Beacon Electric Asset Holdings, Inc.

Financial Statements
December 31, 2016 and 2015

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Beacon Electric Asset Holdings, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Beacon Electric Asset Holdings, Inc. (the Company), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended 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 Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 18 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Beacon Electric Asset Holdings, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Marydith C. Miguel

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May 1, 2016, valid until May 1, 2019
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February 27, 2015, valid until February 26, 2018
PTR No. 5908731, January 3, 2017, Makati City

March 1, 2017

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF FINANCIAL POSITION

(Amounts in Millions)

	December 31	
	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 12, 13 and 15)	**₱3,107.2**	₱2,270.2
Receivables (Notes 5, 12 and 13)	**4.8**	2.6
Due from related parties (Notes 9, 12, 13 and 15)	–	8,594.8
Other current assets	**6.0**	5.9
Total Current Assets	**3,118.0**	10,873.5
Noncurrent Assets		
Available-for-sale (AFS) financial assets (Notes 6, 12, 13 and 16)	**115,549.4**	125,586.7
	₱118,667.4	₱136,460.2
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 7, 12 and 13)	**₱96.8**	₱146.9
Current portion of long-term debt (Notes 8, 12 and 13)	**1,195.3**	1,084.0
Total Current Liabilities	**1,292.1**	1,230.9
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 12 and 13)	**9,980.5**	11,175.8
Due to related parties (Note 9)	**683.3**	972.6
Total Noncurrent Liabilities	**10,663.8**	12,148.4
Equity		
Capital stock (Note 10)	**5,137.7**	4,583.0
Additional paid-in capital	**76,628.9**	70,200.5
Treasury shares (Note 10)	**(2,500.0)**	–
Other comprehensive income reserve (Notes 6 and 8)	**21,202.5**	42,442.3
Retained earnings	**6,242.4**	5,855.1
Total Equity	**106,711.5**	123,080.9
	₱118,667.4	₱136,460.2

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

	Years Ended December 31	
	2016	2015
REVENUE		
Dividend income (Note 6)	**₱9,883.0**	₱6,966.3
EXPENSES		
Taxes and licenses and other expenses	**5.5**	6.0
Professional and other service fees	**2.3**	3.1
	7.8	9.1
OTHER INCOME (EXPENSES)		
Interest expense (Note 8)	**(890.2)**	(1,723.1)
Interest income from accretion (Note 9)	**181.0**	363.5
Interest income, net of final tax (Note 4)	**42.1**	91.3
Amortization of debt issuance costs (Note 8)	**(24.0)**	(45.8)
Gain on disposal of available-for-sale financial assets (Note 6)	**–**	2,359.9
Penalty on prepayment of loan and termination of Interest Rate Swap (IRS) (Note 8)	**–**	(289.0)
Adjustment to amortized cost due to change in expected cash flow (Note 8)	**–**	(236.9)
	(691.1)	519.9
NET INCOME	**9,184.1**	7,477.1
OTHER COMPREHENSIVE INCOME (LOSS)		
Items to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale financial assets (Note 6):		
Unrealized fair value gain (loss)	**(21,239.8)**	25,873.9
Reclassified to profit or loss	**–**	(5,985.5)
Cash flow hedge reserve:		
Reclassified to profit or loss (Note 8)	**–**	73.5
Fair value changes	**–**	18.4
	(21,239.8)	19,980.3
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱12,055.7)**	₱27,457.4

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(Amounts in Millions)

					Other Comprehensive Income				
	Preferred Stock (Note 10)	Common Stock (Note 10)	Treasury Shares (Note 10)	Additional Paid-in Capital (Note 10)	Fair Value Changes on AFS Financial Assets (Note 6)	Cash Flow Hedge Reserve (Note 8)	Total	Retained Earnings (Note 10)	Total
Balances as at January 1, 2016	**₱2,000.0**	**₱2,583.0**	**₱–**	**₱70,200.5**	**₱42,442.3**	**₱–**	**₱42,442.3**	**₱5,855.1**	**₱123,080.9**
Total comprehensive income:									
Net income	–	–	–	–	–	–	–	**9,184.1**	**9,184.1**
Other comprehensive loss	–	–	–	–	**(21,239.8)**	–	**(21,239.8)**	–	**(21,239.8)**
Shares issuance	**554.7**	–	–	**6,445.3**	–	–	–	–	**7,000.0**
Transaction costs	–	–	–	**(16.9)**	–	–	–	–	**(16.9)**
Treasury shares	–	–	**(2,500.0)**	–	–	–	–	–	**(2,500.0)**
Dividends declared (Note 10)	–	–	–	–	–	–	–	**(8,796.8)**	**(8,796.8)**
Balances as at December 31, 2016	**₱2,554.7**	**₱2,583.0**	**(₱2,500.0)**	**₱76,628.9**	**₱21,202.5**	**₱–**	**₱21,202.5**	**₱6,242.4**	**₱106,711.5**
Balances as at January 1, 2015	₱2,000.0	₱2,583.0	₱–	₱70,200.5	₱22,553.9	(₱91.9)	₱22,462.0	₱3,465.3	₱100,710.8
Total comprehensive income:									
Net income	–	–	–	.–	–	–	–	7,477.1	7,477.1
Other comprehensive income	–	–	–	.–	19,888.4	91.9	19,980.3	–	19,980.3
Dividends declared (Note 10)	–	–	–	.–	–	–	–	(5,087.3)	(5,087.3)
Balances as at December 31, 2015	₱2,000.0	₱2,583.0	₱–	₱70,200.5	₱42,442.3	₱–	₱42,442.3	₱5,855.1	₱123,080.9

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.

STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Years Ended December 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**₱9,184.1**	₱7,477.1
Adjustments for:		
Dividend income (Note 6)	**(9,883.0)**	(6,966.3)
Interest expense (Note 8)	**890.2**	1,723.1
Interest income from accretion (Note 9)	**(181.0)**	(363.5)
Interest income, net of final tax (Note 4)	**(42.1)**	(91.3)
Amortization of debt issuance costs (Note 8)	**24.0**	45.8
Gain on disposal of AFS financial assets (Note 6)	**–**	(2,359.9)
Penalty on prepayment of loan and IRS termination (Note 8)	**–**	289.0
Adjustment to amortized cost due to change in expected cash flow (Note 8)	**–**	236.9
Operating loss before working capital changes	**(7.8)**	(9.1)
Increase in other current assets	**(0.1)**	(1.7)
Decrease in:		
Accounts payable and other current liabilities	**(61.8)**	(89.2)
Due to related parties	**(0.3)**	(4.6)
Net cash used in operations	**(70.0)**	(104.6)
Dividends received (Note 6)	**9,883.0**	6,966.3
Interest received, net of final tax	**39.9**	94.1
Net cash from operating activities	**9,852.9**	6,955.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Additional investments in AFS financial asset (Note 6)	**(11,202.5)**	–
Collections on sale of AFS financial asset (Notes 6 and 15)	**4,243.4**	–
Proceeds from disposal of AFS financial asset (Notes 9 and 15)	**–**	23,104.8
Payment of transaction charges on disposal of AFS financial asset (Note 6)	**–**	(145.7)
Net cash from (used in) investing activities	**(6,959.1)**	22,959.1
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares (Note 10)	**7,000.0**	–
Payments of/for:		
Interest on loans	**(878.5)**	(1,766.2)
Dividends declared (Notes 10 and 15)	**(4,553.4)**	(5,948.7)
Long-term debt (Note 8)	**(1,108.0)**	(23,217.5)
Redemption of preferred shares (Note 10)	**(2,500.0)**	–
Transaction costs on issuance of shares	**(16.9)**	–
Penalty on prepayment of loan and termination of IRS (Note 8)	**–**	(289.0)
Net cash used in financing activities	**(2,056.8)**	(31,221.4)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**837.0**	(1,306.5)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**2,270.2**	3,576.7
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱3,107.2**	₱2,270.2

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Beacon Electric Asset Holdings, Inc. (the Company or Beacon) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on February 10, 2010 with the initial sole purpose of consolidating the respective ownership interests in Manila Electric Company (MERALCO) of Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV). The Company is a joint venture between MPIC and PCEV, with equity interests in the form of shares and share entitlements in the Company divided equally between them.

On March 1, 2010, Beacon, MPIC and PCEV entered into an Omnibus Agreement (OA) to set out their mutual agreement in respect of, among others, the capitalization, organization, conduct of business and the extent of their participation in the management of the affairs of Beacon.

In 2016, there have been several developments involving the capital structure and investments of the Company:

- On May 27, 2016, the Board of Directors (BOD) and stockholders of the Company approved the increase in the authorized capital stock of the Company which was approved by the SEC on August 10, 2016. Out of the increase in authorized capital stock, each of MPIC and PCEV subscribed for 277,337,560 Class "B" Preferred Shares (see Note 10).

- On May 30, 2016, MPIC and PCEV entered into a Share Purchase Agreement and related Deed of Absolute Sale of Shares (the "Sale Agreement") pursuant to which MPIC acquired 645,756,250 Beacon Common Shares and 458,370,086 Beacon Preferred Shares owned and registered in the name of PCEV (the "Sale Shares") representing approximately 25% of the issued and outstanding Common Shares and approximately 25% of the economic interest in the Preferred Shares then issued and outstanding prior to the increase in authorized capital stock. Under the Sale Agreement, the purchase price for the Sale Shares is payable in installments and PCEV shall retain its right to vote fifty percent (50%) of the outstanding capital stock of the Corporation for as long as (a) PCEV owns at least 20% of the outstanding capital stock of the Company, or (b) the purchase price for the Sale Shares has not been fully paid.

- On May 18, 2016, Beacon PowerGen Holdings, Inc. (BPHI) was incorporated under the laws of the Philippines as a wholly owned entity of the Company. The Company subscribed for a total of 1,120,000,000 common shares of BPHI representing 100% of the BPHI's issued common shares.

- On May 27, 2016, BPHI acquired beneficial ownership of fifty-six percent (56%) of Global Business Power Corporation (GBPC), a corporation organized under the laws of the Philippines.

In view of the aforementioned developments, the Company, BPHI, MPIC and PCEV have agreed to enter into an Amended and Restated Omnibus Agreement (AROA) setting forth the changes in the capital structure and investments of the Company and their current agreement with respect to the organization, conduct of business, and the extent of their participation in the management of the affairs of the Company, BPHI, MERALCO and GBPC. The Company, BPHI, PCEV and

MPIC have agreed on certain corporate governance matters, including BOD composition, election of officers, shareholders' action, representation to the respective BOD of MERALCO and GBPC, and nomination of the BOD Committees and officers of MERALCO and GBPC.

Ownership interest of the Company's shareholders with respect to the Beacon common shares as at December 31:

	2016		2015	
	MPIC	**PCEV**	MPIC	PCEV
Number of shares	**1,937,268,747**	**645,756,248**	1,291,512,497	1,291,512,498
% of ownership	**75%**	**25%**	50%	50%

MPIC's shareholder, Metro Pacific Holdings, Inc. (MPHI) owns 41.9% of the total issued common shares (or 42.0% of the total outstanding common shares) and 52.1% of the total issued and outstanding common shares of MPIC as at December 31, 2016 and 2015, respectively. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH) (60.0%), Intalink B.V. (26.7%) and First Pacific International Limited (13.3%). First Pacific Company Limited (FPC), a company incorporated in Bermuda and listed in Hong Kong, through its subsidiaries, Intalink B.V. and FPIL, holds 40.0% equity interest in EIH and investment financing which under Hong Kong Generally Accepted Accounting Principles, require FPC to account for the results and assets and liabilities of EIH and its subsidiaries as FPC Group of Companies in Hong Kong. As sole holder of the voting Class A Preferred Shares, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2016.

PCEV is 99.9% owned by Smart Communications, Inc. (Smart) as at December 31, 2016 and 2015. Smart is wholly owned and controlled by PLDT Inc. (PLDT; formerly Philippine Long Distance Telephone Company), a company incorporated in the Philippines.

The registered office address of the Company is Unit 9-2, 9/F Net One Center, 26th cor. 3rd Avenue, Bonifacio Global City, Taguig City.

The accompanying financial statements as at and for the years ended December 31, 2016 and 2015 were approved and authorized for issuance by the BOD on March 1, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis, except for derivative financial instruments and available-for-sale (AFS) financial assets which have been measured at fair value. The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency and all values are rounded to the nearest million, except when otherwise indicated.

Statement of Compliance

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations based on equivalent interpretations of International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council (FRSC).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended PFRS and Philippine Interpretation effective January 1, 2016. Except as otherwise indicated, adoption of the following standards are either not applicable to the Company or did not have any impact on the Company's financial statements:

- Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28, *Investments in Associates and Joint Ventures*, *Investment Entities: Applying the Consolidation Exception*

  These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value. They also clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture) to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries when applying the equity method.

- Amendments to PFRS 11, *Joint Arrangements*, *Accounting for Acquisitions of Interests in Joint Operations*

  The amendments to PFRS 11 require a joint operator that is accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business (as defined by PFRS 3), to apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

  The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

- PFRS 14, *Regulatory Deferral Accounts*

  PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of income and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. Since the Company is an existing PFRS preparer, this standard would not apply.

- Amendments to PAS 1, *Presentation of Financial Statements*, *Disclosure Initiative*

  The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRSs. They clarify the following:

  - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different natures or functions
  - That specific line items in the statement of income and other comprehensive income and the statement of financial position may be disaggregated
  - That entities have flexibility as to the order in which they present the notes to financial statements
  - That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

- Amendments to PAS 16, *Property, Plant and Equipment* and PAS 38, *Intangible Assets*, *Clarification of Acceptable Methods of Depreciation and Amortization*

  The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

- Amendments to PAS 16 and PAS 41, Agriculture*: Bearer Plants*

  The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply.

- Amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements*

  The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

Annual Improvements to PFRSs 2012 - 2014 Cycle

The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and do not have a material impact on the Company's financial statements. These include:

- Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*

  The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.

- Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*

  PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.

- Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*

  This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.

- Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*

  This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

- Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

  The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

The principal accounting and financial reporting policies adopted in preparing the Company's financial statements are as follows:

Current Versus Non-current Classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification.

An asset as 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 non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

Fair Value Measurement

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted price or binding dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. Securities defined in these accounts as 'listed' are traded in an active market. Where the Company has financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it has elected to use the measurement exception to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate. For all other financial instruments not traded in an active market, the fair value is determined by using valuation techniques deemed to be appropriate in the circumstances. Valuation techniques include the market approach (i.e., using recent arm's length market transactions adjusted as necessary and reference to the current market value of another instrument that is substantially the same) and the income approach (i.e. discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible).

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described, as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

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

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

The Company determines the policies and procedures for both recurring fair value measurement, such as derivatives, and non-recurring measurement, such as impairment tests. At each reporting date, the Company analyzes the movements in the values of assets and liabilities which are required to be remeasured or reassessed according to the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts, counterparty assessment and other relevant documents.

The Company also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable. On an interim basis, the Company presents the valuation results to its independent auditors. This includes a discussion of the major assumptions used in the valuations.

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

The Company measures AFS financial assets at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 13.

<u>Cash and Cash Equivalents</u>
Cash comprises cash 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 acquisition and are subject to an insignificant risk of change in value.

Financial Instruments

Date of Recognition. The Company recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on the trade date. Regular way purchases and sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for financial instruments at fair value through profit or loss (FVPL), includes transaction costs.

Classification of Financial Instruments. Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

The classification depends on the purpose for which the instruments were acquired and whether they are quoted in an active market. The Company determines the classification of its instruments at initial recognition and, where allowed and appropriate, re-evaluates such classification at each financial year-end.

Financial instruments are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, AFS financial assets, financial liabilities at FVPL, other financial liabilities and derivatives designated as hedging instruments in an effective hedge, as appropriate.

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; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; 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 Company 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.

The Company’s preferred stock is classified as equity instruments.

Financial Assets

The Company’s financial assets consist of loans and receivables and AFS financial assets.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPL, HTM investments or AFS financial assets. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in interest income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income. Loans and receivables are included in current assets if maturity is within 12 months after the end of reporting period, otherwise these are classified as noncurrent assets.

The Company's cash and cash equivalents, receivables and due from related parties are classified as loans and receivables (see Note 13).

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are designated as such or not classified in any of the other categories. AFS financial assets include equity and debt securities. They 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 that are quoted are subsequently measured at fair value. The unrealized gains and losses arising from the change in fair value of AFS financial assets are recognized and included in the "Other comprehensive income" until the investment is derecognized or determined to be impaired, at which time the cumulative gains or losses are reclassified to the statement of comprehensive income as part of profit or loss. When the Company holds more than one investment in the same security, these are deemed to be disposed of on an average costing basis. Interest earned on holding AFS debt financial assets are reported as interest income using the EIR method. Dividends earned on holding AFS equity financial assets are recognized in profit or loss when the right of payment has been established. AFS equity financial assets that are unquoted and for which fair values cannot be reliably determined are carried at cost less any impairment in value.

As at December 31, 2016 and 2015, this category includes investments in MERALCO and BPHI common shares (see Notes 6 and 13).

<u>Financial Liabilities</u>
The Company's financial liabilities consist of other financial liabilities.

Other Financial Liabilities. Financial liabilities are classified in this category if they are not held for trading or not designated as at FVPL upon the inception of the liability. Other financial liabilities which include loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains or losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process. Other financial liabilities are included in current liabilities if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent liabilities.

The Company's accounts payable and other current liabilities, and long-term debt are classified as other financial liabilities (see Note 13).

<u>Derivatives and Hedge Accounting</u>
Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. The Company uses derivative financial instruments, specifically interest rate swaps, to hedge its interest rate risks. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Consequently, gains and losses from changes in fair value of derivatives not designated as effective accounting hedges are recognized immediately in profit or loss.

For the purpose of hedge accounting, hedges are classified primarily as: (a) a hedge of the fair value of a recognized asset or liability or an unrecognized firm commitment except for foreign currency risk (fair value hedge); or (b) a hedge of the exposure to variability in cash flows attributable to a recognized asset or liability or a highly probable forecasted transaction or foreign currency risk in an unrecognized firm commitment (cash flow hedge); or (c) hedge of a net investment in a foreign operation. The Company has designated certain derivatives as cash flow hedges of its interest risk from its long-term debt (see Note 8). The Company did not designate any of its derivatives as fair value hedges or hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identifying the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

In cash flow hedges, changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are included in equity, net of related deferred tax, and presented as "Cash flow hedge reserve" under "Other comprehensive income reserve" account in the statement of financial position. The ineffective portion is immediately recognized in profit or loss.

If the hedged cash flow results in the recognition of an asset or a liability, gains and losses initially recognized in equity are transferred from equity to net income in the same period during which the hedged forecasted transaction or recognized asset or liability affects profit or loss.

When the hedge ceases to be highly effective, hedge accounting is discontinued prospectively. In this case, the cumulative gain or loss on the hedging instrument that had been recognized in other comprehensive income reserve is retained as such until the forecasted transaction occurs. When the forecasted transaction is no longer expected to occur, any net cumulative gain or loss previously reported in other comprehensive income reserve is credited or charged immediately to profit or loss.

For derivatives that are not designated as effective accounting hedges, any gains or losses arising from changes in fair value are recognized directly in profit or loss.

Embedded Derivatives. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- The hybrid or combined instrument is not recognized as at FVPL.

Embedded derivatives that are bifurcated from the host contracts are accounted for as financial assets or liabilities at FVPL. Changes in fair values are recognized in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. 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 Company determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

Current versus Noncurrent Classification of Derivatives
Derivative instruments that are not designated and considered as effective hedging instruments are classified as current or noncurrent or separated into a current and noncurrent portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- If the Company holds a derivative for trading purposes, irrespective of the timing of future cash flows, it is classified as current.

- Where the Company will hold a derivative as an economic hedge (and does not apply hedge accounting), for period beyond 12 months after the end of reporting period, the derivative is classified as noncurrent (or separated into current and noncurrent portions) consistent with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

Derivative instruments that are designated as, and are considered effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and noncurrent portion only if a reliable allocation can be made.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired.

Assets Carried at Amortized Cost. The Company first assesses whether objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) of impairment exists individually for financial assets that are individually significant or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original EIR (i.e., the EIR computed at initial recognition). 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 statement of comprehensive income. The assets, 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 Company. If a write-off is later recovered, the amount recovered is recognized in the statement of comprehensive income.

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

AFS Financial Assets. For AFS financial assets, the Company assesses at each end of reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

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

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss. Such accrual is recorded as part of "Interest income" in profit or loss. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

Derecognition of Financial Assets and Financial Liabilities

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

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

Where the Company has transferred its rights to receive cash flows from an asset or 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 Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

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

When 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 statement of comprehensive income.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. The Company 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 Company and all of the counterparties.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period. All differences are taken to the statement of comprehensive income. For income tax purposes, exchange gains or losses are treated as taxable income or deductible expenses in the period such are realized.

Capital Stock and Additional Paid-in Capital

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

Cost of registering and issuing securities is recognized as a reduction from the proceeds of the securities issued, thus, recognized as reduction from additional paid-in capital.

Treasury Shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the additional paid-in capital.

Retained Earnings
Retained earnings include profit attributable to the Company's equity holders. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. Retained earnings represent the Company's accumulated earnings, net of dividends declared.

Other Comprehensive Income Reserve
Other comprehensive income reserve comprises items of income and expense that is not recognized in profit or loss as required or permitted by other PFRS.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue can be reliably measured.

Dividend Income. Dividends on AFS financial assets are recognized in profit or loss when the Company's right to receive dividends is established.

Interest Income. Interest income is recognized as it accrues using the EIR method.

Other Income. Other income are recognized when there are incidental economic benefits, other than the usual business operations, that will flow to the Company and can be measured reliably.

Expenses Recognition
Expenses are recognized in the Company's statement of comprehensive 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. Expenses are recognized in the Company's statement of comprehensive 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 statement of financial position as an asset.

Income Tax
Current Tax. Current tax assets and liabilities for the current and prior period 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 end of reporting period.

Deferred Tax. Deferred tax is provided, using the liability method, on all temporary differences at the end of reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each end of 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 tax asset to be utilized. Unrecognized deferred tax assets are measured at each end of reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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

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

Deferred 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.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are made by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Where the Company expects some or all of a 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 statement of comprehensive income, net of any reimbursement.

Contingencies

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events that provide additional information about the Company’s financial position at the end of reporting period (adjusting events), if any, are reflected in the Company’s financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. Significant Accounting Judgment, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires management to make judgment, estimates and assumptions that affect certain reported amounts and disclosures. In preparing the financial statements, management has made its best estimates and assumptions of certain amounts, giving due consideration to materiality. The judgment, estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from those estimates, and such estimates will be adjusted accordingly.

Judgment, estimates and assumptions include expectations of future events that are believed to be reasonable under the circumstances.

The Company believes that the following represent a summary of the significant judgment, estimates and assumptions, related impact and associated risks in the financial statements.

Judgment

Accounting for Investments in the common shares of MERALCO, BPHI and GBPC (through BPHI). In applying PFRS 10, *Consolidated Financial Statements*, the Company made a judgment that the decision making power of the Company over MERALCO, BPHI and GBPC is effectively delegated to its shareholders, PCEV and MPIC, and that the Company does not exercise any discretion over the vote to be taken in respect of the MERALCO, BPHI and GBPC shares but is obligated to vote the MERALCO, BPHI and GBPC shares strictly in accordance with the instructions of the two shareholders. As a consequence of the application of PFRS 10, the investments in MERALCO and BPHI shares are accounted for as AFS financial assets under PAS 39, *Financial Instruments – Recognition and Measurement* (see Note 6).

Classification of Preferred Shares. An instrument is an equity instrument if and only if, the instrument includes no contractual obligation either to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer. Based on the Company's evaluation, the preferred shares it issued to its shareholders are equity instruments because the shares are redeemable only at the option of Beacon as the issuer and that dividends are at the discretion of the Company's BOD (see Note 10).

Estimates and Assumptions

Determination of Fair Value of Financial Instruments. Entities are required to disclose for each class of financial assets and liabilities the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the Company's statement of financial position, which requires the use of accounting judgment and estimates. Significant components of fair value measurement are determined using verifiable objective evidence (i.e., interest rates, volatility rates), and timing and amount of changes in fair value would differ with the valuation methodology used. Any changes in fair value of these financial assets and liabilities would affect the disclosures made by management.

The fair value of the Company's financial assets and liabilities are disclosed in Note 13.

Impairment of AFS Financial Assets. The Company treats an AFS equity financial asset as impaired when there had been a significant or prolonged decline in the fair value below its acquisition cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Company treats "significant" generally as 20.0% or more and "prolonged" as greater than 12 months for quoted equity securities. In addition, the Company evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

No impairment loss was recognized for AFS financial assets for the years ended December 31, 2016 and 2015. The carrying value and fair value of the AFS financial assets amounted to ₱115,549.4 million and ₱125,586.7 million as at December 31, 2016 and 2015, respectively (see Notes 6 and 13).

Realizability of Deferred Tax Assets. The Company reviews its deferred tax assets at each reporting date and reduces their carrying amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Company's assessment of the recognition of deferred tax assets is based on the projected taxable income in the following years. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

The Company's NOLCO for which no deferred tax assets have been recognized amounted to ₱5,240.2 million and ₱7,136.9 million as at December 31, 2016 and 2015, respectively (see Note 11).

4. Cash and Cash Equivalents

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(In Million Pesos)	
Cash in banks	**₱13.1**	₱1.8
Short-term deposits	**3,094.1**	2,268.4
	₱3,107.2	₱2,270.2

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates.

Interest earned, net of final tax, from cash in banks and short-term deposits amounted to ₱42.1 million and ₱91.3 million in 2016 and 2015, respectively.

5. Receivables

Receivables as at December 31, 2016 and 2015 pertain to accrual of interest earned from cash in banks and short-term deposits amounting to ₱4.8 million and ₱2.6 million, respectively.

The Company's receivables are noninterest-bearing and are normally collected within one year.

6. **Available-for-sale Financial Assets**

Movements in the AFS financial asset for the years ended December 31, 2016 and 2015 are as follows:

	2016			2015
	MERALCO	**BPHI**	**Total**	MERALCO
		(In Million Pesos)		
Acquisition costs:				
Balance at beginning of the year	**₱83,144.4**	**₱–**	**₱83,144.4**	₱106,925.6
Additions	**–**	**11,202.5**	**11,202.5**	–
Disposals	**–**	**–**	**–**	(23,781.2)
	83,144.4	**11,202.5**	**94,346.9**	83,144.4
Accumulated changes in fair values:				
Balance at beginning of the year	**42,442.3**	**–**	**42,442.3**	22,553.9
Unrealized gain (loss)	**(21,239.8)**	**–**	**(21,239.8)**	25,873.9
Fair value changes recycled to profit or loss	**–**	**–**	**–**	(5,985.5)
	21,202.5	**–**	**21,202.5**	42,442.3
	₱104,346.9	**₱11,202.5**	**₱115,549.4**	₱125,586.7

MERALCO

MERALCO is a Philippine corporation with its shares listed on the Philippine Stock Exchane (PSE). It is the largest distributor of electricity in the Philippines with its franchise valid until June 2028.

As at December 31, 2014, Beacon's interest in MERALCO was at 44.96%. However, Beacon, with the conformity of PCEV, entered into a Share Purchase Agreement (SPA) dated April 14, 2015 for the sale to MPIC of 112.7 million MERALCO shares representing approximately 10% of MERALCO's issued and outstanding common shares at a price of ₱235.0 per share for an aggregate consideration of ₱26,486.8 million. The transaction was completed through a block sale at the PSE on April 17, 2015.

This transaction resulted to a realized gain of ₱2,359.9 million in 2015 which is recognized in profit or loss, inclusive of recoverable costs from the shareholders but net of transaction costs. The consideration payable by MPIC to Beacon was settled as follows: (i) ₱1.0 billion immediately; (ii) ₱17.0 billion in June 2015, and (iii) the remaining balance in July 2016. MPIC received dividends of ₱4.24 billion from Beacon at the same time it settled the July 2016 payment such that MPIC's net cash investment is at ₱22.2 billion (see Notes 9, 10 and 15). After this transaction, Beacon holds 394,059,235 shares representing 34.96% interest in MERALCO as at December 31, 2016 and 2015.

Fair value of MERALCO shares as at December 31, 2016 and 2015 was based on share price of ₱264.8 and ₱318.7, respectively. The changes in fair value of the MERALCO shares are deferred in equity under "Other comprehensive income reserve" and will be recycled to profit or loss upon disposal.

A pledge on the Company's investments in MERALCO shares secures the Company's loan facilities with a syndicate of various financial institutions (see Note 8).

Dividend income from MERALCO amounted to ₱9,883.0 million and ₱6,966.3 million in 2016 and 2015, respectively.

BPHI
As discussed in Note 1, on May 30, 2016, Beacon subscribed for 1,120.0 million common shares of BPHI for ₱10.00 per share amounting to ₱11.2 billion, which represents 100% equity interest in BPHI. The proceeds from the subscription was used by BPHI to acquire 56% ownership in GBPC.

BPHI entered into a Share Purchase Agreement with GT Capital Holdings, Inc. (GTCHI) to acquire an aggregate of 56% of the ordinary and issued share capital of GBPC for a total consideration of ₱22.06 billion. The consideration was settled as to ₱11.03 billion in cash on closing and the balance via a vendor financing facility, which was replaced with long-term bank debt in August 2016.

GBPC's power generation facilities consist of: (i) 246 MW clean coal-fired power plant in Toledo City, Cebu, which is operated by Cebu Energy Development Corporation; (ii) 164 MW "clean coal" and 150 MW coal-fired power plants in Iloilo City, which is operated by Panay Energy Development Corporation; (iii) 60 MW coal facility, an 82 MW coal facility and a 40 MW fuel oil facility operated by Toledo Power Company; (iv) a 72 MW fuel oil facility, a 20 MW fuel oil facility, a 7.5 MW fuel oil facility and a 5 MW fuel oil facility operated by Panay Power Corporation; and (v) 7.5 MW fuel oil facility operated by GBH Power Resources Inc.

As BPHI was only incorporated in 2016 and its acquisition of investment in GBPC was only completed in May 2016, the cost of investment approximates the fair value of BPHI shares as at December 31, 2016.

No dividends were declared by BPHI in 2016.

7. Accounts Payable and Other Current Liabilities

As at December 31, 2016 and 2015, this account consists of:

	2016	2015
	(In Million Pesos)	
Interest (Note 8)	**₱78.4**	₱83.5
Withholding taxes[(a)]	**16.9**	61.9
Others[(b)]	**1.5**	1.5
	₱96.8	₱146.9

a) Withholding taxes largely include 20% withholding tax on interest payments on loans to be remitted to the Bureau of Internal Revenue within the next financial year.

b) Others include accruals for legal and professional fees that are due and demandable within a year.

8. **Long-term Debt**

As at December 31, 2016 and 2015, this account consists of:

Description	Interest Rate (per annum)	Terms	**2016**	2015
			(In Million Pesos)	
₱11,000.0 Million Fixed Corporate Notes				
▪ ₱4,000.0 million (1st Tranche)	8.00%	Availed of beginning 2011; payable in 10 years with semi-annual interest and principal repayments; final repayment in May 2021	**₱3,120.0**	₱3,480.0
▪ ₱7,000.0 million (2nd Tranche)	7.09%		**5,460.0**	6,090.0
₱9,000.0 Million Corporate Notes:				
▪ ₱2,950.0 million (Tranche A)	6.00%	Availed of in 2013; payable in 10 years payable with semi-annual interest and principal repayments; final repayment in July 2023	**2,684.5**	2,802.5
Total			**11,264.5**	12,372.5
Less unamortized debt issue cost			**88.7**	112.7
			11,175.8	12,259.8
Less current portion (net of unamortized debt issue cost of ₱22.7 million in 2016 and ₱24.0 million in 2015)			**1,195.3**	1,084.0
Noncurrent portion			**₱9,980.5**	₱11,175.8

Future repayments of principal as of December 31, 2016 and 2015 are as follows:

	2016	2015
	(In Million Pesos)	
Within one year	**₱1,218.0**	₱1,108.0
After one year but not more than five years	**8,630.5**	6,253.5
After five years	**1,416.0**	5,011.0
	₱11,264.5	₱12,372.5

The movements in unamortized debt issuance costs for the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	(In Million Pesos)	
Balance at beginning of year	**₱112.7**	₱395.4
Derecognized	–	(236.9)
Amortization	**(24.0)**	(45.8)
Balance at end of year	**₱88.7**	₱112.7

On June 29, 2015 and December 1, 2015, Beacon prepaid *₱17,000.0 million Corporate Notes* and *₱6,050.0 million Corporate Notes (Tranche B of ₱9,000.0 Corporate Note)* ,respectively, with the proceeds from the sale of MERALCO shares. A portion of the unamortized debt issue cost related to the prepaid loan amounting to ₱236.9 million was expensed as a result of change in timing of expected cash flow as "Adjustment to amortized cost due to change in expected cash flows". Beacon paid prepayment penalty amounting to ₱215.5 million presented as under "Penalty on prepayment of loan and termination of IRS".

Amortization of debt issuance costs on the Company's loan facilities amounted to ₱24.0 million and ₱45.8 million in 2016 and 2015, respectively. Interest incurred on the loan facilities amounted to ₱890.2 million and ₱1,723.1 million in 2016 and 2015, respectively.

Loan Security
The outstanding loans are secured by a pledge on MERALCO shares owned by the Company and shall, from the date of the pledge over the MERALCO shares, maintain the loan to value ratio at 50%, subject to call/top up (in case the Loan to Value Ratio of the Pledge Shares is in excess of 60%) or a withdrawal (in case the Loan to Value Ratio of the Pledge Shares is below 40%) (see Note 6). The loan agreements also contain provisions for the maintenance of a Debt Service Account to be used by the Company to service interest payments and principal repayments, maintenance of debt to equity ratio, debt service coverage ratio and loan to value ratio, continuity of or change in business, distribution of quarterly unaudited and annual audited financial statements to noteholders, payment of indebtedness as they fall due, sale of assets, maintenance of ownership in MERALCO, issuance of preferred shares, declaration and payment of dividends, additional indebtedness and guarantees, negative pledge, prepayments, additional investments, arm's length transactions, change in ownership, redemption of preferred shares, and loans or advances to directors, officers and stockholders.

As at December 31, 2016 and 2015, Beacon is in compliance with all the requirements stipulated in the loan agreements.

Derivative Liability
On May 27, 2013, Beacon entered into Forward Starting Interest Rate Swap (IRS) that was intended to hedge the interest repricing risk on the outstanding balance of the Tranche B (₱14,715 million) of the *₱17,000.0 Million Corporate Notes Facility.* On June 30, 2015, Beacon terminated the IRS at an unwinding fee of ₱73.5 million, included under "Penalty on prepayment of loan and termination of IRS". As a result of the termination, the fair value changes deferred in equity amounting to ₱73.5 million were recycled to profit or loss.

9. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Company, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship, and not merely to the legal form.

Outstanding balances of transactions with the Company's shareholders are as follows:

	Due from related parties		Due to related parties	
	2016	2015	**2016**	2015
	(In Million Pesos)			
MPIC	**₱–**	₱8,450.3	**₱611.8**	₱756.2
PCEV	**–**	144.5	**71.5**	216.4
	₱–	₱8,594.8	**₱683.3**	₱972.6

The amounts due to MPIC and PCEV as at December 31, 2016 and 2015 included PSE crossing charges on the transferred shares in March 2010 and October 2011, expenses relating to the Option Shares, professional and legal fees paid on behalf of the Company involving the Company's acquisition of MERALCO shares from the market. These are noninterest-bearing and unsecured liabilities. Partial settlement was made in 2016 by way of offsetting against amounts due from the shareholders.

As at January 1, 2015, the "Due from MPIC" amounting to ₱10,187.9 million, net of discount amounting to ₱55.5 million, pertains to MPIC's payable to Beacon from the sale of Meralco shares in 2014. In 2015, an interest accretion of ₱55.5 million was recorded in the "Due from MPIC" and reported under "Interest income from accretion". The amount was settled through offsetting of dividends declared by Beacon on February 26, 2015 (see Note 10), with the remaining amount paid in cash amounting to ₱5,104.8 million.

The amount due from MPIC as at December 31, 2015 substantially pertains to MPIC's payable to Beacon (net of discounting) from the sale of MERALCO shares in 2015 (see Note 6). Under the SPA, the purchase price for the MERALCO shares is payable in installments and as such, the amount receivable from MPIC was recorded net of discounting with the interest accretion amounting to ₱181.0 million and of ₱308.0 million reported under "Interest income from accretion" of the Company's statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively (see Note 6). In 2016, MPIC settled the payable amounting to ₱8,631.3 million (nominal amount) through (i) cash payment of ₱4,243.4 million; (ii) offsetting with dividends declared by Beacon amounting to ₱4,243.4 million (see Note 10) and (iii) offsetting of the remaining amount of ₱144.5 million against amount due to MPIC.

Compensation of Key Management Personnel

The Company has no employees as at December 31, 2016 and 2015. The accounting and administrative functions are provided by a related party at no cost.

10. **Equity**

The details of the Company's capital stock as at December 31, 2016 and 2015 are as follow:

	2016		2015	
	No. of Shares	**Amount**	No. of Shares	Amount
	(In Millions except for number of shares)			
Authorized common shares - ₱1.00 par value	**3,000,000,000**	**₱3,000.0**	3,000,000,000	₱3,000.0
Authorized preferred shares:				
Preferred shares	**–**	**–**	2,000,000,000	2,000.0
Class A - ₱1.00 par value	**2,000,000,000**	**2,000.0**	–	–

(Forward)

	2016		2015	
	No. of Shares	**Amount**	No. of Shares	Amount
	(In Millions except for number of shares)			
Class B - ₱1.00 par value	**1,000,000,000**	**1,000.0**	–	–
Balance at December 31	**6,000,000,000**	**₱6,000.0**	5,000,000,000	₱5,000.0
Common shares (issued and outstanding)	**2,583,025,000**	**₱2,583.0**	2,583,025,000	₱2,583.0
Preferred shares (issued and outstanding)	–	**₱-**	2,000,000,000	₱2,000.0
Preferred shares - Class A (issued and outstanding)	**2,000,000,000**	**₱2,000.0**	–	₱–
Preferred shares - Class B				
Issued	**554,675,120**	**₱554.7**	–	₱–
Less: Redemption	**(198,098,257)**	**(198.1)**	–	–
Preferred shares - Class B (issued and outstanding)	**356,576,863**	**₱356.6**	–	₱–

Authorized Capital Stock

On May 27, 2016, the BOD and stockholders of the Company approved the following:

a) increase in the authorized capital stock of the Company from ₱5,000.0 million divided into: (i) 3,000,000,000 common shares with a par value of ₱1.00 per share, and (ii) 2,000,000,000 preferred shares with a par value of ₱1.00 per share to ₱6,000.0 million divided into: (i) 3,000,000,000 common shares with a par value of ₱1.00 per share, (ii) 2,000,000,000 Class A preferred shares with a par value of ₱1.00 per share, and (iii) 1,000,000,000 Class B preferred shares with a par value of ₱1.00 per share, and;

b) the corresponding amendment of the Articles of Incorporation of the Company (the Amended Articles).

Each of MPIC and PCEV subscribed for 277,337,560 Class B Preferred Shares out of the increase in authorized capital stock for a total of ₱7.0 billion. Transaction costs on issuance of shares amounting to ₱16.9 million were incurred. The increase in authorized capital stock and Amended Articles were approved by the SEC on August 10, 2016.

Preferred shares

Prior to the increase in authorized capital stock in May 2016, the Company has issued preferred shares that are non-voting, non-convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon and redeemable anytime at the option of the Company. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

After the increase in authorized capital stock, the preferred shares of the Company comprise of Class A, which is the previous preferred shares, and Class B preferred shares. The preferred shares of Beacon are non-voting, non-convertible to common shares or any shares of any class of Beacon, have no pre-emptive rights to subscribe to any share or convertible debt securities or warrants issued or sold by Beacon and redeemable anytime at the option of the Company. The preference shareholder is entitled to liquidation preference and yearly cumulative dividends at the rate of 7% (for the Class A preferred shares) and 6% (for the Class B preferred shares) of the issue value subject to: (a) availability of unrestricted retained earnings; and (b) dividend payment restrictions imposed by Beacon's bank creditors.

The preferred shares are redeemable at the option of the Company subject to applicable laws and regulations and any applicable restrictions under any loan or financing documents executed by the Company in favor of its bank creditors. The preferred shares shall be redeemable by the Company by paying the issue value of the preferred shares and all outstanding dividends due on the preferred shares at the time of redemption. Once redeemed by the Company, the preferred shares shall become treasury shares, which may be disposed of by the Company on such terms as the BOD of the Company may approve.

Treasury shares
In September 2016, Beacon redeemed 198,098,257 Class B preferred shares held by PCEV amounting to ₱2,500.0 million.

Dividends Declared
The Company declared cash dividends in favor of its common shareholders:

Declaration Date	Record Date	Payment Date	Amount
			(In Million Pesos)
August 12, 2016	August 12, 2016	August 26, 2016	₱289.0
July 14, 2016	July 14, 2016	July 29, 2016	₱6,056.4
February 26, 2015	February 26, 2015	February 27, 2015	₱4,277.2
November 17, 2014	October 31, 2014	February 27, 2015	₱6,000.0

As discussed in Note 9, MPIC's share of the dividends declared on February 26, 2015 and November 17, 2014 were offset against the amount receivable from MPIC for the sale of the MERALCO shares (see Note 15).

The Company declared cash dividends on the preferred share in favor of its preferred shareholders:

Declaration Date	Record Date	Payment Date	Amount
			(In Million Pesos)
Class A preferred shares:			
June 30, 2016	June 30, 2016	July 29, 2016	₱1,485.2
March 31, 2016	March 31, 2016	July 29, 2016	₱945.2
March 30, 2015	March 31, 2015	April 24, 2015	₱810.1
Class B preferred shares:			
September 9, 2016	September 9, 2016	September 30, 2016	₱21.0

As at December 31, 2016 and 2015, total cumulative dividends on preferred shares not yet declared by the Company amounted to ₱2,536.8 million and ₱3,240.5 million, respectively.

11. **Income Taxes**

The reconciliation between the provision for income tax at the applicable statutory tax rate and the actual provision for income tax for the years ended December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Million Pesos)	
Provision for income tax at statutory tax rate	**₱2,755.2**	₱2,243.2
Tax effects of:		
Nontaxable dividend income	**(2,964.9)**	(2,089.9)
Expired NOLCO	**839.2**	809.2
Income already subjected to stock transaction tax	**–**	(621.3)
Accretion of interest income on receivable	**(54.3)**	(109.1)
Movement in unrecognized deferred tax assets on NOLCO	**(567.9)**	(216.9)
Income already subjected to final tax	**(12.6)**	(27.4)
Nondeductible portion of interest expense	**5.2**	11.4
Nondeductible portion of taxes and licenses	**–**	0.6
Others	**0.1**	0.2
Actual provision for income tax	**₱–**	₱–

The Company's deferred income tax assets have not been recognized in the statements of financial position as it is not probable that future taxable income will be sufficient against which these can be utilized. NOLCO for which no deferred tax assets have been recognized amounted to ₱5,240.2 million and ₱7,136.9 million as at December 31, 2016 and 2015, respectively.

Unutilized NOLCO which can be deducted against future taxable income is as follows:

Date Incurred	Expiry Date	Amount
		(In Million Pesos)
December 31, 2014	December 31, 2017	2,364.9
December 31, 2015	December 31, 2018	1,974.4
December 31, 2016	December 31, 2019	900.9
		₱5,240.2

The Company's NOLCO amounting to ₱2,797.6 million has expired in 2016.

For the years ended December 31, 2016 and 2015, the Company has no taxable profit subject to RCIT and MCIT.

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

The Company's principal financial instruments consist mainly of borrowings from local financial institutions and short-term deposits, proceeds of which were used for the acquisition of investments and for financing operations. The Company has other financial assets and liabilities such as cash in banks, receivables, due from related parties and accounts payable and other current liabilities which arise directly from the Company's operations.

The main risks arising from the Company's financial instruments are interest rate risk, liquidity risk and credit risk from its use of financial instruments. The BOD reviews and approves policies of managing each of the risks as summarized below.

Interest Rate Risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to market risk for changes in interest rates relate primarily to its long-term debt. The Company manages interest rate exposure by using a mix of fixed rate and variable rate debts or entering into derivative transaction, particularly interest rate swaps.

Fixed rate debt is subject to fair value interest rate risk while variable rate debt is subject to cash flow interest rate risk. The Company's interest on long-term debts are fixed until maturity as at December 31, 2016.

No sensitivity analyses were made for 2016 and 2015 as the interest rates of the Company's outstanding long-term debt as at December 31, 2016 and 2015 are fixed.

Liquidity Risk
Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain funding. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

As part of the liquidity strategy, the Company sets aside cash to ensure that financial obligations will be met as they fall due. As at December 31, 2016 and 2015, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱3,107.2 million and ₱2,270.2 million, respectively. These are allocated to meet the Company's short-term liquidity needs.

The Company's liquidity and funding management process include the following:

- Managing the concentration and profile of debt maturities;
- Maintaining debt financing plans; and
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements.

The table below summarizes the maturity profile of the Company's financial assets and liabilities as at December 31, 2016 and 2015 based on undiscounted contractual payments.

	2016						
	On Demand	2017	2018	2019	2020	2021 and Beyond	Total
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	₱13.1	₱–	₱–	₱–	₱–	₱–	₱13.1
Short-term deposits	–	3,094.1	–	–	–	–	3,094.1
Receivables - Interest receivable	–	4.8	–	–	–	–	4.8
Available-for-sale financial assets	–	–	–	–	–	115,549.4	115,549.4
	13.1	3,098.9	–	–	–	115,549.4	118,661.4
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:							
Accounts payable	–	–	–	–	–	–	–
Accrued interest	–	78.4	–	–	–	–	78.4
Others	–	1.5	–	–	–	–	1.5
Long-term debt:							
Principal	–	1,218.0	1,365.5	1,395.0	2,275.0	5,011.0	11,264.5
Interest	–	794.3	704.3	606.5	488.6	348.9	2,942.6
	–	2,092.2	2,069.8	2,001.5	2,763.6	5,359.9	14,287.0
	₱13.1	₱1,006.7	(₱2,069.8)	(₱2,001.5)	(₱2,763.6)	₱110,189.5	₱104,374.4

* *Excluding statutory payables amounting to ₱16.9 million.*

	2015						
	On Demand	2016	2017	2018	2019	2020 and Beyond	Total
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	₱1.8	₱–	₱–	₱–	₱–	₱–	₱1.8
Short-term deposits	–	2,268.4	–	–	–	–	2,268.4
Receivables - Interest receivable	–	2.6	–	–	–	–	2.6
Due from related parties	–	8,775.8	–	–	–	–	8,775.8
Available-for-sale financial assets	–	–	–	–	–	125,586.7	125,586.7
	1.8	11,046.8	–	–	–	125,586.7	136,635.3
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:							
Accounts payable	–	–	–	–	–	–	–
Accrued interest	–	83.5	–	–	–	–	83.5
Others	–	1.5	–	–	–	–	1.5
Long-term debt:							
Principal	–	1,108.0	1,218.0	1,365.5	1,395.0	7,286.0	12,372.5
Interest	–	881.4	794.3	704.3	606.5	837.5	3,824.0
	–	2,074.4	2,012.3	2,069.8	2,001.5	8,123.5	16,281.5
	₱1.8	₱8,972.4	(₱2,012.3)	(₱2,069.8)	(₱2,001.5)	₱117,463.2	₱120,353.8

* *Excluding statutory payables amounting to ₱61.9 million.*

Credit Risk
Credit risk is the risk that the Company will incur a loss arising from counterparties that fail to discharge their contracted obligations. The Company manages and controls credit risk by setting limits on the amount of risk that the Company is willing to accept for individual counterparties and by monitoring exposures in relation to such limits.

The Company's maximum exposure to credit risk is equal to the carrying amount of these instruments. The Company has no concentration of credit risk.

The aggregate cash and cash equivalents, receivables and due from related parties amounting to ₱3,112.0 million and ₱10,867.6 million as at December 31, 2016 and 2015, respectively, are all neither past due nor impaired. The Company classified the credit quality of its cash and cash equivalents and receivables as high grade since they are collectible on their due dates.

Capital Management
The primary objective of the Company's capital management is to ensure that the Company has sufficient funds in order to support its business, pay existing obligations and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To manage or adjust the capital structure, the Company may obtain additional advances from stockholders, return capital to shareholders or issue new shares.

The capital being managed by the Company consists of capital stock and additional paid-in capital, net of treasury shares, and due to related parties aggregating to ₱79,949.9 million and ₱75,756.1 million as at December 31, 2016 and 2015, respectively. The Company monitors capital on the basis of debt-to-equity ratio. Debt-to-equity ratio is calculated as long-term debt over equity.

The Company's strategy is to maintain a sustainable debt-to-equity ratio. The debt-to-equity ratio as at December 31, 2016 and 2015 is as follows:

	2016	2015
	(In Million Pesos, except for Ratio)	
Long-term debt (Note 8)	**₱11,175.8**	₱12,259.8
Equity	**106,711.5**	123,080.9
Debt-to-equity ratio	**1:9.5**	1:10.0

13. **Financial Assets and Financial Liabilities**

The following tables set forth the Company's financial assets and liabilities and their corresponding carrying values and estimated fair values as at December 31, 2016 and 2015:

	2016		2015	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Million Pesos)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**₱13.1**	**₱13.1**	₱1.8	₱1.8
Short-term deposits	**3,094.1**	**3,094.1**	2,268.4	2,268.4
Interest receivable	**4.8**	**4.8**	2.6	2.6
Due from related parties	**–**	**–**	8,594.8	8,594.8
Available-for-sale financial assets	**115,549.4**	**115,549.4**	125,586.7	125,586.7
	₱118,661.4	**₱118,661.4**	₱136,454.3	₱136,454.3
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other current liabilities:				
Accounts payable	**₱–**	**₱–**	₱–	₱–
Accrued expenses:				
Interest	**78.4**	**78.4**	83.5	83.5
Others	**1.5**	**1.5**	1.5	1.5
Long-term debt (current and noncurrent)	**11,175.8**	**11,833.7**	12,259.8	13,193.9
	₱11,255.7	**₱11,913.6**	₱12,344.8	₱13,278.9

The carrying values of cash and cash equivalents, receivables, due from related parties and accounts payable and other current liabilities approximate their fair values at the end of the reporting period due to the relatively short-term nature of the transactions.

The following tables set forth the fair value hierarchy classification of the Company's financial assets and liabilities for which fair values have been determined for measurement and/or disclosure as at December 31, 2016 and 2015. During the year ended December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

	2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Millions)		
Assets measured at fair value					
AFS - MERALCO (Note 6)	**₱104,346.9**	**₱104,346.9**	**₱–**	**₱–**	**₱104,346.9**
AFS - BPHI (Note 6)	**11,202.5**	**11,202.5**	**–**	**–**	**11,202.5**
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (Note 8)	**11,175.8**	**–**	**11,833.7**	**–**	**11,833.7**

	2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Millions)		
Assets measured at fair value					
AFS - MERALCO (Note 6)	₱125,586.7	₱125,586.7	₱–	₱–	₱125,586.7
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (Note 8)	12,259.8	–	13,193.9	–	13,193.9

<u>AFS Financial Assets</u>
The fair value of the quoted equity shares of MERALCO is determined by reference to published price quotations in an active market (see Note 6).

Beacon's subscription price of BPHI shares on May 30, 2016 approximates the fair value of BPHI shares (see Note 6). Fair value is determined based on net present value.

<u>Long-term Debt</u>
The estimated fair value is based on the discounted value of future cash flows using the prevailing credit rates ranging from 1.89% to 4.63% and 2.67% to 4.10% in 2016 and 2015, respectively.

14. Events After the Reporting Date

On February 27, 2017, the BOD of MERALCO approved the declaration of cash dividends of ₱9.30 a share to all shareholders of record as at March 27, 2017 and payable on April 21, 2017. This consists of a final regular cash dividend of ₱4.08 per share and a special cash dividend of ₱5.22 per share.

15. Supplemental Cash Flow Information

The Company had a non-cash investing activity which was not reflected in the statements of cash flows. As discussed in Note 9, the Company sold 56.35 million MERALCO shares at an aggregate consideration of ₱13,243.4 million in 2014. For the February 2015 settlement, ₱5,104.8 million was paid in cash while ₱5,138.6 million was settled through offsetting with MPIC's share of dividends on common shares declared by Beacon on February 26, 2015 and November 17, 2014 (see Note 10.) As discussed in Note 6, the Company sold 112.7 million MERALCO shares at an aggregate consideration of ₱26,486.8 million in April 2015. In 2015, MPIC made payments totaling to ₱18,000.0 million. Under the agreement, MPIC will receive dividends from Beacon at the same time it settles the balance of this transaction such that MPIC's net cash investment from this transactions will be ₱22,243.4 million. For the July 2016 settlement, ₱4,243.4 million was paid in cash while ₱4,243.4 million was settled through offsetting with MPIC's share of dividends on common shares declared by Beacon (see Notes 9 and 10).

16. **Other Matters – MERALCO**

Fourth Regulatory Period Reset Application. MERALCO was among the first entrants to the Performance-Based Regulation (PBR). Rate setting under PBR is governed by the Rules for Setting Distribution Wheeling Rates (RDWR). The PBR scheme sets tariffs based on the regulated asset base of the Distribution Utility (DU), and the required operating and capital expenditures once every regulatory period (RP), to meet operational performance and service level requirements responsive to the need for adequate, reliable and quality power, efficient service, growth of all customer classes in the franchise area as approved by the Energy Regulatory Commission (ERC). PBR also employs a mechanism that penalizes or rewards a DU depending on its network and service performance. Rate filings and setting are done every RP where one RP consists of four regulatory years. A regulatory year (RY) begins on July 1st and ends on June 30th of the following year.

The last year of MERALCO's 3rd RP ended on June 30, 2015. The 4th RP for Group "A" entrants commenced on July 1, 2015 and shall end on June 30, 2019. To initiate the reset process, the ERC posted in its website on April 12, 2016, the following draft issuance for comments, to wit:

- Draft "Rules for Setting Distribution Wheeling Rates for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group: Fourth Regulatory Period";
- Draft "Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019 Fourth Regulatory Period for the First Entry Group of Privately Owned Distribution Utilities subject to Performance Based Regulation"; and
- Draft "Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR".

Under ERC Resolution No. 25, Series of 2016 dated July 12, 2016, the ERC promulgated a Resolution modifying the RDWR for Privately-Owned Distribution Utilities entering PBR.

On December 2, 2016, the ERC released a Notice of Proposed Rule-Making setting the petition filed by a consumer group for initial hearing on January 9, 2017. All interested parties were given until December 26, 2016 to file their comments on said Petition.

In the Petition, the consumer group seeks a repeal of the PBR rate-setting methodology for setting distribution wheeling rates. In a subsequent Order and Notice of Public Hearing, the ERC reset the hearing to January 23, 2017 and gave interested parties until January 9, 2017 to file their respective comments to the Petition. MERALCO filed its Comment to the Petition on January 9, 2017. The consumer group moved for a resetting of the January 23, 2017 hearing. The next hearing is set on March 17, 2017.

In a Notice dated November 16, 2016, the ERC approved the draft "Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities (DUs)" (RAB Handbook) for posting in its website. All interested parties were given until December 19, 2016 to submit their respective comments to the draft RAB Handbook. Thereafter, during the public consultation on January 9, 2017, the parties were given until February 9, 2017 to file their comments to the draft RAB Handbook. In an Omnibus Motion filed on February 9, 2017, MERALCO submitted its initial comments to the draft RAB Handbook but moved for the deferment of the proceedings until the consumer group Petition has been resolved.

MERALCO also files with the ERC its applications for over/under-recoveries of pass-through costs. These consist mainly of differential generation, transmission and system loss charges technically referred to as over/under-recoveries, which are refundable/recoverable from the customers, as allowed by law.

Interim Average Rate for RY 2016. On June 11, 2015, MERALCO filed its application for the approval of a proposed Interim Average Rate of ₱1.3939 per kWh and translation thereof into rate tariffs by customer category. On July 10, 2015, the ERC provisionally approved an Interim Average Rate of ₱1.3810 per kWh and the rate translation per customer class, which was reflected in the customer bills starting July 2015. As at March 1, 2017, intervenors are set to present their own evidence after the ERC rules on pending motions.

Supreme Court (SC) Temporary Restraining Order (TRO) on December 2013 Increase in MERALCO Billing Rate. On December 9, 2013, the ERC gave clearance to the request of MERALCO to implement a staggered collection over three (3) months covering the December 2013 billing month for the increase in generation charge and other bill components such as value added tax, local franchise tax, transmission charge, and system loss charge. The generation costs for the November 2013 supply month increased significantly because of the aberrant spike in the Wholesale Electricity Spot Market (WESM) charges on account of the non-compliance with WESM Rules by certain plants resulting in significant power generation capacities not being offered and dispatched, and the scheduled and extended shutdowns, and the forced outages, of several base load power plants, and the use of the more expensive liquid fuel or bio-diesel by the natural gas-fired power plants that were affected by the Malampaya Gas Field, shutdown from November 11 to December 10, 2013.

On December 19, 2013, several party-list representatives of the House of Representatives filed a Petition against MERALCO, ERC and the Department of Energy (DOE) before the SC, questioning the ERC clearance granted to MERALCO to charge the resulting price increase, alleging the lack of hearing and due process. It also sought for the declaration of the unconstitutionality of the Electric Power Industry Reform Act (EPIRA), which essentially declared the generation and supply sectors competitive and open, and not considered public utilities. A similar petition was filed by a consumer group and several private homeowners associations challenging also the legality of the Automatic Generation Rate Adjustment (AGRA) that the ERC had promulgated. Both petitions prayed for the issuance of TRO, and a Writ of Preliminary Injunction.

On December 23, 2013, the SC consolidated the two (2) Petitions and granted the application for TRO effective immediately and for a period of 60 days, which effectively enjoined the ERC and MERALCO from implementing the price increase. The SC also ordered MERALCO, ERC and DOE to file their respective comments to the Petitions. Oral Arguments were conducted on January 21, 2014, February 4, 2014 and February 11, 2014. Thereafter, the SC ordered all the Parties to the consolidated Petitions to file their respective Memorandum on or before February 26, 2014 after which the Petitions will be deemed submitted for resolution of the SC. MERALCO complied with said directive and filed its Memorandum on said date.

On February 18, 2014, acting on the motion filed by the Petitioners, the SC extended for another 60 days or until April 22, 2014, the TRO that it originally issued against MERALCO and ERC last December 23, 2013. The TRO was also similarly applied to the generating companies, specifically Masinloc Power Partners Co. Ltd. (MPPCL), San Miguel Energy Corporation (SMEC), South Premiere Power Corporation (SPPC), First Gas Power Corporation (FGPC), and the National Grid Corporation of the Philippines (NGCP), and the Philippine Electricity Market Corporation (PEMC; the administrator of WESM and market operator) who were all enjoined from collecting from MERALCO the deferred amounts representing the ₱4.15 per kWh price increase for the November 2013 supply month.

In the meantime, on January 30, 2014, MERALCO filed an Omnibus Motion with Manifestation with the ERC for the latter to direct PEMC to conduct a re-run or re-calculation of the WESM prices for the supply months of November to December 2013. Subsequently, on February 17, 2014, MERALCO filed with the ERC an Application for the recovery of deferred generation costs for the December 2013 supply month praying that it be allowed to recover the same over a six (6)-month period.

On March 3, 2014, the ERC issued an Order voiding the Luzon WESM prices during the November and December 2013 supply months on the basis of the preliminary findings of its Investigating Unit that these are not reasonable, rational and competitive, and imposing the use of regulated rates for the said period. PEMC was given seven (7) days upon receipt of the Order to calculate these regulated prices and implement the same in the revised WESM bills of the concerned DUs in Luzon. PEMC's recalculated power bills for the supply month of December 2013 resulted in a net reduction of the December 2013 supply month bill of the WESM by ₱9.3 billion. Due to the pendency of the TRO, no adjustment was made to the WESM bill of MERALCO for the November 2013 supply month. The timing of amounts to be credited to MERALCO is dependent on the reimbursement of PEMC from associated generator companies. However, several generating companies, including MPPCL, SN Aboitiz Power, Inc., Team Energy, PanAsia Energy, Inc., and SMEC, have filed motions for reconsideration questioning the Order dated March 3, 2014. MERALCO has filed a consolidated comment to these motions for reconsideration. In an Order dated October 15, 2014, the ERC denied the motions for reconsideration. The generating companies have appealed the Orders with the CA where the petitions are pending. MERALCO has filed a motion to intervene and a comment in intervention in the petition filed by SMEC and shall file similar pleadings in the cases filed by the other generators.

In view of the pendency of the various submissions before the ERC and mindful of the complexities in the implementation of ERC's Order dated March 3, 2014, the ERC directed PEMC to provide the market participants an additional period of 45 days to comply with the settlement of their respective adjusted WESM bills. In an Order dated May 9, 2014, the parties were then given an additional non-extendible period of 30 days from receipt of the Order within which to settle their WESM bills. However, in an Order dated June 6, 2014 and acting on an intervention filed by Angeles Electric Corporation, the ERC deemed it appropriate to hold in abeyance the settlement of PEMC's adjusted WESM bills by the market participants.

On April 22, 2014, the SC extended indefinitely the TRO issued on December 23, 2013 and February 18, 2014 and directed generating companies, NGCP and PEMC not to collect from MERALCO. As at March 1, 2017, the SC has yet to resolve the various petitions filed against MERALCO, ERC, and DOE.

ERC and DOE Resolutions on Retail Competition and Open Access Prohibiting the Operations of the Local Retail Electricity Supply business segment. On March 8, 2016, the ERC promulgated Resolution No. 05 Series of 2016 entitled "A Resolution Adopting the 2016 Rules Governing the Issuance of Licenses to Retail Electricity Suppliers (RES) and Prescribing the Requirements and Conditions Therefor". The Resolution removed the term Local RES as one of the entities that may engage in the business of supplying electricity to the Contestable Market without need of obtaining a license therefor from the ERC. Moreover, while an affiliate of a DU is allowed to become a RES, the allowance is "subject to restrictions imposed by the ERC on market share limits and the conduct of business activities".

On May 12, 2016, the ERC issued Resolutions No. 10 and 11, Series of 2016, which:

- Provided for Mandatory contestability. Failure of a Contestable Customer to switch to RES upon date of mandatory contestability (December 26, 2016 for those with average demand of at least one (1) MW and June 26, 2017 for at least 750 MW) shall result in the physical disconnection from the DU system unless it is served by the Suppliers of Last Resort (SOLR, or, if applicable, procures power from the WESM;

- Prohibits DUs from engaging in the Supply of electricity to the Contestable Market except in its capacity as a SOLR;

- Mandates Local RESs to wind down their supply businesses within a period of three (3) years;

- Imposes upon all RESs, including DU-affiliate RESs, a market-share cap of 30% of the total average monthly peak demand of all contestable customers in the competitive retail electricity market; and

- Prohibits RESs from transacting more than 50% of the total energy transactions of its Supply business, with its affiliate Contestable Customers.

On May 27, 2016, MERALCO filed a Petition before Pasig RTC, praying that: (a) a TRO and subsequently a Writ of Preliminary Injunction (WPI) enjoining the DOE and ERC from implementing the Assailed Rules be issued; and the Assailed Rules be declared null and void for being contrary to the EPIRA and its IRR. In an Order dated July 13, 2016, RTC-Pasig granted a WPI, which became effective on July 14, 2016, and shall be effective for the duration of the pendency of the Petition.

Meanwhile, ERC filed a Petition for Certiorari and Prohibition with prayer for TRO and/or WPI before the SC ("SC Petition"), which asserted that RTC-Pasig has no jurisdiction to take cognizance of MERALCO's Petition, citing Sec. 78 of the EPIRA. A similar petition was subsequently filed by the DOE before the SC.

On October 10, 2016, the SC, in relation to the Petition filed by DOE, issued a TRO that restrained, MERALCO, the RTC Pasig, their representatives, agents or other persons acting on their behalf from continuing the proceedings before the RTC Pasig, and from enforcing all orders, resolutions and decisions rendered in Special Civil Action No. 4149 until the petition before the SC is finally resolved. In a Resolution dated November 9, 2016, the SC denied MERALCO's motion for reconsideration of the October 10, 2016 Resolution.

On November 2, 2016, in relation to the Petition filed by the ERC, the SC issued a Resolution dated September 26, 2016, which partially granted the ERC Petition. While the SC allowed the RTC to proceed with the principal case of declaratory relief, it nonetheless issued a Preliminary Mandatory Injunction (PMI) against RTC Pasig to vacate the preliminary injunction it previously issued, and Preliminary Injunction (PI) ordering the RTC Pasig to refrain issuing further orders and resolutions tending to enjoin the implementation of EPIRA. On November 14, 2016, MERALCO filed a Motion for Partial Reconsideration with Very Urgent Motion to lift PMI/ PI.

On November 24, 2016, the ERC promulgated a resolution moving the contestability date of end users with an average monthly peak demand of at least one (1) MW from December 31, 2016 to February 26, 2017.

On January 17, 2017, MERALCO, through counsel, received an SC Resolution dated December 5, 2016, which consolidated the SC DOE Petition with the SC ERC Petition. The same resolution also denied the Motion for Partial Reconsideration filed by MERALCO.

In relation to the ERC and DOE Petitions, a separate Petition for Certiorari, Prohibition and Injuction was filed by Philippine Chamber of Commerce and Industry (PCCI), San Beda College Alabang, Inc., Ateneo de Manila University and Riverbanks Development Corporation, In said Petition PCCI et. al sought to declare as null and void, as well as to enjoin the DOE and ERC from implementing DOE Circular No. 2015-06- 0010, Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28, Series of 2016. Acting on the Petition, the Supreme Court en banc through a Resolution dated February 21, 2017, issued a TRO enjoining the DOE and the ERC from implementing DOE Circular No. 2015-06- 0010 Series of 2015, ERC Resolution Nos. 5, 10, 11 and 28 Series of 2016.

Others. MERALCO and its subsidiaries are subject to various pending or threatened legal actions in the ordinary course of business which, if the conclusion is unfavorable to MERALCO and subsidiaries, may result in the payout of substantial claims and/or the adjustment of electricity distribution rates. These contingencies substantially represent the amounts of claims related to a commercial contract which remains unresolved and local taxes being contested. Other disclosures required by PAS 37 were not provided as it may prejudice MERALCO's position in on–going claims, litigations and assessments.

17. Future Changes in Accounting Policies

The standards, interpretations amendments and improvements to the standards that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these, if applicable, when they become effective. Unless otherwise specified, these will not have an impact on the Company's financial statements.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

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

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

  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted. Application of amendments will result in additional disclosures in the 2017 financial statements of the Company.

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

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

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted. These amendments are not expected to have any impact on the Company.

Effective beginning on or after January 1, 2018

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

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

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted. These amendments are not expected to have any impact on the Company.

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

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. These amendments are not expected to have any impact on the Company.

- PFRS 15, *Revenue from Contracts with Customers*

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

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of PFRS 15 and plans to adopt the new standard on the required effective date.

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

  The adoption of PFRS 9 will have an effect on the classification and measurement of the Company's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Company's financial liabilities. The adoption will also have an effect on the Company's application of hedge accounting and on the amount of its credit losses. The Company is currently assessing the impact of adopting this standard.

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

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

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

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight. These amendments are not expected to have any impact on the Company.
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. This interpretation is not expected to have any impact on the Company.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

  Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. This standard is not expected to have any impact on the Company.

Deferred effectivity

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

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

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

18. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On December 28, 2010, RR No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

The Company reported and/or paid the following types of taxes for the year:

All values presented below are rounded to the nearest peso.

VAT
Output VAT declared during the year are as follows:

	Net Receipts	Output VAT
Subject to 12%	₱26,351	₱3,162
Zero-rated	–	–
Exempt	–	–
Total	₱26,351	₱3,162

Input VAT arising from domestic purchases of goods and services for the year is detailed as follows:

Balance at January 1, 2016	₱5,777,171
Current year's domestic purchases/payments for:	
Domestic purchase of goods other than capital goods	–
Domestic purchase of services	106,180
Application of input VAT against output VAT	(3,162)
Balance at December 31, 2016	₱5,880,189

Withholding Taxes
During the year, the Company remitted ₱179,097,677 of expanded withholding taxes.

Documentary Stamp Taxes (DST)
The DST paid/accrued on the following transactions are as follows:

Transaction	Amount	DST
Original issuance of shares of stocks	₱554,675,120	₱2,773,376
Lease	30,000	31
Total	₱554,705,120	₱2,773,407

Taxes and Licenses
The Company's taxes and licenses for the year are as follows:

Business taxes	₱4,549,251
Documentary stamp taxes*	31
Others	2,000
Total	₱4,551,282

**Excluding DST from shares of stocks as shown in the DST schedule above which were charged against additional paid in capital.*

Tax Assessments and Cases
The Company has no outstanding final tax assessments with the BIR and tax cases in any other courts or bodies outside of the BIR as at December 31, 2016.