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no HTM investments as at December 31, 2017 and 2016.

Financial assets and liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets designated upon initial recognition as at FVPL and derivative instruments.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and repurchasing 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.

Financial assets and liabilities may be designated by management at initial recognition as at FVPL when any of the following criteria is met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

The Group has no financial assets and liabilities at FVPL as at December 31, 2017 and 2016.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the effective interest rate. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Included in this category are the Group's cash and cash equivalents, short-term cash investments, trade and other receivables, and refundable deposits (included as part of "Other noncurrent assets" account).

AFS financial assets

AFS financial assets are nonderivative financial assets that are designated as such or are not classified as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the consolidated statement of comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss is recognized in the consolidated statement of income.



When the AFS financial asset is disposed of, the cumulative unrealized gain or loss previously recognized in equity is recognized as “Realized gain (loss) on AFS financial assets” in the consolidated statement of income. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in first-out basis. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income as “Dividend income” when the right to the payment has been established. The losses arising from impairment of such investments are recognized as “Impairment loss on AFS financial assets” in the consolidated statement of income.

Included in this category are the Group’s investments in quoted and unquoted equity securities.

Other financial liabilities

This category pertains to financial liabilities that are not held for trading or designated as FVPL upon inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These include liabilities arising from operations (e.g., accounts payable and accrued liabilities, excluding withholding taxes and other taxes payable to government agencies) and loans and borrowings. All loans and borrowings are initially recognized at fair value less debt issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and debt issue costs that are an integral part of the effective interest method. Gains and losses are recognized in consolidated statement of income when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are shown as a contra account against long-term debts and are amortized over the terms of the related borrowings using the effective interest method.

The portion of the debt issue costs attributable to the undrawn portion is deferred and is being amortized over the commitment period on a straight-line basis. However, if it is probable at inception that the facility will be utilized, the debt issue cost will be amortized over the term of the related borrowings using the effective interest method. Debt issue costs pertaining to current portion of the long-term debts are classified as current liabilities; otherwise, these are classified as noncurrent liabilities.

Included in this category are the Group’s accounts payable and other current liabilities (excluding statutory payables), loans payable and long-term debts.

Derivative Financial Instruments

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (sometimes called the “underlying”);



- b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and,
- c. it is settled at a future date.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Embedded derivatives

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not measured at fair value with changes in fair value reported in the consolidated statement of income. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

The Group has no embedded derivatives which are required to be bifurcated.

Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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 Group's right to receive cash flows from the asset has 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 right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, 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 right to receive cash flows from an asset and has entered into a “pass-through” arrangement, 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 original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged, 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 income.

Impairment of Financial Assets

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

Loans and receivables

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the



estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is presented as "Gain on recovery of bad debts" under other income (charges) in the consolidated statement of income.

AFS financial assets

In the case of equity investments classified as AFS, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed in the consolidated statement of income. Increases in their fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

Offsetting of Financial Instruments

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

Spare Parts and Supplies

Spare parts and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average cost method. NRV is the current replacement cost.

When the circumstances that previously caused the spare parts and supplies to be written down below cost no longer exist, or when there is clear evidences of an increase in NRV because of changed economic circumstances, the amount of write-down is reversed. The reversal cannot be greater than the amount of the original write-down.

Real Estate Inventories

Real estate inventories representing real estate opened up for sale are carried at the lower of cost and NRV. The cost includes acquisition cost of the land, direct development cost incurred, including borrowing costs and any other directly attributable costs of bringing the assets to its intended use. NRV is the estimated selling price in the ordinary course of business, less estimated cost to sell. A write-down of inventories is recognized in consolidated statement of income when the cost of the real estate inventories exceeds its NRV.

Investments in Real Estate

Investments in real estate comprise land, building and improvements which are not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Cost includes acquisition cost of the land and any other directly attributable costs of bringing the asset to its intended use.

Subsequent to initial recognition, investments in real estate, except land, are measured at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Building and improvements are depreciated using the straight-line method over estimated useful life of five years to 15 years.



Investments in real estate are derecognized when either these have been disposed of or when the investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investments in real estate when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investments in real estate when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. These transfers are recorded using the carrying amount of the investments in real estate at the date of change in use.

Investments in Associates

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these policies.

The consideration made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the Group's share of the financial performance of the associates. Unrealized gains and losses from transactions with the associates are eliminated to the extent of the Group's interest in the associates. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- a. Goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profit or losses.
- b. Any excess of the Group's share in the fair value of the associate's identifiable assets, liabilities, and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Group's share of the associate's profit or loss after acquisition are made to account, if any, for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.



The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become subsidiary or a joint venture. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Property, Plant and Equipment

Property, plant and equipment (except land) is stated at cost, net of accumulated depreciation and amortization and accumulated impairment losses, if any. Such cost includes the cost of replacing the part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is carried at cost less any impairment losses.

Depreciation or amortization of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation or amortization ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the item is derecognized.

Property, plant and equipment are depreciated and amortized using the straight-line method over their expected economic useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated and amortized separately.

The components of the power plant complex and their related estimated useful lives are as follows:

	Number of Years
Main engine	12 - 28 years
Plant mechanical, electrical, switchyard and desulfurization equipment	28 years
Plant structures and others	28 years

Other property, plant and equipment are depreciated and amortized using the straight-line method over the following estimated useful lives:

	Number of Years
Buildings	10 - 25 years
Leasehold improvements	2 - 5 years or term of the lease, whichever period is shorter
Machinery and other equipment:	
Power and water facilities	7 - 30 years
Machinery and equipment	5 - 10 years
Office furniture, fixtures and equipment	3 - 5 years
Transportation and office equipment	2 - 5 years



Construction in progress represents properties under construction and is stated at cost. Cost includes cost of construction and other direct costs. Construction in progress is depreciated when the asset is available for use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the property, plant and equipment (difference between the net disposal proceeds and carrying amount of the asset) is included in the consolidated statement of income in the period the property, plant and equipment is derecognized.

The assets' residual values, useful lives and methods of depreciation and amortization are reviewed at each financial year-end, and adjusted prospectively if appropriate.

Fully depreciated assets are retained in the accounts until these are no longer in use.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

Initial measurement

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs incurred such as finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department or business development offices are expensed and included as part of "General and administrative expenses" account in the consolidated statement of income.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with the changes in fair value recognized either in the consolidated statement of income. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with appropriate PFRSs. Contingent consideration that is classified as equity is not remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.



If the initial accounting for business combination can be determined only provisionally by the end of the period by which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted.

Subsequent measurement

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's format determined in accordance with PFRS 8, *Operating Segments*.

Where goodwill forms part of a CGU (group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized as income or loss in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

Computer Software

Computer software (included as part of "Other noncurrent assets" account) is initially recognized at cost. Following initial recognition, computer software is carried at cost less accumulated amortization and accumulated impairment losses, if any.

The software cost is amortized on a straight-line basis over its useful economic life of three (3) years and assessed for impairment whenever there is an indicator that the computer software may be impaired. The amortization commences when the computer software is available for use. The amortization period and method for the computer software are reviewed at each reporting date.



Changes in the expected useful life is accounted for by changing the amortization period as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists and 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 cash-generating unit's fair value less cost to sell or 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. When 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 pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in the consolidated statement of 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 makes an estimate of 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 income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates after application of the equity method. The Group determines at each balance sheet date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investment in associate and the acquisition cost (adjusted for post-acquisition changes in the Group's share of the financial performance of the associates) and recognizes the difference in the consolidated statement of income.

Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity instrument, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Redeemable preferred shares is presented as equity when the option for redeeming the redeemable preferred shares is at the issuer's discretion and the price of redemption is to be decided by the BOD.



Retained Earnings

Retained earnings include accumulated profits attributable to the equity holders of the Parent Company reduced by dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. When the retained earnings account has a debit balance, it is called "deficit". A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings are restricted for specific purposes that are approved by the BOD and are not available for dividend distributions.

Cash Dividend and Non-cash Distribution to Equity Holders of the Parent Company

The Parent Company recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Parent Company. A distribution is authorized when it is approved by the BOD. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of income.

Revenue Recognition

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

Energy fees

Revenues from the long-term ECA with NPC under the Build-Operate-Own (BOO) arrangement consist of fixed capacity, operation and maintenance fee, infrastructure fee and variable energy fee. Revenue from variable energy fee is recognized upon delivery of power to NPC. Billings to NPC are denominated both in US dollar and Philippine peso in accordance with the ECA.

Revenue from PSAs consist of fixed capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees. Revenues from fixed capital recovery fee and fixed operation and maintenance fee are recognized on a monthly basis in accordance with the terms of the PSAs. Revenue from actual fuel cost, and variable operations and maintenance and other energy fees are recognized upon delivery of power to customers.

Sale of real estate

Revenue from sales of real estate and cost from real estate projects is accounted for using the full accrual method. Under this method, revenue is recognized in full when the collectability of the contract price is reasonably assured and the Group is not obliged to perform significant performance obligations. When a sale of real estate does not meet the requirements for income recognition, the sale is accounted for under the deposit method. Under this method, revenue is not recognized and the receivable from the buyer is not recorded. The real estate inventory continues to be reported in the Group's consolidated balance sheet as part of real estate inventories and the deposit as part of liabilities as "Customers' deposits".

Any excess collections over the recognized receivables are included in the "Accounts payable and other current liabilities" account in the consolidated balance sheet.



Rental income

Revenue is recognized on a straight-line method over the term of the lease agreements.

Management fees

Revenue from management services is recognized as the services are rendered in accordance with the terms of the agreements.

Interest income

Income is recognized as the interest accrues using the effective interest rate.

Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the consolidated balance sheet as an asset.

Retirement Benefits

The Group, excluding SPPC, WMPC and APMC, has an unfunded, noncontributory defined benefit retirement plan covering all qualified employees. SPPC, WMPC, and APMC have a funded, noncontributory defined benefit retirement plan covering all qualified employees. The Group's obligation and costs of retirement benefits are actuarially computed by professionally qualified independent actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which these occur in other comprehensive income.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net retirement benefits obligation or asset
- Remeasurements on the net retirement benefits obligation 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 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 part of retirement cost in the consolidated statement of 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 profit or loss in subsequent periods.

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.

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.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the balance sheet date.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement at inception date or whether the fulfillment of the arrangement is dependent on the use of a 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 substantial change to the asset.

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

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Fixed lease payments are recognized as expense in the consolidated statement of income on a straight-line basis while the variable rent is recognized as expense based on terms of the lease contract.

Group as lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as rental income in the consolidated statement of income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which these are earned.



Foreign Currency-denominated Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the balance sheet date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial transaction. All exchange rate differences are taken to the consolidated statement of income.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs not qualified for capitalization are expensed as incurred.

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 tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the consolidated balance sheet. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and is presented as part of "Other current assets" in the consolidated balance sheet.

Deferred income tax

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

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

- When the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable income; or
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when 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, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT] and net operating loss carryover (NOLCO).

Deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of excess MCIT and NOLCO can be utilized, except as summarized in the next page.



- When the deferred income tax asset relating to the deductible temporary differences 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 income; or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets 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 at the end of the reporting period.

Income tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred income tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 tax authority.

Value-added tax

Revenues, expenses, and assets are recognized net of the amount of value-added tax (VAT), if applicable.

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

Input VAT income

Input VAT income represents the excess of the allowable input tax sales of goods and service to the Philippine government, through NPC, of SPPC and WMPC over the actual input tax from purchases.

Provisions

General

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. When the Group expects some or all of provision to be reimbursed, 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 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 provisions due to the passage of time is recognized as an interest expense.



Decommissioning liability

The decommissioning liability arose from the Group's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statement of income.

Contingencies

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

Basic/Diluted Earnings Per Share

Basic/diluted earnings per share (EPS) is determined by dividing net income by the weighted average number of shares issued and outstanding after giving retroactive adjustment for any stock dividends and stock splits declared during the period. The Group has no financial instrument or other contract that may entitle its holder to common shares that would result to diluted EPS.

Business Segments

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur losses and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD. The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance.

The Group conducts majority of its business activities into two major business segments:

(1) Power and Energy and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other Investments".

Segment assets and liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, short-term cash investments, trade and other receivables, investments in real estate and real estate inventories, and property, plant and equipment, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.



Inter-segment transactions

Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

Events After the End of Reporting Period

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

5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, accounting estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Management believes the following represent a summary of these significant judgments, estimates and assumptions and 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 has the most significant effect on the amounts recognized in the consolidated financial statements.

Assessment of control over its subsidiary

Under PFRS 10, an investor controls an investee when the investor 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 November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock in ATEC to GBPC through the execution of deed of absolute sale of shares. The Parent Company has determined that it has retained control over ATEC since it has the power to direct the relevant activities of ATEC.

Assessment of significant influence on investment with less than 20% of voting rights

Prior to 2016, the Parent Company exercised significant influence on its interest in Indophil Resources, NL (IRNL) despite owning less than 20% interest by virtue of an Agreement for the Joint Voting of IRNL shares entered into with Alsons Prime Investment Corporation (APIC) and AC, companies under the Alcantara Group, through the Alcantara Group's representation in the BOD of IRNL. Accordingly, the Parent Company accounted for its investment in IRNL as part of "Investments in associates" with carrying value amounting to ₱1,213 million as at December 31, 2014 (see Note 11).

In 2015, the Parent Company acquired an interest in Indophil Resources Philippines, Inc. (IRPI) through the swap of its interest in IRNL for an interest in IRPI. While the Parent Company holds less than 20% interest in IRPI, the Parent Company assessed that it exercises significant influence over IRPI because of its representation in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, the Parent Company accounts for its investment in IRPI as part of "Investments in associates", with carrying value amounting to ₱1,213 million as at December 31, 2017 and 2016 (see Note 11).



Distinction between real estate inventories and investments in real estate

The Group determines whether a property will be classified as real estate inventories or investments in real estate as follows:

- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.
- Investments in real estate comprise land and building which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

The carrying values of the Group's investments in real estate and real estate inventories amounted to ₦181 million and ₦639 million, respectively, as at December 31, 2017 and ₦176 million and ₦647 million, respectively, as at December 31, 2016 (see Note 10).

Classification of financial instruments

The Parent Company classifies a financial instrument, or its component parts, on initial recognition and re-evaluates this designation at every financial reporting date as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

Estimates and Assumptions

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

Estimation of allowance for impairment losses

The Group maintains allowance for impairment losses at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts. These factors include, but not limited to, the age and status of receivable, the length of relationship with the customers, the customer's payment behavior and known market factors. Accounts that are specifically identified to be potentially uncollectible are provided with adequate allowance through charges to income in the form of provision for impairment losses. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Group also makes a collective impairment allowance against exposures which have a greater risk of default than when originally granted. This collective allowance is based on historical loss experience.

There were no additional allowance for impairment losses on trade and other receivables recognized by the Group in 2017 and 2016.

The carrying values of trade and other receivables (including noncurrent portion of installment receivables) amounted to ₦2,515 million and ₦2,096 million as at December 31, 2017 and 2016, respectively. Allowance for impairment losses amounted to ₦83 million as at December 31, 2017 and 2016 (see Note 8).



Estimation of NRV of inventories

Inventories are valued at the lower of cost and NRV. For spare parts and supplies, allowance for inventory obsolescence and losses are maintained at a level considered adequate to provide for potentially nonvaluable items. The level of allowance is based on the turnover/movement of specific inventories and other physical factors affecting usefulness of specific inventories.

For real estate inventories, determining the fair value requires the determination of cash flows from the expected sale of the asset less cost of marketing. The determination of fair value requires the Group to make estimates and assumptions that may materially affect the consolidated financial statements. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material impact on the Group's financial position and performance.

The carrying values of spare parts and supplies amounted to ₦687 million and ₦652 million as at December 31, 2017 and 2016, respectively (see Note 9). The carrying values of real estate inventories amounted to ₦639 million and ₦647 million as at December 31, 2017 and 2016, respectively (see Note 10).

Estimation of useful lives of property, plant and equipment

The useful lives of the property, plant and equipment is estimated based on the period over which the property, plant and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The estimated useful lives of property, plant and equipment are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment. It is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment would increase the recorded expenses and decrease the carrying values of the property, plant and equipment.

In 2014, management assessed that the useful life of components of certain power plant complexes will be extended for another 10 years after the ECA period. However, in 2015, management re-assessed that the useful life of these power plant complexes will be extended to 17 years after the ECA period. Reduction on the 2015 depreciation expense amounted to ₦472 million and the estimated reduction in future annual depreciation expense amounted to ₦26 million.

The carrying values of property, plant and equipment amounted to ₦22,730 million and ₦18,709 million as at December 31, 2017 and 2016, respectively (see Note 12).

Impairment of AFS financial assets

The Group treats AFS financial asset as impaired when there has been a significant or prolonged decline in fair value below its cost or whether an objective evidence of impairment exist. The determination of "significant" and "prolonged" requires judgment. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Group evaluates other factors, including normal volatility in share price of the instrument and future cash flows.

Management assessed that there are no impairment indicators on the Group's AFS financial assets as at December 31, 2017 and 2016. The carrying value of AFS financial assets amounted to ₦2,353 million and ₦2,344 million as at December 31, 2017 and 2016, respectively. The Group recognized unrealized gain of ₦10 million in 2017, unrealized loss of ₦2 million in 2016 and unrealized gain of ₦7 million in 2015 (see Note 13).



Impairment of nonfinancial assets (except goodwill)

An impairment review is performed when certain impairment indicators are present. These factors include, among others:

- a. investments in real estate and property, plant and equipment
 - Significant underperformance relative to the future sales performance and projected operating results; and
 - Significant negative industry or market trends.

- b. investment in associates

There is objective evidence that one or more events occurring after the initial recognition of the investment have had an impact on the estimated future cash flows of the investment that can be reliably estimated. Impairment exists when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

The Group is required to make estimates and assumptions that can materially affect the consolidated financial statements when determining the value-in-use of nonfinancial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that such financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial position and performance.

Based on management's evaluation in 2017 and 2016, there are no indicators that would trigger an impairment review on the Group's nonfinancial assets with carrying values as at December 31 as follows:

	2017	2016
	(In Millions)	
Property, plant and equipment (Note 12)	₱22,730	₱18,709
Investments in associates (Note 11)	2,177	2,176
Investments in real estate (Note 10)	181	176
	₱25,088	₱21,061

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated.

Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment loss on goodwill was recognized in 2017. However, in 2016, the Group recognized impairment loss on goodwill amounting to ₱245 million. The carrying amount of goodwill amounted to ₱807 million as at December 31, 2017 and 2016 (see Note 14).

Estimation of retirement benefits cost and obligation and accrued compensation absences

The determination of the retirement benefits cost and obligation and accrued compensated absences is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, which include among others, discount rates and future salary increase, are described in Note 28. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations and accrued compensated absences.



The Group obtained actuarial valuation reports in 2017 and 2016. Total net retirement assets of SPPC and WMPC amounted to ₱26 million and ₱30 million as at December 31, 2017 and 2016, respectively, and net retirement liability of APMC amounted to ₱3 million and ₱11 million as at December 31, 2017 and 2016, respectively (see Note 28). Total retirement benefits liabilities of the Parent Company, ALC, MPC and Sarangani amounted to ₱28 million and ₱21 million as at December 31, 2017 and 2016, respectively (see Note 28). Retirement benefits costs recognized in the consolidated statements of income amounted to ₱13 million, ₱29 million and ₱16 million in 2017, 2016 and 2015, respectively (see Notes 24 and 28). Accrued compensated absences amounted to ₱12 million and ₱15 million as at December 31, 2017 and 2016, respectively (see Note 28).

Estimation of decommissioning liability

The decommissioning liability arises from the Group's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income. Decommissioning liability as at December 31, 2017 and 2016 amounted to ₱206 million and ₱176 million, respectively (see Note 19).

Estimation and recognition of deferred income tax assets

The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the forecasted taxable income of the following year. This forecast is based on the Group's past results and future expectations on revenues and expenses.

In 2009, SPPC and WMPC determined that the use of Optional Standard Deduction (OSD) would be advantageous based on their forecast. Deferred income taxes on items considered in determining gross income for income tax purposes were computed using an effective tax rate of 18% and deferred income taxes on items not part of gross income for income tax purposes were not recognized.

Deferred income tax assets amounted to ₱42 million and ₱37 million as at December 31, 2017 and 2016, respectively. Also, the Group has unrecognized NOLCO, excess MCIT and deductible temporary differences as at December 31, 2017 and 2016 as disclosed in Note 29.

Legal contingencies

The Group is involved in certain legal proceedings. The estimate of the probable costs for the assessment and resolution of these possible claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon thorough analysis of potential results. There are no provisions for probable losses arising from contingencies recognized in the Group's consolidated financial statements as management believes that the resolution will not materially affect the Group's financial position and performance (see Note 34).



6. Segment Information

The Group conducts majority of its business activities in two major business segments: (1) Power and Energy and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other Investments".

Information with regard to the Group's significant business segments are shown below:

2017

	Power and Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
Earnings Information						
Revenues						
External customer	₱6,892,921	₱29,930	₱-	₱6,922,851	(₱403,950)	₱6,518,901
Inter-segment	—	—	399,415	399,415	(399,415)	—
Total revenues	6,892,921	29,930	399,415	7,322,266	(803,365)	6,518,901
Interest income	23,909	414	37,358	61,681	(23,818)	37,863
Finance charges	801,865	—	664,775	1,466,640	(266,344)	1,200,296
Provision for (benefit from) income tax	121,275	187	(806)	120,656	57,226	177,882
Net income (loss)	630,378	(923)	375,708	1,005,163	(901,685)	103,478
Other Information						
Investments in associates and due from related parties	518,409	898,885	6,049,103	7,466,397	(4,068,531)	3,397,866
Segment assets	27,442,380	2,115,326	22,991,308	52,549,014	(14,312,301)	38,236,713
Segment liabilities	15,009,098	378,830	11,935,405	27,323,333	(2,916,263)	24,407,070
Depreciation and amortization	(852,252)	(743)	(101)	(853,096)	(28,438)	(881,534)
Capital expenditures	4,892,375	844	1,898	4,895,118	—	4,895,117
Cash Flow Information						
Net cash flows from (used in):						
Operating activities	2,157,299	23,098	19,938	2,200,335	147,272	2,347,607
Investing activities	(4,139,429)	(5,851)	2,840,914	(1,304,366)	254,195	(1,050,171)
Financing activities	1,626,630	(4,871)	(185,950)	1,435,809	(403,738)	1,032,071

2016

	Power And Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
Earnings Information						
Revenues						
External customer	₱7,191,249	₱ 26,699	₱-	₱7,217,948	(₱111,150)	₱7,106,798
Inter-segment	—	—	674,749	674,749	(674,749)	—
Total revenues	7,191,249	26,699	674,749	7,892,697	(785,899)	7,106,798
Interest income	21,348	202	110,388	131,938	(89,976)	41,962
Finance charges	580,533	—	686,059	1,266,592	(401,439)	865,153
Provision for income tax	190,480	466	5,299	196,245	81,242	277,487
Net income (loss)	1,105,167	4,478	104,420	1,214,065	(578,277)	635,788
Other Information						
Investments in associates and due from related parties	652,320	902,701	9,864,055	11,419,076	(8,277,303)	3,141,773
Segment assets	23,892,840	2,109,241	12,713,467	38,715,548	(7,905,822)	30,809,726
Segment liabilities	12,764,340	379,668	11,323,411	24,467,419	(4,369,688)	20,097,731
Depreciation and amortization	(705,932)	(831)	(158)	(706,921)	(4,947)	(711,868)
Capital expenditures	3,752,248	195	256	3,752,699	—	3,752,699
Cash Flow Information						
Net cash flows from (used in):						
Operating activities	2,103,391	1,488	379,557	2,484,436	(102,545)	2,381,891
Investing activities	(3,425,160)	(697)	(2,243,373)	(5,669,230)	2,860,714	(2,808,516)
Financing activities	962,874	2,667	327,588	1,293,129	(2,756,413)	(1,463,286)



2015

	Power And Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
Earnings Information						
Revenues						
External customer	₱5,002,696	₱23,635	₱-	₱5,026,331	(₱4,635)	₱5,021,696
Inter-segment	-	-	534,538	534,538	(534,538)	-
Total revenues	5,002,696	23,635	534,538	5,560,869	(539,173)	5,021,696
Interest income	20,378	254	3,403	24,035	-	24,035
Finance charges	64,886	1,584	580,778	647,248	(322,888)	324,360
Provision for income tax	334,770	173	8,619	343,562	96,866	440,428
Net income (loss)	1,296,948	(47,697)	(373,257)	875,994	(185,057)	690,937
Other Information						
Investments in associates and due from related parties	663,210	899,941	3,847,486	5,410,637	(3,267,874)	2,142,763
Segment assets	21,001,629	2,047,070	10,030,603	33,079,302	(2,912,878)	30,166,424
Segment liabilities	18,471,812	1,147,128	2,335,632	21,954,572	(2,388,264)	19,566,308
Depreciation and amortization	(347,859)	(975)	(121)	(348,955)	-	(348,955)
Capital expenditures	2,238,246	845	172	2,239,263	-	2,239,263
Cash Flow Information						
Net cash flows from (used in):						
Operating activities	1,562,983	25,096	(586,140)	1,001,939	366,281	1,368,220
Investing activities	(535,018)	17,425	(1,108,572)	(1,626,165)	(275,943)	(1,902,108)
Financing activities	(1,104,820)	(55,602)	3,210,009	2,049,587	(91,519)	1,958,068

Except for fees from technical advisory services related to the operation and maintenance of a power plant in Indonesia amounting to ₱7 million in 2016 and ₱25 million in 2015 (nil in 2017), the Group operates and derives principally all of its revenues from domestic operations. Thus, geographical business information is not required.

The following illustrate the reconciliations of reportable segment assets and liabilities to the Group's corresponding amounts:

	2017	2016	2015
<i>(Amounts in Thousands)</i>			
Assets			
Total assets for reportable segments	₱45,082,617	₱27,296,472	₱23,821,179
Investments in shares of stock of subsidiaries and associates and due from related parties	7,466,397	11,419,076	11,267,227
Goodwill	-	-	(43,140)
Eliminations	(14,312,301)	(7,905,822)	(4,878,842)
Consolidated assets	₱38,236,713	₱30,809,726	₱30,166,424
Liabilities			
Total liabilities for reportable segments	₱1,870,957	₱1,414,361	₱1,429,375
Long-term debts	18,709,922	16,891,211	17,180,010
Due to related parties	5,211,683	4,696,513	2,464,839
Loans payable	975,709	667,031	300,000
Deferred income tax liabilities - net	315,401	338,670	331,522
Income tax payable	19,368	58,790	64,901
Accrued interest payable	220,293	400,843	183,925
Eliminations	(2,916,263)	(4,369,688)	(2,388,264)
Consolidated liabilities	₱24,407,070	₱20,097,731	₱19,566,308

7. Cash and Cash Equivalents and Short-term Cash Investments

	2017	2016
Cash on hand	₱281,500	₱251,500
Cash in banks	1,747,876,494	2,040,298,350
Cash equivalents	2,635,644,054	10,036,666
	₱4,383,802,048	₱2,050,586,516



Cash in banks earn interest at the respective bank deposit rates. Cash equivalents 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 deposit rates.

Short-term cash investments amounting to ₦258 million and ₦58 million as at December 31, 2017 and 2016, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging 3.00% to 4.10%.

Interest income from cash and cash equivalents and short-term cash investments amounted to ₦32 million, ₦21 million and ₦23 million in 2017, 2016 and 2015, respectively.

8. Trade and Other Receivables

	2017	2016
Trade:		
Power	₦1,024,845,511	₦964,559,609
Real estate	92,828,868	91,506,354
Product distribution and others	31,749,577	31,730,458
Due from related parties (Note 20)	1,221,220,856	966,128,080
Retention receivables	143,009,378	46,364,378
Others	85,102,999	79,160,083
	<u>2,598,757,189</u>	<u>2,179,448,962</u>
Less noncurrent portion of installment receivables	6,319,792	6,557,239
	<u>2,592,437,397</u>	<u>2,172,891,723</u>
Less allowance for impairment losses	83,435,820	83,435,820
	<u>₦2,509,001,577</u>	<u>₦2,089,455,903</u>

Power

These receivables are noninterest-bearing and are generally on 30 days term. Trade receivables include SPPC's long-outstanding receivables from NPC amounting to ₦123 million as at December 31, 2017 and 2016, respectively. These receivables pertain to the portion of accounts that was disputed by NPC and was decided upon by the Energy Regulation Commission (ERC) on June 3, 2013 in favor of SPPC. On July 23, 2013, NPC elevated the case to the Court of Appeals (CA). On August 17, 2015, CA denied NPC's motion for reconsideration and decided in favor of SPPC. On September 18, 2015, NPC elevated the case with the Supreme Court (SC). On July 4, 2016, SC rendered a decision holding NPC liable to pay SPPC for the additional 5 MW from 2005 to 2010 which affirmed ERC's requirement for both parties to reconcile settlement amount. On November 23, 2016, SC issued its decision to deny the motion for reconsideration submitted by NPC and to render the case with finality.

As at March 22, 2018, SPPC and NPC are still in negotiation for the settlement of the long-outstanding receivables.

The allowance for impairment loss of ₦33 million as at December 31, 2017 and 2016, is management's best estimate of impairment loss on the long-outstanding receivables from NPC.

Real Estate

These pertain to receivables from venturers and customers from the sale of residential and commercial lots and units. Real estate receivables are generally noninterest-bearing and have terms of less than one year, except for installment receivables amounting to ₦59 million and ₦62 million as at December 31, 2017 and 2016, respectively, which are collectible in monthly installment over a period



of two to 10 years and bear interest rates ranging from 18% to 21% computed on the outstanding balance of the principal. Title on the lots sold is passed on to the buyer only upon full settlement of the contract price. The noncurrent portion of the installment receivables amounted to ₱6 million and ₱7 million as at December 31, 2017 and 2016.

Real estate receivables include the Group's share on the sale of the developed residential and commercial lots and golf club shares in the Eagle Ridge Golf and Residential Estates jointly developed with Sta. Lucia Realty and Development, Inc. (SLRDI) (see Notes 10 and 33).

Product Distribution and Others

These pertain to receivables from the supply of goods and merchandise to customers. Product distribution and other receivables are noninterest-bearing and generally have a term of less than one year. Outstanding receivables amounting to ₱32 million were fully provided with allowance for impairment losses as at December 31, 2017 and 2016.

Retention Receivables

Retention receivables pertain to the outstanding balances from GBPC and Aboitiz Land, Inc. (Aboitiz) for the sale of investment in ATEC (see Note 1) and Lima Land Inc. (LLI), which will be collected upon issuance by BIR of the Certificate Authorizing Registration and accomplishment of certain milestones, respectively.

Due from Related Parties and Other Receivables

Other receivables primarily include advances to employees, receivables from contractors, receivables from insurance claims and receivables from venturers. Terms and conditions of the "Due from related parties" are disclosed in Note 20.

On November 25, 2016, SPPC recognized gain from settlement of insurance claim for damaged diesel engine amounting to ₱70 million which was presented as part of "Other income (charges)" account in 2016. As at December 31, 2016, uncollected portion amounted to ₱30 million which was collected in 2017.

The Parent Company has various advances to third parties that were nonmoving since prior years. These advances have been specifically identified to be potentially uncollectible and thus, provided with allowance amounting to ₱5 million as at December 31, 2017 and 2016.

Movements of allowance for impairment losses are as follows:

	2017				
	Power	Real Estate	Product Distribution	Others	Total
Balances at beginning and end of year	₱33,467,626	₱13,163,091	₱31,730,458	₱5,074,645	₱83,435,820
Individually impaired	₱33,467,626	₱—	₱31,730,458	₱5,074,645	₱70,272,729
Collectively impaired	—	13,163,091	—	—	13,163,091
	₱33,467,626	₱13,163,091	₱31,730,458	₱5,074,645	₱83,435,820

	2016				
	Power	Real Estate	Product Distribution	Others	Total
Balance at beginning of year	₱30,433,725	₱13,163,091	₱31,730,458	₱5,074,645	₱80,401,919
Effect of change in foreign exchange rate	3,033,901	—	—	—	3,033,901
Balance at end of year	₱33,467,626	₱13,163,091	₱31,730,458	₱5,074,645	₱83,435,820
Individually impaired	₱33,467,626	₱—	₱31,730,458	₱5,074,645	₱70,272,729
Collectively impaired	—	13,163,091	—	—	13,163,091
	₱33,467,626	₱13,163,091	₱31,730,458	₱5,074,645	₱83,435,820



9. Spare Parts and Supplies

	2017	2016
Spare parts	₱290,410,233	₱277,808,330
Coal	297,955,992	227,199,340
Fuel	66,504,325	120,100,663
Oil, lubricants and chemicals	22,349,185	18,268,536
Operating supplies and consumables	10,111,212	8,272,186
	₱687,330,947	₱651,649,055

10. Real Estate Inventories and Investments in Real Estate

Real Estate Inventories

	2017	2016
Eagle Ridge Project (General Trias, Cavite)		
- at cost (Note 33)	₱617,729,517	₱619,416,037
Campo Verde Project (Lipa and Malvar, Batangas)		
- at NRV (Note 33)	20,831,171	27,470,827
	₱638,560,688	₱646,886,864

A summary of the movements in real estate inventories is set out below:

	2017	2016
Cost		
Balances at beginning of year	₱667,476,805	₱657,642,149
Cost of real estate sold, net of cancellations	(9,498,425)	(4,982,828)
Reclassification from investments in real estate	—	14,817,484
Balances at end of year	657,978,380	667,476,805
Allowance for Impairment Loss		
Balances at beginning of year	20,589,941	21,066,565
Recovery of impairment loss due to sale (Note 27)	(1,172,249)	(476,624)
Balances at end of year	19,417,692	20,589,941
	₱638,560,688	₱646,886,864

Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱1 million in 2017, ₱0.5 million in 2016 and ₱1 million in 2015 are recognized also as part of “Other income (charges)” in the consolidated statements of income (see Note 27). Accumulated impairment losses on real estate inventories amounted to ₱19 million and ₱21 million as at December 31, 2017 and 2016, respectively.

Investments in Real Estate

	2017	2016
ALC Property (Pasong Tamo, Makati)	₱134,004,402	₱129,178,107
Batangas Project (Lipa and Malvar, Batangas)	42,412,032	42,412,032
Laguna Project (Cabuyao, Laguna)	4,685,936	4,685,936
	₱181,102,370	₱176,276,075



A summary of the movements in investments in real estate is set out below:

	December 31, 2017		
	Land	Building and Improvements	Total
Cost			
Balances at beginning of year	₱172,097,973	₱28,232,065	₱200,330,038
Additions	–	5,019,774	5,019,774
Balances at end of year	172,097,973	33,251,839	205,349,812
Accumulated Depreciation			
Balances at beginning of year	–	24,053,963	24,053,963
Depreciation (Note 25)	–	193,479	193,479
Balances at end of year	–	24,247,442	24,247,442
Net Book Value	₱172,097,973	₱9,004,397	₱181,102,370

	December 31, 2016		
	Land	Building and Improvements	Total
Cost			
Balances at beginning of year	₱1,457,482,132	₱30,445,623	₱1,487,927,755
Additions	300,000	202,881	502,881
Disposal and others	(1,272,715,684)	–	(1,272,715,684)
Reclassification to real estate inventories	(12,968,475)	(2,416,439)	(15,384,914)
Balances at end of year	172,097,973	28,232,065	200,330,038
Accumulated Depreciation			
Balances at beginning of year	–	24,287,988	24,287,988
Depreciation (Note 25)	–	333,405	333,405
Reclassification to real estate inventories	–	(567,430)	(567,430)
Balances at end of year	–	24,053,963	24,053,963
Net Book Value	₱172,097,973	₱4,178,102	₱176,276,075

Lanang Property

On December 27, 2011, the BOD of ACR approved the acquisition of 72% of the outstanding shares (consisting of 2,000,000 common shares and 344,498 preferred shares) of C. Alcantara & Sons, Inc. (CASI) from Alsons Development & Investment Corporation (Aldevinco), a stockholder of ACR and AC, for a total consideration of ₱1,226 million. The acquisition was paid through the reduction of ACR's receivables from Aldevinco equivalent to ₱1,226 million on that date. The total consideration of ₱1,226 million represents the market value of Lanang landholdings of CASI as determined by an independent third party appraiser. This acquisition provides ACR the right to own and develop 21.27 hectares of land and 3 hectares of foreshore leased area in Lanang, Davao City.

CASI filed with the BIR and notified the Philippine SEC regarding the shortening of its corporate life until March 31, 2014. As a result, ACR received the Lanang property of CASI as liquidating dividend amounting to ₱1,226 million in 2014. Transaction costs incurred such as taxes and processing fees to transfer the Lanang property to ACR's name totalling to ₱49 million were capitalized as part of "Investments in real estate".

On April 11, 2016, ACR transferred the Lanang property to Aviana as part of its capital contribution (see Note 11).



Fair Value

The estimated fair value of the investment properties as at December 31, 2013, the latest valuation date, amounted to ₱434 million. This was determined by an accredited independent appraiser, using sales comparison approach, which is a comparative approach to value properties that considers the sales of similar assets or related market data and establishes a value estimate.

Management believes that the fair value of the investment properties as at the latest valuation date is substantially the same as their fair value as at December 31, 2017 and 2016.

11. Investments in Associates

	Percentage of Ownership		2017	2016
	2017	2016		
At equity:				
Acquisition costs:				
Indophil Resources Philippines, Inc. (IRPI)	2.00	2.00	₱1,213,332,960	₱1,213,332,960
Aviana Development Corporation (Aviana)	34.00	34.00	963,311,802	962,311,802
RCPHI	31.24	31.24	80,851,701	80,851,701
T'boli Agro-Industrial Development, Inc.	22.32	22.32	66,193,299	66,193,299
Duta, Inc.	—	30.00	—	13,725,000
			2,323,689,762	2,336,414,762
Accumulated impairment loss:				
Balances at beginning of year			(160,770,000)	(160,770,000)
Disposal of investment during the year (Note 27)			13,725,000	—
Balances at end of year			(147,045,000)	(160,770,000)
			₱2,176,644,762	₱2,175,644,762

IRNL and IRPI

The Parent Company purchased 29,149,000 shares of IRNL in the amount of ₱1,316 million in 2010. Together with the ownership interests of APIC and AC through a series of subscription agreements, the Alcantara Group was the largest shareholder of IRNL at 19.99%. By virtue of the Agreement for the Joint Voting of IRNL shares with APIC and AC, the Parent Company has concluded that it has significant influence over IRNL through its representation in the BOD of IRNL. Accordingly, the Parent Company treated its investment in IRNL as part of "Investments in associates" using the equity method in the 2014 consolidated financial statements. The Parent Company had determined that the acquisition cost of IRNL includes goodwill amounting to ₱785 million.

On January 23, 2015, IRNL implemented the Scheme of Arrangement between APIC and IRNL shareholders wherein APIC acquired all of the remaining outstanding shares from existing shareholders of IRNL. Accordingly, IRNL became a subsidiary of APIC starting January 2015.

In July 2015, APIC was no longer part of the Alcantara Group as it was bought by a third party. Accordingly, the Joint Voting Agreement of IRNL shares between the Parent Company, APIC and AC was deemed terminated.

On December 11, 2015, the Parent Company and AC entered into Deed of Assignment of Shares (share swap) agreements with APIC, whereby the Parent Company and AC assigned and transferred to APIC all their interests in IRNL in exchange for ownership interests in IRPI. Accordingly, the Parent Company recognized the investment in IRPI amounting to ₱1,213 million representing the carrying value of the investment at the date of the share swap agreement.

The transfer of the Parent Company's investment in IRNL to investment in IRPI resulted in the Parent Company still exercising significant influence over IRPI due to its representation in the BOD of IRPI and representation in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, ACR treats its investment in IRPI as part of "Investments in associates" using the equity method in the 2017 and 2016 consolidated financial statements.



Aviana

On March 21, 2013, Aldevinco and ACIL, Inc. (collectively referred to as “AG”) and Ayala Land, Inc. (Ayala Land) entered into a joint venture agreement, where Ayala Land shall own 60% and AG shall own 40% of the outstanding capital stock of Aviana to undertake the development of the Lanang property of the Parent Company in Davao City. On September 17, 2013, Aviana was incorporated as a joint venture corporation. The Parent Company subscribed to the 296 preferred shares and 32 common shares for 32.8% ownership in Aviana. In December 2015, the Parent Company subscribed to additional 332,200 preferred shares and 35,800 common shares of Aviana through the conversion of the Parent Company’s advances amounting to ₱36 million. In August 2015, the Parent Company subscribed to additional 261,450 preferred shares and 29,050 common shares of Aviana for ₱22 million. The additional subscription to shares of Aviana in 2015 increased the Parent Company’s interest in Aviana to 34%.

As at March 22, 2018, Aviana has not yet started its commercial operations.

The aggregate financial information of IRPI and Aviana as at and for the years ended December 31 are as follows:

	2017	2016
<i>(Amounts in Thousands)</i>		
Current assets	₱2,017,932	₱18,582,220
Noncurrent assets	23,582,185	3,451,246
Current liabilities	457,520	433,058
Noncurrent liabilities	328,527	398,818
Revenue and other income	1,554,198	741,417
Net income	1,233,744	414,879
Total comprehensive income	1,233,744	414,879

The Group did not recognize its share in net earnings of associates for the year ended December 31, 2017 and 2016 because the amount is not material to the consolidated financial statements.

Aggregate financial information of IRPI and Aviana as at December 31, 2017 and 2016 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	IRPI	Aviana		
	2017	2016	2017	2016
<i>(In Thousands)</i>				
Current assets	₱1,522,177	₱18,083,422	₱495,755	₱498,798
Noncurrent assets	21,919,609	2,109,145	1,662,576	1,342,101
Current liabilities	(229,323)	(415,120)	(228,197)	(17,938)
Noncurrent liabilities	(327,968)	(327,968)	(559)	(70,850)
Equity	22,884,495	19,449,479	1,929,575	1,752,111
Equity interest of the Parent Company	2%	2%	34%	34%
Share in net assets of the acquiree	457,690	388,990	656,056	595,718
Goodwill, translation adjustments and others	755,643	824,343	307,256	366,594
Carrying value of investment	₱1,213,333	₱1,213,333	₱963,312	₱962,312

Duta

On August 15, 2017, the Parent Company sold its equity interest in Duta amounting to ₱14 million, with allowance for impairment loss amounting to ₱14 million, to Phoenix Petroleum Philippines, Inc. for a total consideration amounting to ₱56 million. The Parent Company recognized gain amounting to ₱34 million, net of transaction costs totaling to ₱8 million (see Note 27).



12. Property, Plant and Equipment

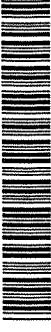
As at December 31, 2017:

	Plant						
Cost	Main Engine, Plant Structures and Others	Plant Mechanical, Electrical, Desulfurization Equipment	Switchyard and Desulfurization Equipment	Land, Buildings and Leasehold Improvements	Machinery and Other Equipment	Construction in Progress	Total
Balances at beginning of year	₱19,236,072,678	₱4,642,574,138	₱552,089,119	₱429,137,089	₱2,943,872,212	₱27,803,745,236	
Additions	13,617,299	37,377,886	–	306,776,469	4,537,345,838	4,895,117,492	
Disposals	(127,686,197)	(37,029,778)	–	(9,327,764)	–	(174,043,739)	
Reclassifications	46,219,384	9,921,440	–	–	(56,140,824)	–	
Balances at end of year	19,168,223,164	4,652,843,686	552,089,119	726,585,794	7,425,077,226	32,524,818,989	
Accumulated Depreciation and Amortization							
Balances at beginning of year	(5,343,903,735)	(3,403,870,151)	(127,901,661)	(219,192,390)	–	(9,094,867,937)	
Depreciation and amortization for the year:							
Expensed (Note 25)	(608,005,716)	(154,683,335)	(46,346,317)	(64,759,757)	–	(873,795,125)	
Capitalized	–	–	–	(204,799)	–	(204,799)	
Disposals	127,686,197	37,029,778	–	9,039,778	–	173,755,753	
Balances at end of year	5,824,223,254	3,521,523,708	174,247,978	275,117,168	–	9,795,112,108	
Net Book Value	₱13,343,999,910	₱1,131,319,978	₱377,841,141	₱451,468,626	₱7,425,077,226	₱22,729,706,881	



As at December 31, 2016:

	Plant Mechanical, Electrical, Switchyard and Desulfurization Equipment	Land, Buildings and Leasehold Improvements	Machinery and Other Equipment	Construction in Progress	Total
Cost					
Balances at beginning of year	₱6,728,301,635	₱3,848,817,389	₱483,981,849	₱230,755,417	₱24,253,610,623
Additions	173,357,032	2,130,837	68,107,270	51,083,696	3,458,020,594
Disposals	(190,518,257)	—	—	(1,340,902)	(10,705,657)
Reclassifications	12,524,932,268	791,625,912	—	148,638,878	(13,465,197,058)
Balances at end of year	19,236,072,678	4,642,574,138	552,089,119	429,137,089	27,803,745,236
Accumulated Depreciation and Amortization					
Balances at beginning of year	(4,957,055,251)	(3,349,926,248)	(88,511,363)	(181,985,919)	—
Depreciation and amortization for the year:					
Expensed (Note 25)	(573,526,757)	(53,943,903)	(39,390,298)	(36,437,891)	—
Capitalized	—	—	—	(2,109,482)	(2,109,482)
Disposals	186,678,273	—	—	1,340,902	188,019,175
Balances at end of year	(5,343,903,735)	(3,403,870,151)	(127,901,661)	(219,192,390)	—
Net Book Value	₱13,892,168,943	₱1,238,703,987	₱424,187,458	₱209,944,699	₱2,943,872,212
					₱18,708,877,299



Construction in progress represents the total accumulated costs incurred for the construction of Sarangani's power-generating project "SM 200". The construction of SM 200 is in two phases. Construction of Phase 1 (105 MW) of SM 200 commenced in January 2013 and was completed in April 2016. The construction of Phase 2 (105 MW) commenced in January 2017 and is expected to be completed in April 2019.

The capitalized borrowing costs and property, plant and equipment mortgaged as collateral for long-term debts of the Group are disclosed in Note 18 to the consolidated financial statements.

The Group has fully depreciated property, plant and equipment still used in the operations with cost and corresponding accumulated depreciation of ₱2,107 million and ₱2,106 million as at December 31, 2017 and 2016, respectively.

13. Available-for-sale Financial Assets

AFS financial assets primarily consist of investments in quoted and unquoted equity securities are as follows:

	2017	2016
Acquisition costs:		
Unquoted	₱2,222,168,768	₱2,222,168,768
Quoted	174,384,498	174,384,498
	2,396,553,266	2,396,553,266
Unrealized loss on changes in fair value:		
Balances at beginning of year	52,922,963	50,979,995
Fair value changes recognized in OCI	(9,602,718)	1,942,968
Balances at end of year	43,320,245	52,922,963
	₱2,353,233,021	₱2,343,630,303

In May 2015, the Parent Company declared its 91% investment in ACR Mining Corporation (ACRMC) as property dividend amounting to ₱208 million. The Parent Company's remaining 9% interest in ACRMC amounting to ₱21 million is recognized as AFS investment. ACRMC is still in exploration stage as at March 22, 2018.

14. Goodwill

Goodwill acquired through business combinations has been allocated to the power generation CGUs consisting of the operations of SPPC and WMPC.

In 2016, the power plants of SPPC and WMPC were fully contracted. However, the actual dispatch capacities were significantly lower than what was originally forecasted. Accordingly, the Group revised the assumed dispatchable capacity which significantly reduced the cash flow projections. As a result, the Group recognized impairment loss on goodwill amounting to ₱245 million in 2016. As at December 31, 2017 and 2016, the carrying amount of goodwill amounted to ₱807 million.

Key assumptions used in value-in-use calculations

The calculation of value-in-use for both CGUs are most sensitive to the following assumptions explained as follows:

Tariff rates. Tariff rates, comprising capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees, pertain to the rates used in determining the amount of energy fees to be billed to electric cooperatives and distribution utilities.



The tariff rates used in the value-in-use computation are based on SPPC's and WMPC's provisionally approved PSAs.

Contracted and dispatchable capacity. Contracted capacity reflects the management's forecast of future contracts to be agreed with electric cooperatives and distribution utilities, and approved by ERC. On the other hand, dispatchable capacity reflects management's estimate of actual energy to be delivered during the contract period. Contracted and dispatchable capacities are based on historical performance of the CGUs. The contracted and dispatchable capacity used in value-in-use computation are as follows:

	2017		2016	
	Contracted Capacity	Dispatchable Capacity	Contracted Capacity	Dispatchable Capacity
SPPC	100%	2%	100%	2%
WMPC	50 - 80%	20%	100%	20%

Discount rates. Discount rates reflect management's estimate of the risks specific to the CGUs. The discount rates used for the CGUs are based on weighted average cost of capital. This rate was further adjusted to reflect the market assessment of any risk specific to the generating unit for which estimates of cash flows have not been adjusted. The pre-tax discount rates used were 12.24%-12.86% and 13.71%-14.57% in 2017 and 2016, respectively.

Sensitivity to Changes in Assumptions

With regard to the assessment of value-in-use, management believes that an increase in discount rate by 2% would result in impairment.

15. Prepaid Expenses and Other Current Assets

	2017	2016
Deposits in interest reserve account (Note 18)	₱476,457,032	₱290,536,677
Creditable withholding taxes	217,044,797	206,052,597
Prepayments	66,645,719	65,391,821
Input VAT	19,859,748	25,069,923
	₱780,007,296	₱587,051,018

16. Accounts Payable and Other Current Liabilities

	2017	2016
Accounts payable	₱2,753,977,462	₱762,766,522
Accrued expenses (Notes 18 and 28)	594,946,348	642,295,878
Output tax and withholding tax payable	123,010,115	78,625,277
Advances from customers	28,256,745	28,256,745
Other current liabilities	226,061,877	60,121,743
	₱3,726,252,547	₱1,572,066,165

Accounts payable are noninterest-bearing and are normally on a 60 to 75 days term. On December 1, 2017, the Parent Company, GBPC and ATEC executed a deed of assignment of advances wherein the Parent Company assigned and transferred to GBPC its right to collect 50% of its advances to ATEC amounting to ₱1,880 million. Payable to GBPC included as part of accounts payable are noninterest-bearing and payable on demand.



Accrued expenses represent accruals for vacation and sick leaves, interest, overhead fees and utilities. Accrued expenses are normally settled within a year.

Other current liabilities include statutory payables, such as withholding taxes, SSS premiums and other liabilities to the government. Other current liabilities are noninterest-bearing and have an average term of 30 days.

17. Loans Payable

Parent Company

In 2017 and 2016, the Parent Company availed of unsecured short-term loans from local banks totaling to ₱830 million and ₱367 million, respectively. These loans are subject to annual interest rates ranging from 3.25% to 4.00% per annum and are payable on various dates within one year. Upon maturity in 2017, these loans were renewed by the Parent Company. As at December 31, 2017 and 2016, outstanding short-term loans amounted to ₱476 million and ₱367 million, respectively.

MPC

In 2017, MPC availed of a short-term, unsecured bank loan from Unionbank of the Philippines amounting to ₱100 million. The loan bears 3.875% interest rate. The said loan is still outstanding as at December 31, 2017.

In 2015, MPC availed of bank loans from Development Bank of the Philippines and Philippine National Bank amounting to ₱200 million and ₱100 million, respectively. The loans bears interest rates ranging from 4.0% to 4.8%. In 2016, MPC fully settled these bank loans.

WMPC

On April 20, 2017, WMPC availed of a bank loan from China Banking Corporation amounting to ₱100 million with interest rate of 4%. The loan was settled on December 18, 2017.

On July 21, 2017, WMPC availed of a bank loan from Unionbank of the Philippines amounting to ₱50 million with interest rate of 3.875%. The said loan is outstanding as at December 31, 2017.

On November 9, 2016, WMPC availed of a bank loan from Development Bank of the Philippines amounting to ₱150 million with interest rate of 3.5%. The loan was settled on February 7, 2017.

SPPC

On April 20, 2017, SPPC availed of a bank loan from China Banking Corporation amounting to ₱100 million with interest rate of 4%. The loan was settled on December 19, 2017.

On July 21, 2017, SPPC availed of a bank loan from Unionbank of the Philippines amounting to ₱50 million with interest rate of 3.875%. The said loan is still outstanding as at December 31, 2017.

On December 5, 2016, SPPC availed of a bank loan from Development Bank of the Philippines amounting to ₱150 million with interest rate of 3.5%. The loan was settled on March 3, 2017.

Sarangani

On December 12, 2017, Sarangani availed of loan from local bank to be used as working capital amounting to ₱300 million with nominal interest rate of 4.50%. The short-term debt was settled on February 28, 2018.

Interest expense related to loans payable amounted to ₱77 million and ₱3 million in 2017 and 2016, respectively (see Note 26).



18. Long-term Debts

This account consists of U.S. dollar and Philippine peso-denominated obligations as follows:

	2017	2016
Parent Company		
Philippine peso-denominated debt:		
Five-year fixed rate corporate note	₱5,600,000,000	₱5,600,000,000
Seven-year fixed rate corporate note	1,862,000,000	1,881,000,000
Sarangani		
Thirteen and a half-year peso-denominated floating rate debt	8,643,570,000	9,106,280,000
Ten and a half-year peso-denominated floating rate debt	2,450,000,000	–
MPC		
Six-year peso-denominated fixed rate debt	446,850,000	604,260,000
	<u>19,002,420,000</u>	<u>17,191,540,000</u>
Less unamortized transaction costs	292,498,053	300,328,847
	<u>18,709,921,947</u>	<u>16,891,211,153</u>
Less current portion	869,013,234	612,245,238
Noncurrent portion	₱17,840,908,713	₱16,278,965,915

Movement in the unamortized transaction costs are as follows:

	2017	2016
Balances at beginning of year	₱300,328,847	₱365,734,471
Additions	48,073,756	–
Amortization (Note 26)	(55,904,550)	(65,405,624)
Balances at end of year	₱292,498,053	₱300,328,847

Parent Company

The loans of the Parent Company consist of the following:

- Fixed Rate Corporate Notes Facility* - On November 25, 2015, ACR entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of ₱7,500 million divided into two (2) tranches: (a) Tranche A with principal amount of ₱5,600 million, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of ₱1,900 million, subject to fixed interest rate of 7.92% and payable in annual installment of ₱19 million for the first six (6) years with balloon payment of ₱1,786 million on the 7th year from the drawdown date. Proceeds of the loan shall be used to prepay ACR's existing long-term debts and finance the investments in power-related assets. In December 2015, ACR had drawn the entire loan facility amounting to ₱7,500 million.

The notes contain embedded derivatives arising from voluntary prepayment option where ACR may opt to prepay the outstanding notes at pre-agreed redemption price starting on the beginning of the 3rd anniversary date of the drawdown for Tranche A and beginning of the 5th anniversary date of the drawdown for Tranche B. Redemption price shall mean 102% of the face value of the notes outstanding plus accrued interest. ACR may also opt to prepay the notes, in whole or in part, at pre-agreed redemption price using the proceeds of any equity offering or any sale or disposition of its shareholdings in its subsidiaries at each anniversary date of the drawdown up to the 5th anniversary date. The embedded derivatives in the loans were assessed by ACR to be closely related to the host contract, thus were not bifurcated from the host contract based on the provisions of PAS 39.



ACR shall maintain certain financial ratios such as debt-to-equity ratio of not more than 2.9 and interest coverage ratio of not less than 2. As at December 31, 2017 and 2016, ACR is in compliance with the debt covenants.

As required in the loan agreement, ACR deposited ₱556 million into an interest reserve account in 2015. Throughout the term of the loan, the interest reserve account is required to have a balance of not less than the aggregate amount of interest falling due within the next interest period which is equivalent to one-year interest period as defined in the loan agreement. As at December 31, 2017 and 2016, the remaining balance of interest reserve account amounted to ₱293 million and ₱291 million, respectively (see Note 15). Interest income earned from interest reserve account amounted to ₱6 million, ₱21 million and ₱1 million in 2017, 2016 and 2015, respectively.

Movement in the unamortized transaction costs of the long-term debts as follows:

	2017	2016
Balances at beginning of year	₱130,949,646	₱156,989,665
Amortization of transaction costs (Note 26)	(28,085,626)	(26,040,019)
Balances at end of year	<u>₱102,864,020</u>	<u>₱130,949,646</u>

Interest expense recognized in 2017 and 2016 amounted to ₱334 million and ₱262 million, respectively (see Note 26).

b. *US\$100 million Loan Facility Agreement* - In October 2014, ACR entered into a US\$100 million Loan Facility Agreement with various banks to finance the investment in power-related assets. The loan was subject to floating interest rate which is the aggregate of the applicable Margin and LIBOR and was payable in full at maturity, three years from the date of the loan facility agreement.

ACR made drawdown to the loan facility amounting to \$74 million in 2014. ACR made another drawdown in 2015 for the balance of the credit loan facility.

All outstanding loans were prepaid by ACR in December 2015 resulting in the recognition of loss on prepayment of ₱181 million in 2015, representing unamortized transaction cost as at that date. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan.

c. *US\$65 million Loan Facility Agreement* - On May 24, 2012, ACR entered into a US\$65 million Loan Facility Agreement with Alsons Power Holdings Corporation (APHC) to finance the construction of the Sarangani Project (see Note 1). The loan was subject to 6% interest payable semi-annually and the principal is payable in full at maturity in 2016. The transaction costs representing fees, taxes and other charges incurred in obtaining the loan were deferred and amortized over 36 months using the effective interest rate. The loan was fully paid by ACR in 2015.

Sarangani

The loans of Sarangani consist of the following:

a. *Phase 1 of SM 200 project*

On December 12, 2012, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱9,300 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,600 million for the construction of the Phase 1 105-MW coal-fired power plant and its common or shared areas and facilities; and (2) Series 2 Loan in the principal amount of up to ₱700 million for the construction of the transmission line. Sarangani should pay interest semi-annually at the rate equal to the higher of (a) Philippine Dealing System



Treasury Fixing (PDST - F) benchmark bid yield for five-year treasury securities plus 3.5% spread per annum, or (b) 7.5% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, to be adjusted based on the higher of (a) interpolated PDST-F benchmark bid yield for eight and one-half (8-1/2)-year treasury securities plus 2.75% spread per annum, or (b) interest rate applicable on the initial borrowing.

Under the Omnibus Loan and Security Agreement (OLSA), Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes eight parcels of land registered in the name of KAED and one parcel of land registered in the name of Sarangani. The nine parcels of land have an aggregate area of 297,000 square meters and comprise the plant site of the Project. Further, chattel mortgage shall consist of office and transportation equipment with a carrying value of ₱45 million and ₱59 million as at December 31, 2017 and 2016, respectively (see Note 12).

Sarangani is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as change of business or scope of Phase 1, change of ownership or management, dividend declarations, issuance of shares, amendment of articles of incorporation and by-laws and quasi-reorganization, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others, among others. As at December 31, 2017 and 2016, Sarangani is in compliance with the loan covenants.

Sarangani shall also maintain certain financial ratios such as debt-to-equity ratio of not more than 2.33 and debt service coverage ratio of at least 1.10, provided that prior to dividend declarations, debt service coverage ratio is at least 1.25. As at December 31, 2017 and 2016, Sarangani is in compliance with the financial ratios.

In addition to the collaterals, the shares of stock in Sarangani registered under the names of ATEC and TTC representing 100% of the outstanding capital stock of Sarangani have been pledged in favor of the collateral trustee.

Long-term debts of Sarangani as at December 31, 2017 and 2016 are shown below:

	Series I	Series II	Total
	2017		
Long-term debts	₱8,026,590,000	₱616,980,000	₱8,643,570,000
Less unamortized debt issue costs	130,164,994	10,170,395	140,335,389
	7,896,425,006	606,809,605	8,503,234,611
Less current portion of long-term debts - net of unamortized transaction costs	595,621,165	58,207,759	653,828,924
	₱7,300,803,841	₱548,601,846	₱7,849,405,687

	Series I	Series II	Total
	2016		
Long-term debts	₱8,434,140,000	₱672,140,000	₱9,106,280,000
Less unamortized debt issue costs	152,603,531	12,087,458	164,690,989
	8,281,536,469	660,052,542	8,941,589,011
Less current portion of long-term debts - net of unamortized transaction costs	385,127,940	53,226,469	438,354,409
	₱7,896,408,529	₱606,826,073	₱8,503,234,602



Interest expense and amortization of debt issue costs that were incurred during the construction of Phase 1 were capitalized as part of “Construction in progress” under “Property, plant and equipment” account. Capitalized interest expense and amortization of debt issue costs as at December 31, 2016 (nil in 2017) amounted to ₱234 million and ₱8 million, respectively (see Note 12).

Interest expense and amortized debt issue cost after completion of Phase 1 recorded as expense in 2017 and 2016 are shown below and as disclosed in Note 26.

	2017	2016
Interest expense	₱683,325,157	₱479,690,910
Amortization of debt issue costs	24,355,600	16,260,448
	₱707,680,757	₱495,951,358

Accrued interest as at December 31, 2017 and 2016 amounted to ₱131 million and ₱140 million, respectively (see Note 16).

b. *Phase 2 of SM200 project*

On April 4, 2017, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱10,500 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,500 million for the construction of the 105-MW coal-fired power plant; and (2) Series 2 Loan in the principal amount of up to ₱2,000 million for the construction of the transmission lines. Sarangani should pay interest semi-annually at the rate equal to the higher of (a) PDST-R2 benchmark bid yield for five-year treasury securities plus applicable spread equal to 2.75% per annum divided by 0.99 for the first three-and-a-half years, thereafter, to be adjusted to 2.25% per annum divided by 0.99, or (b) 6% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, the higher of (a) interest rate applicable on the initial borrowing, or (b) PDST-R2 benchmark bid yield for five-year treasury securities plus applicable spread on banking day prior to the first day of the 11th interest period. As at December 31, 2017, total amount drawn from the facility amounted to ₱2,450 million.

Under the OLSA, Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes 14 parcels of land registered the name of Sarangani with an aggregate area of 515,314 square meters and comprise the plant site of the Phase 2 and the common and administration facilities of Sarangani. Further, chattel mortgage shall consist of machinery and transportation equipment with a carrying value of ₱47 million as at December 31, 2017 (see Note 12).

In addition to the collaterals, the shares of stock in Sarangani registered under the names of ATEC and TTC representing 100% of the outstanding capital stock of Sarangani have been pledged in favor of the collateral trustee.

Sarangani is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as change of business or scope of Phase 2, change of ownership or management, dividend declarations, issuance of shares, amendment of articles of incorporation and by-laws and quasi-reorganization, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others, among others. As at December 31, 2017, Sarangani is in compliance with the loan covenants.

Sarangani shall also maintain certain financial ratios such as debt-to-equity ratio of not more than 2.33 and debt service coverage ratio of at least 1.10, provided that prior to dividend declarations, debt service coverage ratio is at least 1.25. As at December 31, 2017, Sarangani was able to meet the required financial ratios.



The OLSA contains an embedded prepayment option where Sarangani may prepay the loan in whole or in part provided certain conditions are met. Sarangani assessed that the prepayment option is not required to be separated from the facility, host contract, as at December 31, 2017.

Long-term debts as at December 31, 2017 are shown below:

	Series I	Series II	Total
Long-term debts	₱1,850,000,000	₱600,000,000	₱2,450,000,000
Less unamortized debt issue costs	35,587,659	11,541,943	47,129,602
	₱1,814,412,341	₱588,458,057	₱2,402,870,398

Interest expense and amortization of debt issue costs that were incurred during the construction of Phase 2 were capitalized as part of “Construction in progress” under “Property, plant and equipment” account. Capitalized interest expense and amortization of debt issue costs as at December 31, 2017 amounted to ₱36 million and ₱1 million, respectively (see Note 12).

Accrued interest as at December 31, 2017 amounted to ₱36 million (see Note 16).

As required in the loan agreement, Sarangani deposited ₱183 million into a debt service reserve account in 2017 (see Note 15). Throughout the term of the loan, the debt service reserve account is required to have a balance of not less than the required debt service reserve account balance as determined by the facility agent plus the sum of the principal and interest payments on the loan falling due on the next principal repayment or interest payment date. As at December 31, 2017, the remaining balance of debt service reserve account amounted to ₱183 million (see Note 15).

The deferred financing costs pertain to the documentary stamp taxes, mortgage fees, legal and other fees (debt issue costs) incurred by Sarangani in relation to the OLSA dated April 4, 2017. Upon drawdown from the loan facility covered by the OLSA, a portion of the debt issue costs shall be allocated to, and deducted from, the principal drawn amount to determine the carrying value of the loan. The debt issue costs allocated to the undrawn facility is presented as “Deferred financing costs” in the 2017 consolidated balance sheet. The allocation shall be based on the amount of the principal drawn over the total facility. Debt issue costs allocated to drawn facility in 2017 amounted to ₱48 million, and were presented against long-term debts. Total amount of drawdown in 2017 amounted to ₱2,450 million. As at December 31, 2017, the unutilized deferred financing cost of Sarangani amounted to ₱158 million (nil in 2016).

In 2016, Sarangani wrote off the remaining balance of deferred financing costs amounting to ₱0.5 million recorded under “Bank charges” account, since there will be no expected additional loans to be drawn.

Deferred financing costs as at December 31, 2017 and 2016 are shown below:

	2017	2016
Debt issue costs	₱206,030,383	₱492,589
Less:		
Amount allocated to drawn facility	48,073,756	–
Write-off	–	(492,589)
	₱157,956,627	₱–

MPC

On July 15, 2013, MPC entered into a fixed interest rate long-term OLSA amounting to ₱900 million from a local bank. The loan is payable in 11 semi-annual principal amortizations beginning immediately at the end of the first year from loan drawdown, August 16, 2014, up to August 16, 2019. Interest is computed as the sum of the spread and the applicable benchmark rate,



based on outstanding facility amount, and calculated on the basis of the actual number of days elapsed in a year of 360 days. The fixed rate shall be subject to a floor rate of 6.25% per annum, excluding gross receipt tax. The interest is payable every six months reckoned from August 16, 2013, the initial drawdown date. On August 16, 2013, MPC made the first drawdown on the loan amounting to ₦800 million. The remaining loan balance amounting to ₦100 million was fully drawn on October 31, 2013.

MPC is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. MPC is also required to maintain certain financial and nonfinancial ratios. Although MPC was not able to meet the required certain financial and nonfinancial ratios as at December 31, 2017, management was able to obtain a waiver letter from the bank for the breach of debt covenant prior to the balance sheet date. Hence, the current and noncurrent portion of loans payable as at December 31, 2017 were presented in the consolidated balance sheet based on the original payment schedule.

The OLSA contains an embedded prepayment option where MPC may prepay the loan in whole or in part provided certain conditions are met. MPC assessed that the prepayment option is not required to be separated from the facility, host contract, as at December 31, 2017 and 2016.

The OLSA is also subject to a floor cap interest rate wherein interest payment will be at the rate equal to the higher of (a) minimum interest rate of 6.25% per annum or (b) a PDST-F benchmark bid yield for six (6) year treasury securities plus 2.25% spread per annum. Through interpolation, MPC assessed that the floor cap interest rate option is not required to be separated from the debt contract since it is clearly and closely related to the economic characteristics of the related debt contract. Interest payments are computed using benchmark interest rates in 2017 and 2016.

Under the terms of the OLSA, MPC shall provide collateral security which shall consist of mortgage on MPC's land and CHC's IDPPs I and II. As at December 31, 2017 and 2016, the carrying amount of MPC's land mortgaged as collateral amounted to ₦62 million (see Note 12). MPC paid collateral trustee fee amounting to ₦0.3 million in 2015.

Interest expense recognized in 2017 and 2016 amounted to ₦36 million and ₦43 million (see Note 26). Accrued interest as at December 31, 2017 and 2016 amounted to ₦11 million and ₦15 million as at December 31, 2017 and 2016, respectively (see Note 16). Amortization of transaction costs amounted to ₦3 million in 2017 and 2016 (see Note 26).

19. Decommissioning Liability

Under their ECC, SPPC, WMPC and Sarangani have an obligation to decommission or dismantle its power plant complex at the end of the useful lives of the power plant assets. In this regard, SPPC, WMPC and Sarangani established a provision to recognize their estimated liability for the dismantlement of their power plant complex.

Movements in decommissioning liability are as follows:

	2017	2016
Balances at beginning of year	₦176,117,468	₦69,380,652
Addition	-	93,446,985
Accretion (Note 26)	10,378,761	6,959,708
Effects of changes in estimated future decommissioning costs and discount rate	19,235,306	6,330,123
Balances at end of year	₦205,731,535	₦176,117,468



The actual decommissioning cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required in completing all decommissioning or dismantling activities.

The Group assesses the best estimate of cash flows required to settle the obligation on an annual basis.

20. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include (a) enterprises that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Group; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses. Outstanding related party balances are generally settled in cash.

The table below shows the details of the Group's transactions with related parties.

Related Party		Advances	Due from Related Parties (Note 8)	Terms	Conditions
Major stockholders	2017	₱379,538,203	₱1,074,461,737	30 days, noninterest-bearing	Partly secured, no impairment
	2016	195,605,137	829,776,448		
Subsidiaries of major stockholders	2017	66,929,442	43,255,460	30 days, noninterest-bearing	Unsecured, no impairment
	2016	97,563,051	110,184,902		
Affiliates	2017	77,336,929	103,503,659	30 days, noninterest-bearing	Unsecured, no impairment
	2016	52,772,500	26,166,730		
Total		₱523,804,574	₱1,221,220,856		
	2016	345,940,688	966,128,080		

- The Parent Company guarantees the obligations of SPPC and WMPC with NPC under the Operational Performance Bonds in accordance with the terms and conditions of the ECAs and to answer for the liabilities that SPPC and WMPC may incur in connection with the said Performance Bonds.
- On December 16, 2015, the Parent Company subscribed to 22 million redeemable preferred shares of Aldevinco, a shareholder, through conversion of its advances to Aldevinco amounting to ₱2.2 billion. The redeemable preferred shares have a ₱100 par value per share with cumulative dividend of 4% per annum and non-participating. The Parent Company accounts for this investment in redeemable preferred shares as part of AFS financial assets (see Note 13).
- Compensation of key management personnel are as follows:

	2017	2016	2015
Salaries and wages	₱74,517,883	₱43,249,658	₱41,683,566
Retirement benefits costs	4,534,840	3,210,607	2,595,002
	₱79,052,723	₱46,460,265	₱44,278,568



21. Equity

Capital Stock

	2017		2016	
	No. of shares	Amount	No. of shares	Amount
Authorized				
Common - ₱1 par value	11,945,000,000	₱11,945,000,000	11,945,000,000	₱11,945,000,000
Preferred - ₱0.01 par value	5,500,000,000	55,000,000	5,500,000,000	55,000,000
		₱12,000,000,000		₱12,000,000,000
Common				
Issued and outstanding	6,291,500,000	₱6,291,500,000	6,291,500,000	₱6,291,500,000
Preferred				
Subscribed	5,500,000,000	55,000,000	5,500,000,000	55,000,000
Subscriptions receivable		(19,616,667)		(24,016,667)
		₱6,326,883,333		₱6,322,483,333

On May 24, 2011, the Philippine SEC approved the amendment of the Articles of Incorporation of ACR creating a class of preferred shares, by reclassifying 55,000,000 unissued common shares with a par value of ₱1.00 per share into 5,500,000,000 redeemable preferred voting shares with a par value of ₱0.01 per share.

The redeemable preferred shares have the following features:

- a. Redeemable preferred shares may only be issued or transferred to Filipino citizens or corporations or associations at least 60% of capital of such corporations or associations is owned by Filipino citizens.
- b. Holders of redeemable preferred shares are entitled to receive, out of the unrestricted retained earnings of ACR, cumulative dividends at the rate of 8% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares.
- c. ACR may, by resolution of the BOD, redeem the preferred shares at par value. ACR will redeem the preferred shares at par value (i) when the foreign equity limits to which ACR is subject to shall have been removed; and (ii) ACR is not engaged in any other activity likewise reserved exclusively to Filipino citizens, or corporations or associations at least sixty percent (60%) of whose capital is owned by Filipino citizens that would otherwise require ACR to maintain the ownership of the preferred shares by such Filipino citizens. The preferred shares when redeemed will not be retired, and may be reissued upon resolution of the BOD.
- d. In the event of dissolution or liquidation, holders of redeemable preferred shares are entitled to be paid in full, or pro-rata insofar as the assets and properties of ACR will permit, the par value of each preferred share before any distribution shall be made to the holders of common shares, and are not entitled to any other distribution.

All common and preferred shares have full voting rights.

On February 4, 2013, AC subscribed to 5,500,000,000 preferred shares with par value of ₱0.01 per share, from the unissued authorized preferred shares of the Parent Company. On the same date, AC paid ₱14 million representing 25% of the subscription price of ₱55 million. As at December 31, 2017 and 2016, subscriptions receivable from AC amounted to ₱20 million and ₱24 million, net of the 8% dividends declared for preferred shares in 2017 and 2016, respectively.



The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Activity	Authorized Common Shares	No. of Shares Issued	Issue/Offer Price
1993	Initial Public Offering	12,000,000,000	6,291,500,000	₱1
2011	Conversion of unissued common shares to redeemable preferred shares	(55,000,000)	—	—
		11,945,000,000	6,291,500,000	

As at December 31, 2017 and 2016, the Parent Company has 462 and 466 stockholders, respectively.

Retained Earnings

On May 4, 2012, the BOD approved the appropriation of ₱850 million of its retained earnings as at December 31, 2011, for its equity contributions to the following projects:

Project Name	Nature/Project Description	Amount (In millions)	Timeline (Year)
SM200 1 & 2	Phase 1 of the 200 MW coal-fired power plant in Maasim, Sarangani	₱400	2016
ZAM100	Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City	150	2016
IDPP 1 & 2*	Rehabilitation of 108 MW diesel plant in Iligan City	200	2013
Sigui	Hydro-electric power in Maasim, Sarangani	35	2017
Bago	Hydro-electric power in Negros Occidental	15	2019
SMI400	400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato	50	2019
		₱850	

* The ₱200 million previously appropriated for IDPP 1 & 2 in 2012 was reallocated to SM200 Phase 2 which is expected to be completed in 2018.

On March 28, 2014, the BOD approved an additional appropriation of ₱850 million of the Parent Company's retained earnings as at December 31, 2013 for its equity contribution to the following projects:

Project Name	Nature/Project Description	Amount (In millions)	Timeline (Year)
SM200 1 & 2*	Phase 2 of the 200 MW coal-fired power plant in Maasim Sarangani	₱600	2016
ZAM100	Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City	150	2017
Sigui	Hydro-electric power in Maasim, Sarangani	35	2017
Bago	Hydro-electric power in Negros Occidental	15	2019
SMI400	400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato	50	2019
		₱850	

*As discussed above, completion of Phase 2 was extended to 2018.

On December 11, 2016, the BOD approved the reversal of appropriation relating to Phase 1 of the Sarangani project amounting to ₱400 million.

The retained earnings are restricted from being declared as dividends to the extent of the appropriation for equity contribution to the foregoing projects.



The Parent Company declared the following cash dividends on its common shares:

Year	Date of Declaration	Amount	Per Share	Date of Record	Date of Payment
2017	May 25, 2017	₱100,664,000	₱0.016	June 30, 2017	July 25, 2017
2016	May 27, 2016	100,664,000	0.016	June 30, 2016	July 25, 2016
2015	March 27, 2015	3,145,750	0.0005	June 5, 2015	March 22, 2015
2015	May 22, 2015	62,915,000	0.01	June 5, 2015	June 16, 2015

Dividends on preferred shares amounting to ₱4 million in 2017, 2016 and 2015 were applied against the Parent Company's subscriptions receivable from AC.

The share of non-controlling interests on the dividends declared by subsidiaries amounted to ₱225 million, ₱443 million and ₱390 million in 2017, 2016 and 2015, respectively.

The retained earnings is further restricted for dividend declaration to the extent of (a) undistributed earnings of subsidiaries amounting to ₱1,203 million and ₱993 million as at December 31, 2017 and 2016, respectively, and (b) deferred income tax assets amounting to ₱42 million and ₱37 million as at December 31, 2017 and 2016, respectively.

Equity Reserves

Acquisition of non-controlling interest

On July 2, 2013, the Parent Company entered into a Share Purchase Agreement to acquire 40% interest in voting shares of CHC, increasing its ownership to 100%. Cash consideration paid on August 1, 2013 amounted to ₱528 million (US\$12.16 million). The carrying value of the net assets of CHC was ₱2,456 million (US\$38.97 million). Following is the schedule of additional interest acquired in CHC in 2013:

Carrying value of the additional interest in CHC	₱982,232,166
Cash consideration paid to non-controlling interest	(527,910,397)
Excess of book value of non-controlling interest acquired over acquisition cost	₱454,321,769

The excess of book value of non-controlling interest acquired over acquisition cost was recognized in equity as follows:

Absorbed cumulative translation adjustment from acquired non-controlling interest	₱308,841,072
Included as part of other equity reserves	145,480,697
	₱454,321,769

Disposal of a subsidiary without loss of control

On November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock ownership interest in ATEC equivalent to 14,952,678 common shares to GBPC for a total consideration amounting to ₱2,378 million, inclusive of retention receivable to be received upon issuance by BIR of the Certificate Authorizing Registration (see Note 8). The excess of the total consideration over the carrying value of the sold interest in ATEC amounting to ₱709 million (net of transaction cost) was recognized as part of equity reserves.



As at December 31, 2017 and 2016, equity reserves consist of the following:

	2017				
	Remeasurement Gains (Losses) on Defined Benefit Plan	Unrealized Gains (Losses) on AFS Financial Assets	Cumulative Translations Adjustments	Equity Reserves	Total
Balances at beginning of year	₱4,756,234	(₱52,922,963)	₱1,677,199,965	₱145,480,697	₱1,774,513,933
Actuarial loss, net of tax	(105,414)	—	—	—	(105,414)
Loss on fair valuation of AFS financial assets	—	9,602,718	—	—	9,602,718
Translation adjustments	—	—	1,153,833	—	1,153,833
Disposal of subsidiary without loss of control	—	—	—	709,140,065	709,140,065
Balances at end of year	₱4,650,820	(₱43,320,245)	₱1,678,353,798	₱854,620,762	₱2,494,305,135

	2016				
	Remeasurement Gains (Losses) on Defined Benefit Plan	Unrealized Losses on AFS Financial Assets	Cumulative Translations Adjustments	Equity Reserves	Total
Balances at beginning of year	₱5,753,023	(₱50,979,995)	₱1,667,389,765	₱145,480,697	₱1,767,643,490
Actuarial loss, net of tax	(996,789)	—	—	—	(996,789)
Loss on fair valuation of AFS financial assets	—	(1,942,968)	—	—	(1,942,968)
Translation adjustments	—	—	9,810,200	—	9,810,200
Balances at end of year	₱4,756,234	(₱52,922,963)	₱1,677,199,965	₱145,480,697	₱1,774,513,933

Earnings (Loss) Per Share Attributable to Equity Holders of the Parent Company

	2017	2016	2015
Net income (loss) attributable to equity holders of the Parent Company*	(₱25,433,147)	₱312,195,386	₱183,741,930
Divided by the average number of common shares outstanding during the year	6,291,500,000	6,291,500,000	6,291,500,000
	(₱0.004)	₱0.050	₱0.029

* Net of dividends declared on preferred shares

22. Cost of Services

The Group's cost of services are as follows:

	2017	2016	2015
Fuel, oil and lubricants	₱3,134,962,268	₱3,492,692,072	₱2,516,058,181
Depletion, depreciation and amortization (Note 25)	819,444,633	674,892,189	316,557,938
Repairs and maintenance	256,573,959	178,565,159	32,693,779
Personnel costs (Notes 24 and 28)	140,994,972	121,369,576	67,799,232
Insurance expense	126,500,269	106,743,347	78,286,254
Contracted services	3,865,806	3,886,711	3,138,008
Property administration	1,921,042	1,775,909	1,177,287
Others	89,388,828	99,557,948	50,171,585
	₱4,573,651,777	₱4,679,482,911	₱3,065,882,264



23. General and Administrative Expenses

The Group's general and administrative expenses are as follows:

	2017	2016	2015
Personnel costs (Notes 24 and 28)	₱169,603,937	₱152,014,520	₱126,057,967
Depreciation and amortization (Note 25)	62,089,299	36,975,535	32,396,706
Taxes and licenses	61,368,057	110,080,888	74,056,093
Outside services	61,295,823	74,866,677	53,346,521
Marketing expense	11,152,070	3,139,725	–
Transportation and travel	19,512,535	18,627,783	15,099,561
Utilities	19,460,181	15,463,889	43,411,504
Telephone, telegraph and postage	6,326,510	6,433,296	9,315,951
Representation	4,291,787	7,419,804	132,518
Customer relations	4,552,018	6,646,982	11,726,457
Directors and executive fees and bonuses	3,915,000	2,655,000	3,210,000
Supplies	2,118,594	1,775,336	23,342,131
Insurance	1,375,056	1,440,113	686,567
Commissions (see Note 33)	648,539	311,431	598,728
Others	134,401,838	92,956,114	40,734,263
	₱562,111,244	₱530,807,093	₱434,114,967

Others include costs of freight and brokerage fees, professional license upgrading, reproduction, supplies and other administrative expenses of the Group which are not individually material.

24. Personnel Costs

The Group's personnel costs are as follows:

	2017	2016	2015
Cost of services (Note 22)	₱140,994,972	₱121,369,576	₱67,799,232
General and administrative expenses (Note 23)	169,603,937	152,014,520	126,057,967
	₱310,598,909	₱273,384,096	₱193,857,199
Salaries, wages and bonuses	₱261,690,360	₱190,096,762	₱155,924,100
Retirement benefits costs (Note 28)	13,000,707	29,062,514	15,606,477
Other employee benefits	35,907,842	54,224,820	22,326,622
	₱310,598,909	₱273,384,096	₱193,857,199

25. Depreciation and Amortization

	2017	2016	2015
Cost of services (Note 22)	₱819,444,633	₱674,892,189	₱316,557,938
General and administrative expenses (Note 23)	62,089,299	36,975,535	32,396,706
	₱881,533,932	₱711,867,724	₱348,954,644



	2017	2016	2015
Property, plant and equipment (Note 12)	₱873,795,125	₱703,298,849	₱336,282,492
Amortization of software costs	7,545,328	8,235,470	12,175,755
Investments in real estate (Note 10)	193,479	333,405	496,397
	₱881,533,932	₱711,867,724	₱348,954,644

26. Finance Charges

	2017	2016	2015
Interest on long-term debts and loans payable (Notes 17 and 18)	₱1,130,424,317	₱787,723,781	₱78,789,004
Transaction costs and loss on prepayment of long-term debts (Note 18)	59,492,437	70,469,255	242,228,344
Interest on decommissioning liability (Note 19)	10,378,761	6,959,708	3,342,840
	₱1,200,295,515	₱865,152,744	₱324,360,188

27. Other Income (Charges)

	2017	2016	2015
Gain on sale of investment (Note 11)	₱34,339,109	₱-	₱-
Recovery of impairment loss on investment due to sale (Note 11)	13,725,000	-	-
Quitclaim settlement	12,908,826	-	-
Foreign exchange loss - net	(5,529,475)	(15,005,706)	(218,312,160)
Gain (loss) on sale of property and equipment and investment in real estate	1,829,595	(2,960,574)	(35,649,469)
Recovery of impairment losses on real estate inventories due to sale (Note 10)	1,172,249	476,624	1,112,121
Input VAT income	994,461	23,280,347	104,235,222
Reversal of accrual for compensated absences (Note 28)	110,001	-	11,117,516
Impairment loss (Note 14)	-	(245,376,195)	-
Income from insurance claim (Note 8)	-	69,699,527	-
Income from decrease in decommissioning liability	-	9,140,983	5,933,564
Mark-to-market gain on derivative liability	-	-	27,595,736
Others	10,603,182	5,685,621	20,109,595
	₱70,152,948	(₱155,059,373)	(₱83,857,875)

In 2017, WMPC received final settlement from Power Sector Assets and Liabilities Management Corporation (PSALM) totaling to ₱13 million in relation to its ECA with NPC which ended on December 15, 2015.

Others pertain significantly to sales of sludge and reversal of provisions.



28. Employee Benefits

a. Retirement Benefits

The Parent Company, ALC, MPC and Sarangani have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and APMC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. Retirement benefits are dependent on the years of service and the respective employee's compensation. The Group's latest actuarial valuation report is as at December 31, 2017.

Under the existing regulatory framework, Republic Act. 7641, otherwise known as 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.

SPPC, WMPC and APMC

The tables below summarize the movements in net retirement assets of SPPC, WMPC and APMC.

As at December 31, 2017:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Effect of Changes in Asset Ceiling	Net Retirement Assets
At January 1, 2017	₱72,917,351	₱94,471,696	(₱2,906,938)	₱18,647,407
Retirement benefits cost recognized in profit or loss:				
Current service cost	6,387,631	—	(149,076)	(6,536,707)
Net interest income	3,473,728	4,628,973	—	1,155,245
	9,861,359	4,628,973	(149,076)	(5,381,462)
Remeasurements gains (losses) recognized in OCI:				
Return on plan assets (excluding amount included in net interest)	—	(9,093,274)	—	(9,093,274)
Arising from changes in financial assumptions	(700,528)	—	—	700,528
Due to experience adjustments	(4,798,153)	—	—	4,798,153
Changes in the effect of asset ceiling	—	—	3,056,014	3,056,014
	(5,498,681)	(9,093,274)	3,056,014	(538,579)
Contributions paid	—	10,791,557	—	10,791,557
At December 31, 2017	₱77,280,029	₱100,798,952	₱—	₱23,518,923

As at December 31, 2016:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Effect of Changes in Asset Ceiling	Net Retirement Assets
At January 1, 2016	₱93,075,106	₱133,243,149	(₱11,421,771)	₱28,746,272
Retirement benefits cost recognized in profit or loss:				
Loss on settlement	10,267,406	—	—	(10,267,406)
Current service cost	6,372,186	—	—	(6,372,186)
Net interest income	4,530,806	7,344,999	—	2,814,193
	21,170,398	7,344,999	—	(13,825,399)

(Forward)



	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Effect of Changes in Asset Ceiling	Net Retirement Assets
Remeasurements gains (losses) recognized in OCI:				
Return on plan assets (excluding amount included in net interest)	₱—	₱12,890,016	₱—	₱12,890,016
Arising from changes in financial assumptions	2,928,607	—	—	(2,928,607)
Due to experience adjustments	14,892,554	—	—	(14,892,554)
Changes in the effect of asset ceiling	—	—	14,388,164	14,388,164
	17,821,161	12,890,016	14,388,164	9,457,019
Benefits paid	(59,149,314)	(59,148,068)	(5,873,331)	(5,872,085)
Contributions paid	—	141,600	—	141,600
At December 31, 2016	₱72,917,351	₱94,471,696	(₱2,906,938)	₱18,647,407

The Group Plan is being maintained by Banco de Oro Unibank, Inc. - Trust and Investments Group (BDO - TIG), a trustee bank.

The carrying amounts and fair values of the plan assets of the Group Plan follows:

	2017	2016
Cash and cash equivalents	12.89%	17.70%
Investments in unit investment trust fund (UITF)	58.90%	54.76%
Investments in shares of stock	16.82%	15.64%
Investments in debt and other securities	10.15%	9.43%
Investments in government securities	0.86%	0.80%
Others	0.38%	1.67%
	100.00%	100.00%

The plan assets of the Group Plan consist of the following:

- Cash and cash equivalents include regular deposit and time deposits which bear interest ranging from 1.75% to 2.00%;
- Investments in UITF are ready-made investments that allow the pooling of funds that are managed by BDO - TIG;
- Investments in shares of stock consist of quoted equity securities;
- Investments in debt and other securities, consisting of both short-term and long-term corporate notes and bonds, bear interest ranging from 4.38% to 8.46% and have maturities from 2014 to 2024;
- Investments in government securities, consisting of fixed rate treasury notes and retail treasury bonds bear interest ranging from 2.84% to 8.13% and have maturities from 2014 to 2037; and
- Other financial assets held by the Group Plan consist primarily of interest and dividends receivable.

The Group Plan does not have investments in the Parent Company and related entities. APMC, SPPC and WMPC do not expect to contribute to the defined benefit pension plans in 2018.



ACR, ALC, MPC and Sarangani

The following tables summarize the movements in retirement benefits liabilities of the Parent Company, ALC, MPC and Sarangani:

	2017	2016
Balances at beginning of year	(₱21,092,162)	(₱6,488,611)
Retirement benefits cost charged in profit or loss:		
Current service cost	(6,501,190)	(14,722,107)
Interest cost	(1,118,055)	(515,008)
	(7,619,245)	(15,237,115)
Remeasurements gains (losses) recognized in OCI:		
Due to experience adjustments	(1,517,078)	(713,550)
Arising from changes in financial assumptions	1,979,824	2,199,990
Arising from changes in demographic assumptions	(9,481)	(489,651)
	453,265	996,789
Balances at end of year	(₱28,258,142)	(₱21,092,162)

The net retirement assets and liabilities in the consolidated balance sheets are as follows:

	Net retirement assets		Retirement benefits liabilities	
	2017	2016	2017	2016
Funded	₱26,160,832	₱29,607,129	₱2,641,909	₱10,959,722
Unfunded	-	-	28,258,142	21,092,162
Total	₱26,160,832	₱29,607,129	₱30,900,051	₱32,051,884

Actuarial Assumptions

The principal assumptions used in determining retirement benefits obligation as at December 31 are as follows:

SPPC, WMPC and APMC:

	2017	2016
Discount rates	4.92%-5.17%	4.69%-5.23%
Future salary increases	4%	2%-4%

ACR, ALC, MPC and Sarangani:

	2017	2016
Discount rates	5.19%-5.83%	5.52%-5.60%
Future salary increases	4%-10%	10%-12%

The Group has no specific matching strategies between the retirement plan assets and the defined benefit obligation under the retirement plans.

The sensitivity analysis shown in the next page has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations, assuming all other assumptions were held constant.



As at December 31, 2017:

	SPPC, WMPC and MPC		ACR, ALC, MPC and Sarangani	
	Increase (Decrease)	Amount	Increase (Decrease)	Amount
Discount rates	+0.5%	(₱1,257,922)	+1.0%	(₱2,061,981)
	-0.5%	1,371,359	-1.0%	2,365,943
Salary increase rates	+1.0%	2,760,032	+1.0%	3,711,908
	-1.0%	(2,365,063)	-1.0%	(3,052,550)

As at December 31, 2016:

	SPPC, WMPC and MPC		ACR, ALC, MPC and Sarangani	
	Increase (Decrease)	Amount	Increase (Decrease)	Amount
Discount rates	+0.5%	(₱2,493,274)	+1.0%	(₱1,211,954)
	-0.5%	2,761,997	-1.0%	1,488,522
Salary increase rates	+1.0%	5,756,627	+1.0%	1,310,003
	-1.0%	(4,784,190)	-1.0%	(1,106,306)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than 1 year	₱59,338,264	₱35,110,656
More than 1 year to 5 years	14,054,434	6,047,003
More than 5 years to 10 years	44,913,978	44,736,457
More than 10 years to 15 years	41,367,849	25,320,196
More than 15 years to 20 years	58,815,647	76,351,932
More than 20 years	715,364,857	230,223,882

b. Compensated Absences

All regular employees of CHC and its subsidiaries and Sarangani who have completed 12 months of continuous service are entitled to leave credits. Leave credits granted to each employee vary based on the employee's tenure and can be accumulated up to 60 days. Cost for vested leave credits are dependent on the mortality rate, disability rate, employee turnover rate, salary increase rate, discount rate, utilization rate and respective employee's compensation and leave credits.

Movements in the accrued leave credits (recognized under "Accrued expenses" account in "Accounts payable and other current liabilities") are as follows:

	2017	2016
Balances at beginning of year	₱15,065,609	₱11,851,153
Current service cost	4,517,870	12,665,443
Benefits paid	(7,705,171)	(9,450,987)
Reversal of accrual for compensated absences (Note 27)	(110,001)	-
Balances at end of year	₱11,768,307	₱15,065,609



29. Income Taxes

a. The major components of income tax expense are as follows:

Consolidated statements of income:

	2017	2016	2015
Current income tax	₱143,551,013	₱206,066,372	₱272,708,907
Deferred income tax	34,331,187	71,420,419	167,719,203
Total	₱177,882,200	₱277,486,791	₱440,428,110

Consolidated statements of comprehensive income:

	2017	2016	2015
Deferred income tax related to items charged or credited directly to equity during the year - actuarial losses (gains)	₱246,394	(₱825,575)	(₱2,009,180)

b. Following is the reconciliation between the statutory tax rate on income before income tax and the effective tax rates:

	2017	2016	2015
Statutory income tax rate	30.0%	30.0%	30.0%
Increase (decrease) in income tax rate resulting from:			
Unrecognized deferred income tax assets	53.0%	11.7%	10.5%
Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays and others - net	(19.8%)	(11.3%)	(1.6%)
Effective income tax rate	63.2%	30.4%	38.9%

c. Deferred income tax assets (liabilities) pertain to the income tax effects of the following:

	2017	2016		
	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities
Deferred Income Tax Assets				
Impairment losses on projects costs	₱4,274,186	₱-	₱4,274,186	₱-
Decommissioning liability	6,962,271	–	5,905,390	–
Retirement plan assets	3,353,075	–	3,286,131	417,968
Accrued vacation and sick leaves	2,967,670	–	3,332,368	98,526
Unrealized foreign exchange losses	39,986	–	1,764,001	–
Unamortized past service cost	2,864,332	–	446,323	738,297
Allowance for impairment loss transactions	1,518,887	1,061,515	1,518,887	1,413,190
Unrealized intercompany	19,847,047	–	15,079,187	–
Actuarial loss recognized in equity	148,351	–	1,717,099	364,558
	41,975,805	1,061,515	37,323,572	3,032,539
Deferred Income Tax Liabilities				
Capitalized interest	(6,205,475)	(403,873,703)	(5,559,327)	(341,382,696)
Difference between tax and financial amortization of transaction costs	–	(31,509,918)	(1,406,464)	(39,284,894)

(Forward)



	2017	2016		
	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities
Effect of change in functional currency	₱-	(₱35,934,519)	(₱36,324)	(₱41,498,201)
Fair value adjustment on real estate inventories, net of impairment	-	(167,545,032)	-	(168,606,547)
Difference between financial and tax depreciation	-	(67,600,824)	-	(75,308,769)
Equity in undistributed net earnings of a foreign subsidiary	-	(28,805,691)	-	(31,457,498)
Unrealized foreign exchange gains	(316,025)	(856,635)	-	(2,742,887)
Retirement plan assets	-	(2,450,704)	-	(1,746,962)
Actuarial gains recognized in equity	-	(1,671,681)	-	(1,467,833)
	(6,521,500)	(740,248,707)	(7,002,115)	(703,496,287)
	₱35,454,305	(₱739,187,192)	₱30,321,457	(₱700,463,748)

d. The following are the Group's deductible temporary differences and carryforward benefits of NOLCO and excess MCIT for which no deferred income tax assets are recognized in the consolidated financial statements because management believes that it is not probable that taxable income will be available against which the deferred income tax assets can be utilized:

	2017	2016
NOLCO	₱2,099,196,484	₱1,955,954,528
Impairment losses on property, plant and equipment	149,244,117	149,244,117
Allowance for doubtful accounts	44,893,549	44,893,549
Unrealized foreign exchange losses	9,331,949	6,059,284
Excess MCIT	3,643,790	3,348,858
Others	7,765,733	6,768,149

Movements of NOLCO and excess MCIT follow:

	2017	2016		
	NOLCO	Excess MCIT	NOLCO	Excess MCIT
Balances at beginning of year	₱1,955,954,528	₱3,348,858	₱1,541,107,552	₱2,841,642
Additions	639,624,581	322,175	464,650,113	3,348,857
Utilization and expiration	(496,382,625)	(27,243)	(49,803,137)	(2,841,641)
Balances at end of year	₱2,099,196,484	₱3,643,790	₱1,955,954,528	₱3,348,858

As at December 31, 2017, NOLCO and excess MCIT that can be claimed as deduction from taxable income and RCIT due, respectively, are as follows:

Years Incurred	Expiry Dates	NOLCO	Excess MCIT
2015	2018	₱897,858,343	₱94,590
2016	2019	561,713,560	3,227,025
2017	2020	639,624,581	322,175
		₱2,099,196,484	₱3,643,790

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



30. Lease Commitments

Operating Lease Payments

In August 2003, SPPC entered into a contract for the lease of land owned by Sarangani Agriculture Company, Inc. until May 2016. On June 1, 2016, the lease contract was renewed for a term of 10 years starting June 1, 2016 until May 31, 2026. The lease contract provides for annual rent of ₱1 million and was accounted for on a straight-line method over the term of the lease. The lease contract shall be paid in three lump-sum payments in 2016, 2019 and 2022.

As at December 31, the future minimum rental payable under an operating lease contract follows:

	2017	2016
Within one year	₱—	₱—
After one year but not more than five years	5,200,000	3,900,000
More than five years	3,900,000	5,200,000
	₱9,100,000	₱9,100,000

Operating Lease Receipts

The Group entered into various operating lease contracts with various third-party lessees. The lease term is one year renewable annually. Total rental income from these lease agreements amounted to ₱12 million in 2017 and 2016, and ₱11 million in 2015.

31. Financial Risk Management Objectives and Policies

The Group's principal financial instruments are composed of cash and cash equivalents, short-term cash investments, AFS financial assets, loans payable and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables (including noncurrent portion of installment receivables) and accounts payable and other current liabilities which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk (interest rate risk, equity price risk and foreign currency risk).

Management reviews and the BOD approves policies for managing each of these risks which are summarized below.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or a customer contract, leading to a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

In the Group's real estate business, transfer of the property is executed only upon full payment of the purchase price. There is also a provision in the sales contract which allows forfeiture of the installment/deposits made by the customer in favor of the Group in case of default. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments.

In the Group's power generation business, it is the policy of the Group to ensure that all terms specified in the ECA and PSAs with its customers, including the credit terms of the billings, are complied with.



The table below shows the gross maximum exposure to credit risk of the Group as at December 31, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

	2017	2016
Loans and receivables		
Cash and cash equivalents*	₱4,383,520,548	₱2,050,335,016
Short-term cash investments	258,319,976	58,172,400
Trade and other receivables		
Trade receivables		
Power	991,377,885	931,091,983
Real estate**	79,665,777	78,343,263
Product distribution and others	19,119	-
Due from related parties	1,221,220,856	966,128,080
Retention receivables	143,009,378	46,364,378
Other receivables***	26,569,227	14,079,714
	₱7,103,702,766	₱4,144,514,834

*Excludes cash on hand

**Includes noncurrent portion of installment receivables

***Excludes advances to suppliers and contractors

The table below shows the Group's aging analysis of financial assets:

	Neither Past Due nor Impaired	2017					
		Past Due but not Impaired				Subtotal	Impaired
		≤ 6 Months	Over 6 Months	Subtotal	Impaired		
Cash and cash equivalents*	₱4,383,520,548	₱-	₱-	₱-	₱-	₱4,383,520,548	
Short-term cash investments	258,319,976	-	-	-	-	-	258,319,976
Trade and other receivables:							
Trade receivables							
Power	571,651,663	239,957,131	179,769,091	419,726,222	33,467,626	1,024,845,511	
Real estate**	15,653,797	2,435,351	61,576,629	64,011,980	13,163,091	92,828,868	
Product distribution and others	19,119	-	-	-	31,730,458	31,749,577	
Due from related parties	119,014,388	1,129,912	1,101,076,556	1,102,206,468	-	1,221,220,856	
Retention receivables	143,009,378	-	-	-	-	143,009,378	
Others***	25,964,728	-	604,499	604,499	5,074,645	31,643,872	
	₱5,517,153,597	₱243,522,394	₱1,343,026,775	₱1,586,549,169	₱83,435,820	₱7,187,138,586	

* Excludes cash on hand

** Includes noncurrent portion of installment receivables

*** Excludes advances to suppliers and contractors

	Neither Past Due nor Impaired	2016					
		Past Due but not Impaired				Subtotal	Impaired
		≤ 6 Months	Over 6 Months	Subtotal	Impaired		
Cash and cash equivalents*	₱2,050,335,016	₱-	₱-	₱-	₱-	₱2,050,335,016	
Short-term cash investments	58,172,400	-	-	-	-	-	58,172,400
Trade and other receivables:							
Trade receivables							
Power	791,199,795	20,001,349	119,890,839	139,892,188	33,467,626	964,559,609	
Real estate**	13,287,452	807,271	64,248,540	65,055,811	13,163,091	91,506,354	
Product distribution and others	-	-	-	-	31,730,458	31,730,458	
Due from related parties	94,840,191	893,188	870,394,701	871,287,889	-	966,128,080	
Retention receivables	46,364,378	-	-	-	-	46,364,378	
Others***	4,669,502	2,661,710	6,748,502	9,410,212	5,074,645	19,154,359	
	₱3,058,868,734	₱24,363,518	₱1,061,282,582	₱1,085,646,100	₱83,435,820	₱4,227,950,654	

* Excludes cash on hand

** Includes noncurrent portion of installment receivables

*** Excludes advances to suppliers and contractors



The table below shows the credit quality of the Group's financial assets that are neither past due nor impaired based on historical experience with the corresponding third parties.

	2017			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	₱4,383,520,548	₱-	₱-	₱4,383,520,548
Short-term cash investments	258,319,976	-	-	258,319,976
Trade and other receivables:				
Trade:				
Power	404,065,843	167,585,820	-	571,651,663
Real estate*	15,653,797	-	-	15,653,797
Product distribution and others	19,119	-	-	19,119
Due from related parties	-	22,272,981	96,741,407	119,014,388
Retention receivables	-	143,009,378	-	143,009,378
Other receivables	19,305,687	6,659,041	-	25,964,728
	₱5,080,884,970	₱339,527,220	₱96,741,407	₱5,517,153,597

*Includes noncurrent portion of installment receivables

	2016			
	Grade A	Grade B	Grade C	Total
Cash and cash equivalents	₱2,050,335,016	₱-	₱-	₱2,050,335,016
Short-term cash investments	58,172,400	-	-	58,172,400
Trade and other receivables:				
Trade:				
Power	392,877,190	398,322,605	-	791,199,795
Real estate*	13,287,452	-	-	13,287,452
Due from related parties	-	17,606,664	77,233,527	94,840,191
Retention receivables	-	46,364,378	-	46,364,378
Other receivables	4,669,502	-	-	4,669,502
	₱2,519,341,560	₱462,293,647	₱77,233,527	₱3,058,868,734

*Includes noncurrent portion of installment receivables

Grade A financial assets pertain to those investments to counterparties with good credit standing or loans and receivables that are consistently paid before the maturity date. Grade B includes receivables that are collected on their due dates even without an effort from the Group to follow them up while other receivables and deposits which are collectible provided that the Group makes a persistent effort to collect them are included under Grade C.

Cash and cash equivalents and short-term cash investments are deposited in top 10 banks in the Philippines, hence, considered Grade A.

Liquidity Risk

Liquidity risk arises from the possibility that the Group encounter difficulties in raising funds to meet or settle its obligations at a reasonable price. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments and financial assets (held for liquidity purposes):

	On Demand	< 1 Year	1-3 Years	> 3 Years	Total
Accounts payable and other current liabilities*	₱2,359,692,514	₱764,801,872	₱170,432,278	₱-	₱3,294,926,664
Loans payable**	-	975,708,681	30,945,433	-	1,006,654,114
Long-term debts**	-	1,449,682,049	7,579,418,400	12,343,201,200	21,372,301,649
	₱2,359,692,514	₱3,190,192,602	₱7,780,796,111	₱12,343,201,200	₱25,673,882,427

* Excluding accrued interest, payable to government agencies and advances from customers totaling to ₱431,325,883

** Including interest payable computed using prevailing rate as at December 31, 2017



	2017				
	On Demand	< 1 Year	1-3 Years	> 3 Years	Total
Cash and cash equivalents	₱4,383,520,548	₱-	₱-	₱-	₱4,383,520,548
Short-term cash investments	258,319,976	-	-	-	258,319,976
Trade receivables	483,738,202	581,004,787	6,319,792	-	1,071,062,781
Due from related parties	1,221,220,856	-	-	-	1,221,220,856
Retention receivables	-	143,009,378	-	-	143,009,378
AFS financial assets	-	-	78,810,000	2,275,183,021	2,353,993,021
	₱6,346,799,582	₱724,014,165	₱85,129,792	₱2,275,183,021	₱9,431,126,560

	2016				
	On Demand	< 1 Year	1-3 Years	> 3 Years	Total
Accounts payable and other current liabilities*	₱880,527,999	₱183,812,905	₱-	₱-	₱1,064,340,904
Loans payable**	-	667,030,719	-	-	667,030,719
Long-term debts**	-	563,690,339	15,814,955,602	2,089,407,000	18,468,052,941
	₱880,527,999	₱1,414,533,963	₱15,814,955,602	₱2,089,407,000	₱20,199,424,564

* Excluding accrued interest, payable to government agencies and advances from customers totaling to ₱507,725,261

** Including interest payable computed using prevailing rate as at December 31, 2016

	2016				
	On Demand	< 1 Year	1-3 Years	> 3 Years	Total
Cash and cash equivalents	₱2,050,335,016	₱-	₱-	₱-	₱2,050,335,016
Short-term cash investments	58,172,400	-	-	-	58,172,400
Trade receivables	204,947,999	797,930,008	6,557,239	-	1,009,435,246
Due from related parties	966,128,080	-	-	-	966,128,080
Retention receivables	-	46,364,378	-	-	46,364,378
AFS financial assets	-	-	70,950,000	2,272,680,303	2,343,630,303
	₱3,279,583,495	₱844,294,386	₱77,507,239	₱2,272,680,303	₱6,474,065,423

Interest Rate Risk

Interest risk is the risk that changes in interest rates will adversely affect the Group's income or value of its financial instruments. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debts obligations.

Interest on financial instruments classified as floating rate is repriced on a quarterly and semi-annual basis.

The table below demonstrates sensitivity analysis to a reasonably possible change in interest rates on long-term debts, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate interest on borrowings). There is no effect on equity other than those already affecting the consolidated statements of income.

	2017		2016	
	Increase in Basis Points	Decrease in Basis Points	Increase in Basis Points	Decrease in Basis Points
Change in basis points	+100	-100	+100	-100
Increase (decrease) in income before income tax	(₱109,118,495)	₱109,118,495	(₱89,620,899)	₱89,620,899

Equity Price Risk

Equity price risk is the risk that the fair value of quoted AFS financial assets decreases as the result of changes in the value of individual stock. The Group's exposure to equity price risk relates primarily to the Group's quoted AFS financial assets. The Group's policy requires it to manage such risk by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector. The Group intends to hold these investments indefinitely in response to liquidity requirements or changes in market conditions.



The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's consolidated equity. The reasonably possible change in equity price was based on the year-to-year change of stock market indices. In quantifying the effect of reasonably possible change in equity price, the expected return on the AFS financial assets is correlated to the return of the financial market as a whole through the use of beta coefficients. The methods and assumptions used in the analysis remained unchanged over the reporting periods.

The table below summarizes the impact of changes in equity price on the consolidated equity. However, significant decrease in equity price may affect the consolidated income before income tax.

Equity price risk of those AFS financial assets listed in the Philippine Stock Exchange and secondary or broker market (for golf club shares) is as follows:

	2017		2016	
	Increase in Equity Price	Decrease in Equity Price	Increase in Equity Price	Decrease in Equity Price
Change in equity price	+1%	-1%	+1%	-1%
Increase (decrease) in equity	₱1,073,542	(₱1,073,542)	₱1,122,410	(₱1,122,410)

Foreign Currency Risk

The Group's exposure to foreign currency risk is limited to monetary assets and liabilities denominated in currencies other than its functional currency. Substantial portion of the U.S. dollar-denominated assets and liabilities is attributable to the Group's power segment in which the functional currency is the U.S. dollar. The Group closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risk associated with its financial instruments.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱49.93 to US\$1.0 and ₱49.72 to US\$1.0 for December 31, 2017 and 2016, respectively.

The table below summarizes the Group's exposure to foreign currency risk. Included in the table are the Group's financial assets and liabilities at their carrying amounts.

	2017		2016	
	In U.S. Dollar	In Philippine Peso	In U.S. Dollar	In Philippine Peso
Financial assets:				
Cash and cash equivalents	\$2,740,371	₱136,826,715	\$3,980,817	₱197,926,221
Short-term cash investments	4,270,000	213,201,100	970,000	48,228,400
Trade and other receivables	2,018,688	100,793,091	2,033,272	101,094,284
	9,029,059	450,820,906	6,984,089	347,248,905
Financial liabilities -				
Trade payables	(8,666,727)	(432,729,665)	(8,121,893)	(403,820,520)
	\$362,332	₱18,091,241	(\$1,137,804)	(₱56,571,615)

The table below demonstrates the sensitivity to a reasonably possible change in the U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax. The reasonably possible change in exchange rate was based on forecasted exchange rate change using historical date within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented.

	2017		2016	
	Philippine Peso		Philippine Peso	
	Increase	Decrease	Increase	Decrease
Change in foreign exchange rate	+1.0	-1.0	+1.0	-1.0
Increase (decrease) in income before income tax	₱180,912	(₱180,912)	(₱565,716)	₱565,716



The increase in ₱ against US\$ means stronger U.S. dollar against peso while the decrease in ₱ against US\$ means stronger peso against U.S. dollar.

There is no other impact on the Group's equity other those already affecting the consolidated statements of income.

Capital Management

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 businesses and maximize shareholder's value.

The Group considers its total equity and debt reflected in the consolidated balance sheet as its capital. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and raise additional. No changes were made in the objectives, policies or processes in 2017 and 2016, respectively.

The Group monitors its capital based on debt to equity ratio. The Group includes within debt interest bearing loans and borrowings. Capital includes equity attributable to the equity holders of the parent less the other equity reserves.

The Group's debt-to-equity ratio as at December 31, 2017 and 2016 are as follows:

	2017	2016
Long-term debts	₱18,709,921,947	₱16,891,211,153
Loans payable	975,708,681	667,030,719
Total debt	19,685,630,628	17,558,241,872
Equity attributable to equity holders of the		
Parent Company	11,009,060,783	10,410,608,515
Less equity reserves	2,494,305,135	1,774,513,933
Adjusted equity	₱8,514,755,648	₱8,636,094,582
	2.31:1	2.03:1

32. Financial and Non-financial Instruments

The Group held the following financial and non-financial instruments that are carried at fair value or where fair value is required to be disclosed:

As at December 31, 2017:

	Carrying value	Fair Value			
		Total	Level 1	Level 2	Level 3
Financial Assets					
Measured at fair value -					
Available-for-sale	₱131,064,253	₱131,064,253	₱52,254,253	₱78,810,000	₱-
Non-financial Assets					
Fair value is disclosed -					
Investments in real estate	181,102,370	433,927,000	-	-	433,927,000
	₱312,166,623	₱564,991,253	₱52,254,253	₱78,810,000	₱433,927,000
Financial Liabilities					
Fair value is disclosed -					
Long-term debts	₱18,709,921,947	₱16,663,601,006	₱-	₱-	₱16,663,601,006



As at December 31, 2016:

	Carrying Value	Fair Value			Level 3
		Total	Level 1	Level 2	
Financial Assets					
Measured at fair value -					
AFS financial assets	₱121,461,535	₱121,461,535	₱50,511,535	₱70,950,000	₱-
Non-financial Assets					
Fair value is disclosed -					
Investments in real estate	176,276,075	433,927,000	-	-	433,927,000
	₱297,737,610	₱555,388,535	₱50,511,535	₱70,950,000	₱433,927,000
Financial Liabilities					
Fair value is disclosed -					
Long-term debts	₱16,891,211,153	₱16,849,147,440	₱-	₱-	₱16,849,147,440

During the years ended December 31, 2017 and 2016, there were no transfers between Level 1 and 2 fair value measurements, and no transfers into and out of Level 3 measurements.

The following methods and assumptions are used to estimate the fair value of each class of financial and non-financial instruments:

Cash and cash equivalents, short-term cash investments, and trade and other receivables

The carrying amounts of these financial assets approximate their fair values due to the short-term maturity of those instruments and the effect of discounting the instruments is not material.

AFS financial assets

The Group's AFS financial assets include investments in quoted and unquoted securities and golf club shares. The fair value of investment in quoted securities is determined based on the closing price in PSE as at balance sheet dates. The fair value of investment in golf club shares which are traded in organized financial markets is determined based on quoted prices published by GG&A Club Shares Brokers, Inc. and G&W Clubshares, Inc. at the close of business at reporting date. Investment in unquoted securities are carried at cost due to high variability in the resulting estimated fair values.

Accounts payable and other current liabilities and loans payable

The carrying amounts of these financial liabilities approximate fair value because of the short-term maturity of these instruments.

Long-term debts

The fair value of long-term debts with variable interest rates approximates its carrying amounts due to quarterly repricing of interest. The fair value of long-term debts with fixed interest rate and long-term debts with variable interest rates subject to semi-annual repricing of interest is determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments.

Investments in real estate

Please see Note 10 for the basis of fair value.



The net gains (losses) per category of financial instruments are as follows:

	2017	2016	2015
Fair Value through Profit or Loss			
Mark-to-market gain on derivative liability (Note 27)	₱-	₱-	₱27,595,736
Loans and Receivables			
Interest income from cash and cash equivalents and short-term cash investments (Note 7)	31,879,354	21,041,508	24,034,525
AFS Financial Assets			
Gain (loss) on fair valuation of AFS taken to consolidated statements of comprehensive income (Note 13)	9,602,718	(1,942,968)	7,263,540
Other Financial Liabilities			
Amortization of transaction costs and loss on prepayment of long-term debts (Notes 18 and 26)	(59,492,437)	(70,469,255)	(242,228,344)
Interest on loans payable and long-term debts (Notes 17, 18 and 26)	(1,130,424,317)	(787,723,781)	(78,789,004)
	(1,189,916,754)	(858,193,036)	(321,017,348)
	(₱1,148,434,682)	(₱839,094,496)	(₱262,123,547)

33. Significant Agreements and Commitments

a. ECAs

SPPC and WMPC, under separate ECAs with NPC, have constructed a 55 MW and a 100 MW bunker C-fired diesel generator power plants in General Santos City and Zamboanga City, respectively, under a BOO scheme. NPC supplies all fuel necessary to generate electricity, with all electricity generated purchased by NPC at a price calculated based on the formula provided in the ECAs. SPPC and WMPC shall, directly or indirectly, own the power plants and shall operate and manage the power plants and provide all power generated to NPC for a period of 18 years up to April 28, 2016 and December 12, 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC. On April 28, 2016 and December 12, 2015, ECA with SPPC and WMPC have expired and not renewed by NPC, respectively.

The covering agreements also contain certain provisions with respect to NPC's payment to SPPC and WMPC, subject to certain conditions, of the total remaining amounts of the capacity fees until the end of the cooperation period, in the event of amendment, modification or repeal of any Philippine laws or any government regulations that will materially reduce, prejudice or otherwise adversely affect the companies' interest in the project or the power plant/station, and/or the economic return on their investments.

The ECAs qualify as operating leases as SPPC and WMPC sell all their outputs to NPC. Energy fees earned on the ECAs amounted to ₱240 million in 2016 (nil in 2017).

b. Operations and Maintenance (O&M) Service Agreements

Under an Advisory Service Agreement, AIL provides PT Makassar Power (PTMP), which is an independent power producer based in Indonesia, with technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for specified monthly fee of \$44,600 from August 2011 to April 2012 and \$46,600 from May 2012 to April 2015. On April 20, 2015, PTMP extended the Advisory Service Agreement with AIL for another year starting May 1, 2015. On April 30, 2016, AIL's contract with PTMP officially ended.

Total billings to PTMP amounted to ₱8 million in 2016 (nil in 2017).



c. PSAs

Starting December 13, 2015 and April 29, 2016, WMPC, and SPPC, respectively, arranged for PSAs with the following electric cooperatives and distribution utilities:

WMPC

Contracting Party	Contracted Capacity (in Megawatts)
Zamboanga City Electric Cooperatives, Inc. (ZAMCELCO)	50
Cagayan Electric Power and Light Company, Inc. (CEPALCO)	30
	80

In January 2016, WMPC entered into interim PSAs with Davao Light and Power Company, Inc. (DLPC) and Cotabato Light and Power Company, Inc. (CLPC) for a period of four months with contracted capacity of 18 MW and 2 MW, respectively.

Energy fees earned on PSAs amounted to ₱1,376 million and ₱1,299 million in 2017 and 2016, respectively.

SPPC

Starting April 2016, SPPC entered into PSAs with the following private distribution utilities:

Contracting Party	Contracted Capacity (in Megawatts)
DLPC	50
CLPC	5
	55

Energy fees earned on PSAs amounted to ₱405 million and ₱341 million in 2017 and 2016, respectively.

SRPI, Sarangani, and MPC entered into PSAs with various distribution utilities and electric cooperatives for a period of 25 years for SRPI and Sarangani and three (3) years for MPC from start of their commercial operations. Contracted capacities are shown below:

MPC

The details of MPC's contracted capacity (in Megawatts) with electric cooperatives based on the PSAs entered as at December 31 are as follows:

Contracting Party	Contracted Capacity (in Megawatts)	
	2017	2016
CEPALCO	30	30
ZAMCELCO	18	18
Zamboanga del Norte Electric Cooperative, Inc. (ZANECO)	5	5
Surigao Del Sur I Electric Cooperative, Inc. (SURSECO I)	4	-
South Cotabato II Electric Cooperative, Inc. (SOCOTECO II)	-	30
Agusan del Norte Electric Cooperative (ANEKO)	-	15
	57	98



On January 8 and June 9, 2016, MPC entered into a PSA with CEPALCO and SURSECO I, respectively, to supply energy for a period of ten (10) years.

Energy fees earned on PSAs amounted to ₱545 million and ₱1,694 million in 2017 and 2016, respectively.

Sarangani

Phase 1 of the Project

Contracting Party	Contracted Capacity (in Megawatts)	
	2017	2016
SOCOTECO II	70	70
Iligan Light and Power Inc.	15	15
ANEKO	10	10
Agusan del Sur Electric Cooperative	10	10
	105	105

Phase 2 of the Project

Contracting Party	Contracted Capacity (in Megawatts)	
	2017	2016
CEPALCO	20	20
Davao del Norte Electric Cooperative, Inc.	15	15
Davao del Sur Electric Cooperative, Inc.	15	15
Cotabato Electric Cooperative, Inc.	10	10
South Cotabato I Electric Cooperative, Inc.	10	10
Zamboanga del Sur I Electric Cooperative Inc.	5	5
ZANECO	5	5
	80	80

Energy fees earned on PSAs amounted to ₱4,168 million and ₱3,503 million in 2017 and 2016, respectively.

SRPI

In March 2013, SRPI entered into a PSA with ZAMCELCO for a period of 25 years from start of the SRPI's commercial operation. Contracted capacity for the related PSA was 85 MW. On September 15, 2014, Energy Regulation Commission approved the above PSA. SRPI has not entered into any additional PSA in 2017 and 2016.

d. Lease Commitments

SPPC has a contract for the lease of land owned by Sarangani Agriculture Co., Inc. until May 2026. The lease contract provides for annual rent of ₱1 million and shall be paid in three lump-sum payment in years 2016, 2019 and 2022. The lease contract was accounted for on a straight-line method over the term of the lease.

Rent expenses under this lease contract amounted to ₱1 million both in 2017 and 2016, and are presented as "Rent" under the "Direct costs" account in the consolidated statements of income (see Note 22). As at December 31, 2017 and 2016, prepaid rent amounting to ₱1 million and ₱3 million, respectively, are included under the "Prepaid rent" account in the consolidated balance sheets.

e. Joint Venture Agreements

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be



undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sales of real estate" and "Cost of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots is included under "Real estate inventories" account in the consolidated balance sheets. The Group recorded sales from Eagle Ridge amounting to ₱2 million in 2017, ₱4 million in 2016 and ₱5 million in 2015.

In 2006, ALC entered a joint venture agreement with Sunfields Realty Development Inc., the developer, for the development of ALC's parcels of land at Lipa and Malvar, Batangas into residential house and lots, called as the Campo Verde Subdivision. The entire development costs were shouldered by the developer. In return to their respective contributions to the project, the parties have agreed to assign a number of units of residential house and lots proportionate to their respective contributions computed as specified in the Memorandum of Agreement. The developer was assigned as the exclusive marketing agent and receives 10% of the total contract price, net of value-added tax and discounts, as marketing fee. Sales and cost of lots sold allocated to ALC are shown as part of "Real estate sales" and "Cost of real estate sales" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots amounting to ₱21 million and ₱28 million as at December 31, 2017 and 2016, respectively, is included under "Real estate inventories" account in the consolidated balance sheets (see Note 10).

On March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana. On September 17, 2013, Aviana was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in Aviana. As at March 22, 2018, Aviana has not yet started operations.

f. Marketing Agreements

ALC and SLRDI have a Marketing Agreement with Fil-Estate Group of Companies (FEGC) for the latter to market and sell the individual lots at Eagle Ridge. FEGC is entitled to a marketing commission of 12% of the sales contract price. Commission expense amounted to ₱0.6 million, ₱0.3 million and ₱0.6 million in 2017, 2016 and 2015, respectively (see Note 23).

g. Engineering, Procurement and Construction Contract (EPC)

Sarangani

On March 30, 2011, Sarangani entered into EPC contract with the consortium of Daelim Industrial Co. Ltd, a company incorporated in Korea, and Daelim Philippines Incorporated, a company incorporated in the Philippines ("Contractor"). Under the terms of the contract, the Contractor shall perform any and all services and provide any and all equipment and construction equipment necessary to perform the work in accordance with the EPC contract on a fixed-price, turnkey basis and shall deliver a fully operational power plant facility (SM 200). On December 29, 2011 and May 24, 2012, Amendments 1 and 2 to the EPC, respectively, were signed, revising certain portions of the EPC. Construction of Phase 1 of the SM200 commenced in January 2013 and was completed in April 2016.

On July 6, 2016, Sarangani entered into EPC contract with JGC Corporation, a company incorporated in Japan, and JGC Philippines, Inc., a company incorporated in the Philippines ("JGC"). Under the terms of the contract, JGC shall install the second 105 MW unit and associated auxiliaries in accordance with Sarangani's requirements. On October 14, 2016, the formal Notice to Proceed was issued to JGC.

The construction of Phase 2 (105 MW) commenced in January 2017 and is expected to be completed in April 2019 (see Note 1).



SRPI

On December 27, 2012, SRPI entered a three-year Construction Contract with Daelim Philippines, Incorporated (“Daelim”) for a ₱2.38 billion fixed price, date certain and turnkey basis. Under the Construction Contract, Daelim shall provide the design, engineering, procurement, supply, construction, start-up, testing and commissioning of the 105 MW coal-fired power station or the ZAM 100 project.

As at December 31, 2017, the Notice to Proceed was not issued to Daelim, hence, the contract validity period with the EPC contractor expired.

h. Registration with Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) and Kamanga Agro-Industrial Economic Zone

On November 20, 2012, SRPI obtained the certificate of registration and tax exemption issued by ZAMBOECOZONE. As a registered ZAMBOECOZONE enterprise, SRPI shall enjoy incentives and benefits provided for in Republic Act (R.A.) 7903 Sections 4(e) and 4(f) and Sections 43-44, 57-59 and 62 of R.A. 7903 throughout the Lease Agreement with ZAMBOECOZONE.

On June 7, 2011, Philippine Economic Zone Authority (PEZA) approved Sarangani’s registration as an Ecozone Utilities Enterprise inside Kamanga Agro-Industrial Economic Zone located at Barangay Kamanga, Maasim, Sarangani Province.

As a power generation registered economic zone enterprises SRPI and Sarangani are entitled to the following incentives:

- (a) Exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5% on gross income; and
- (b) Tax and duty free importation of capital equipment, machineries and spare parts. VAT-zero rating on local purchases subject to compliance with BIR and PEZA regulations/requirements.

i. Land Lease Agreement with ZAMBOECOZONE

On January 27, 2013, SRPI entered into a Land Lease Agreement with ZAMBOECOZONE for a period of 31 years from execution of the lease agreement. The leased properties consist of:

(a) 300,000 sq.m. for the Main Power Plant Area; and (b) 37,000 sq.m. for the Port Facility Area. Payment of monthly rental will commence on October 1, 2013 and subject to fee escalation.

On January 27, 2014, SRPI received billing from ZAMBOECOZONE covering period October 1, 2013 to December 31, 2013. However, SRPI requested for the deferment of the recognition of its rental obligations to ZAMBOECOZONE for the three (3) months period ended December 31, 2013 pending resolution of the certain conditions requisite for the start of rental payments. SRPI requested for revised billing to reflect the three-month deferment of the full rental rates.

On April 2, 2014, ZAMBOECOZONE issued the revised billing to SRPI amounting to ₱10 million for the period starting January 1, 2014 to March 2015. In response to the revised billing, SRPI wrote to ZAMBOECOZONE on October 24, 2014 communicating that while the plant site was cleared of informal settlers, the conflicting positions taken by the Department of Agrarian Reform and the Office of the Government Corporate Counsel on land-use conversion made the use of the land for industrial purposes uncertain. Despite the issue on land-use conversion, SRPI tendered payment of ₱10 million to show good faith and willingness to continue with the contract.



As at December 31, 2017, ZAMBOECOZONE has not resolved the pending issue pertaining to the land-use conversion of the land for industrial purposes, including the area for the SRPI Project Site. Meanwhile, the payment ₱10 million is recorded as security deposits under "Other noncurrent assets" account in the consolidated balance sheets as at December 31, 2017 and 2016.

34. Contingencies

The Group is currently involved in certain regulatory matters of which estimate of the probable costs for its resolution has been developed in consultation with the Group's advisors handling the defense on these matters and is based on the analysis of potential results. Such potential results are not reflected in the consolidated financial statements as management believes that it is not probable that the contingent liabilities will affect the Group's operations and consolidated financial statements.

35. Notes to Consolidated Statements of Cash Flows

a. The principal noncash investing and financing activities are as follows:

	2017	2016	2015
Financing activity:			
Application of dividends to subscriptions receivable (Note 21)	(₱4,400,000)	(₱4,400,000)	(₱4,400,000)
Investing activities:			
Disposal of subsidiaries without loss of control (Note 1)	1,495,267,800	—	12,563,402
Disposal of ACRMC through property dividend (Note 11)	—	—	207,590,029
Conversion of advances to related party to investment in preferred shares (Note 11)	—	—	(2,200,000,000)
Conversion of advances to related party to investment in associate (Note 11)	—	—	(35,800,000)

b. Reconciliation of the movement of liabilities arising from financing activities as at and for the year ended December 31, 2017 are as follows:

	Loans payable	Long-term debts	Total
Beginning balance	₱667,030,719	₱16,891,211,153	₱17,558,241,872
Cash movements:			
Availment of additional debt	1,529,777,962	2,450,000,000	3,979,777,962
Settlement of debt	(1,221,100,000)	(639,120,000)	(1,860,220,000)
Payment of debt issue costs	—	(206,030,383)	(206,030,383)
Noncash movements:			
Amortization of debt issue costs	—	55,904,550	55,904,550
Allocation of debt issue costs to undrawn portion of OLSA	—	157,956,627	157,956,627
Ending balance	₱975,708,681	₱18,709,921,947	₱19,685,630,628



36. Other Matters

a. Electric Power Industry Reform Act (EPIRA)

RA No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market within one year; and
- iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity.

Based on the assessment of management, the operating subsidiaries have complied with the applicable provisions of the EPIRA and its IRR.

b. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and on the Group in particular, that needs to be complied with. Based on the assessment made on the power plant's existing facilities, management believes that the operating subsidiaries comply with the applicable provisions of the Clean Air Act and the related IRR.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Alsons Consolidated Resources, Inc.
Alsons Building, 2286 Chino Roces Avenue
Makati City, Metro Manila, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated March 22, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with Securities Regulation Code Rule 68, As Amended (2011), and is 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.

Martin C. Guantes

Martin C. Guantes
Partner
CPA Certificate No. 88494
SEC Accreditation No. 0325-AR-3 (Group A),
August 25, 2015, valid until August 24, 2018
Tax Identification No. 152-884-272
BIR Accreditation No. 08-001998-52-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621267, January 9, 2018, Makati City

March 22, 2018



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2017

Supplementary schedules required by Securities Regulation Code Rule 68, As Amended (2011):

- Schedule of all the effective standards and interpretations
- Reconciliation of retained earnings available for dividend declaration



ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND
INTERPRETATIONS
DECEMBER 31, 2017

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary				✓
Philippine Financial Reporting Standards				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendment to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions*			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9 with PFRS 4*			✓

**These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Group did not early adopt these standards, interpretations and amendments.*



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments*		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures*		✓	
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	✓		

*These standards, interpretations and amendments to existing standards will become effective subsequent to December 31, 2017. The Group did not early adopt these standards, interpretations and amendments.



PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12, Clarification of the Scope of the Standard	✓		
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers*		✓	
PFRS 16	Leases*		✓	
Philippine Accounting Standards				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 16 (cont'd)	Amendments to PAS 16: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Amended)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution			✓
	Amendments to PAS 19: Regional Market Issue regarding Discount Rate			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment to PAS 21: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities		✓	
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PFRS 10, PFRS 12 and PAS 28, Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28: Investment Entities			✓
	Amendments to PAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		✓	
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value*			✓
	Amendments to PAS 28: Long-term Interests in Associates and Joint Ventures*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
PAS 32 (cont'd)	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Disclosure of information 'elsewhere in the interim financial report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization			✓
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property			✓
	Amendments to PAS 40: Transfers of Investment Property*		✓	
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	✓		
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 15	Agreements for the Construction of Real Estate			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration*		✓	
IFRIC 23	Uncertainty over Income Tax Treatments*		✓	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases – Incentives			✓
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓

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PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at December 31, 2017		Adopted	Not Early Adopted	Not Applicable
Philippine Interpretations				
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			✓
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

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ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES
SCHEDULE OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
DECEMBER 31, 2017

Unappropriated retained earnings as at December 31, 2016	₱265,554,568
Add net income actually earned/realized during the year:	
Net income during the year closed to retained earnings	355,377,200
Less dividends declared during the year	(105,064,000)

**RETAINED EARNINGS AVAILABLE FOR DIVIDEND
DECLARATION AS AT DECEMBER 31, 2017** **₱515,867,768**

Note: In accordance with SEC Financial Reporting Bulletin No. 14, the reconciliation is based on the separate/parent company financial statements of Alsons Consolidated Resources, Inc.



Alsons Consolidated Resources, Inc and Subsidiaries
Schedule of Financial Soundness

Years Ended December 31

Financial KPI	Definition	2017	2016	2015
Liquidity				
Current Ratio / Liquidity Ratio	Current Asset Current Liabilities	1.65:1	2.09:1	3.90:1
Solvency				
Debt to Equity Ratio / Solvency Ratio	Long-term debt (net of unamortized transaction costs)+Loans Payable (Equity attributable to Parent-Other Equity Reserves)	2.21:1	2.03:1	2.08:1
Interest Rate Coverage Ratio				
Interest Rate Coverage Ratio	Earning Before Interest and Taxes Interest Expense	1.23:1	2.01:1	4.41:1
Profitability Ratio				
Return to Equity	Net Income Total Average Stockholders Equity	1%	6%	7%
Asset-to Equity Ratio				
Asset-to Equity Ratio	Total Asset Total Equity	2.76:1	2.88:1	2.90:1

**Alsons Consolidated Resources, Inc.
And Subsidiaries**

**Interim Financial Statements
First Quarter Ended March 31, 2018 and 2017**

Management will present the consolidated financial performance of the Company for the first quarter ended March 31, 2018 and 2017 to the stockholders after the Board of Directors approved the same before the scheduled actual stockholders meeting.

