# Beacon PowerGen Holdings, Inc.

Financial Statements
As at December 31, 2016
And for the period May 18, 2016
to December 31, 2016

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 PowerGen Holdings, Inc.

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Beacon PowerGen Holdings, Inc. (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period May 18, 2016 to December 31, 2016, 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 its financial performance and its cash flows for the period May 18, 2016 to December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

### Basis for Opinion

We conducted our audit 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.

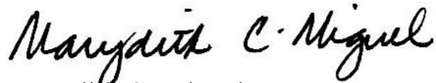
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 audit was 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 13 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 PowerGen 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.



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

March 1, 2017

## BEACON POWERGEN HOLDINGS, INC.

## STATEMENT OF FINANCIAL POSITION

**DECEMBER 31, 2016**
**(Amounts in Millions)**

| | |
|---|---:|
| **ASSETS** | |
| **Current Assets** | |
| Cash and cash equivalents (Notes 4, 10 and 11) | ₱770 |
| Dividend receivables (Notes 5, 10 and 11) | 1,232 |
| Other receivables (Notes 10 and 11) | 56 |
| Total Current Assets | 2,058 |
| **Noncurrent Assets** | |
| Available-for-sale (AFS) financial assets (Notes 5, 10 and 11) | 22,145 |
| | ₱24,203 |

| | |
|---|---:|
| **LIABILITIES AND EQUITY** | |
| **Current Liabilities** | |
| Accounts payable and other current liabilities (Notes 6, 10 and 11) | ₱253 |
| Current portion of long-term debt (Notes 7, 10 and 11) | 949 |
| Total Current Liabilities | 1,202 |
| **Noncurrent Liabilities** | |
| Long-term debt - net of current portion (Notes 7, 10 and 11) | 10,981 |
| **Equity** | |
| Capital stock (Note 8) | 1,123 |
| Additional paid-in capital (Note 8) | 10,052 |
| Retained earnings | 845 |
| Total Equity | 12,020 |
| | ₱24,203 |

*See accompanying Notes to Financial Statements.*

## BEACON POWERGEN HOLDINGS, INC.

## STATEMENT OF COMPREHENSIVE INCOME

**FOR THE PERIOD MAY 18, 2016 TO DECEMBER 31, 2016***
**(Amounts in Millions)**

| | |
|---|---|
| **REVENUE** | |
| Dividend income (Note 5) | ₱1,232 |
| **EXPENSES** | |
| Professional and other service fees | 13 |
| Other expenses | 5 |
| | 18 |
| **OTHER INCOME (EXPENSES)** | |
| Interest expense (Note 7) | (369) |
| Interest income (Note 4) | 5 |
| Amortization of debt issuance costs (Note 7) | (4) |
| | (368) |
| **INCOME BEFORE TAX** | 846 |
| **PROVISION FOR FINAL TAX** | 1 |
| **NET INCOME** | 845 |
| **OTHER COMPREHENSIVE INCOME** | – |
| **TOTAL COMPREHENSIVE INCOME** | ₱845 |

*The Company was incorporated on May 18, 2016.

*See accompanying Notes to Financial Statements.*

## BEACON POWERGEN HOLDINGS, INC.

## STATEMENT OF CHANGES IN EQUITY

**FOR THE PERIOD MAY 18, 2016 TO DECEMBER 31, 2016***
**(Amounts in Millions Except Per Share Amounts and Number of Shares)**

| | |
|---|---|
| **CAPITAL STOCK** (see Note 8) | |
| Common shares with ₱1.00 par value | |
| Authorized – 4,000,000,000 shares | |
| Issued and outstanding – 1,122,500,000 shares | ₱1,123 |
| **ADDITIONAL PAID-IN CAPITAL** | 10,052 |
| **RETAINED EARNINGS** | |
| Net income for the period | 845 |
| | ₱12,020 |

*The Company was incorporated on May 18, 2016.

*See accompanying Notes to Financial Statements.*

## BEACON POWERGEN HOLDINGS, INC.

## STATEMENTS OF CASH FLOWS

**FOR THE PERIOD MAY 18, 2016 TO DECEMBER 31, 2016***

**(Amounts in Millions)**

| | |
|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | |
| Income before tax | ₱846 |
| Adjustments for: | |
| Dividend income (Note 5) | (1,232) |
| Interest expense (Note 7) | 369 |
| Interest income (Note 4) | (5) |
| Amortization of debt issuance costs (Note 7) | 4 |
| Operating loss before working capital changes | (18) |
| Increase in receivables | (55) |
| Increase in accounts payable and other current liabilities (Note 6) | 15 |
| Net cash used for operations | (58) |
| Interest received (see Note 4) | 4 |
| Final tax paid | (1) |
| Net cash flows used in operating activities | (55) |
| **CASH FLOW USED IN AN INVESTING ACTIVITY** | |
| Investment in AFS financial assets (Note 5) | (22,142) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | |
| Proceeds from: | |
| Issuance of shares (Note 8) | 11,203 |
| Availment of long-term loan (Note 7) | 12,000 |
| Availment of short-term loan (Note 7) | 11,029 |
| Payments for: | |
| Short-term loan (Note 7) | (11,029) |
| Interest on loans (Note 7) | (134) |
| Transaction costs on issuance of shares and debt (Notes 7 and 8) | (102) |
| Net cash flows from financing activities | 22,967 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **₱770** |

*The Company was incorporated on May 18, 2016.

*See accompanying Notes to Financial Statements.*

## 1. Corporate Information

Beacon PowerGen Holdings, Inc. (the Company or BPHI) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on May 18, 2016 as an investment holding company. As at December 31, 2016, the Company holds 56% ownership interest in Global Business Power Corporation (GBPC).

The Company is 100% owned by Beacon Electric Asset Holdings, Inc. (BEAHI). BEAHI is a joint venture between Metro Pacific Investments Corporation (MPIC) and PLDT Communications and Energy Ventures, Inc. (PCEV).

In 2016, the Company, BEAHI, MPIC and PCEV agreed to enter into an Amended and Restated Omnibus Agreement setting forth the agreement with respect to the organization, conduct of business, and the extent of their participation on the management of the affairs of the Company, BEAHI and GBPC. The Company, BEAHI, PCEV and MPIC have agreed on certain corporate governance matters, including Board of Directors (BOD) composition, election of officers, shareholders' action, representation to the BOD of GBPC and nomination of the BOD committees and officers of GBPC.

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) as at December 31, 2016. As sole holder of the voting Class A Preferred Shares of MPIC, MPHI's combined voting interest as a result of all of its shareholdings is estimated at 55.0% as at December 31, 2016. 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.

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

The registered office address of the Company is Units 10-3 and 10-4, 10/F Net One Center, 26$^{th}$ corner 3$^{rd}$ Avenue, Bonifacio Global City, Taguig City.

The accompanying financial statements as at December 31, 2016 and for the period May 18, 2016 to December 31, 2016 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 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).

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 11.

Cash and Cash Equivalents
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 fair value of the consideration given or received is determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market interest rates for similar instruments with similar maturities. 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.* The Company classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, loans and receivables, AFS financial assets, financial liabilities at FVPL and other financial liabilities.

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

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividend, gains and losses relating to a financial liability 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 related income tax benefits.

The Company has no financial assets at FVPL, HTM investments and financial liabilities at FVPL as at December 31, 2016.

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 and receivables are classified as loans and receivables (see Notes 4, 10 and 11).

*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, this category includes investments in GBPC common shares (see Notes 5, 10 and 11).

Financial Liabilities

*Other Financial Liabilities.* This category pertains to financial liabilities that are not held for trading or not designated at FVPL upon the inception of the liability. This include liabilities arising from operations and borrowings.

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

All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs (referred to as "debt issue costs"). Debt issue costs are amortized over the life of the debt instrument using the EIR method. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the Company's statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process. This category generally includes short-term and long-term debt.

The Company's accounts payable and other current liabilities, and long-term debt are classified as other financial liabilities (see Notes 6, 7, 10 and 11).

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 components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

Impairment of Financial Assets
The Company assesses at each end of reporting period whether a financial asset or group of financial assets is impaired. If any such evidence exists, the Company applies the relevant impairment policies by measurement type of financial asset to determine the amount of any impairment loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*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.

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.

Capital Stock and Additional Paid-in Capital
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.

Retained Earnings
Retained earnings include profit attributable to the Company's equity holders. Retained earnings also represent the Company's accumulated earnings, net of dividends declared.

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 parent company 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
In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements.

*Accounting for Investment in GBPC shares.* In applying PFRS 10, *Consolidated Financial Statements*, the Company made a judgment that the decision making power of the Company over the GBPC shares is effectively delegated to BEAHI's shareholders, PCEV and MPIC, and that the Company does not exercise any discretion over the vote to be taken in respect of the GBPC shares but is obligated to vote the GBPC shares strictly in accordance with the instructions of the two shareholders. As a consequence of the application of PFRS 10, the investment in GBPC shares is accounted for as AFS financial assets under PAS 39, *Financial Instruments – Recognition and Measurement*.

Estimates and Assumptions
The key assumptions concerning future and other key sources of estimation at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*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 11.

*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. In making this judgment, the Company evaluates, among other factors, the future cash flows and the discount factors for unquoted equities. For unquoted shares, the Company determines that unquoted AFS financial assets are impaired where there is information about significant changes with adverse effects that have taken place in the market, economic or legal environment in which the issuer operates and indicate that the carrying amount of the investment in the equity instruments may not be recovered.

No impairment loss was recognized for AFS financial assets for the period May 18, 2016 to December 31, 2016. The carrying value and fair value of the AFS financial assets amounted to ₱22.1 billion as at December 31, 2016 (see Notes 5 and 11).

*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 has NOLCO of ₱389.6 million for which no deferred tax assets have been recognized as at December 31, 2016 (see Note 9).

## 4. Cash and Cash Equivalents

Cash in bank amounting to ₱2.8 million earned interest at the prevailing bank deposit rates. Short-term deposits amounting to ₱767.4 million are made for varying periods of up to three months in maturity depending on the immediate cash requirements of the Company and earn interest at the prevailing short-term deposit rates (see Note 10).

Interest earned from cash in bank and short-term deposits during the period amounted to ₱5.4 million.

## 5. Available-for-sale Financial Assets

The Company's investment in AFS financial assets is measured at fair value and comprises of investment in equity shares of GBPC. As the acquisition of GBPC shares were only completed in May 2016, the cost of investment approximates the fair value of GBPC shares as at December 31, 2016 (see Notes 1 and 3).

In May 2016, BPHI entered into a Share Purchase Agreement (SPA) with GT Capital Holdings, Inc. (GTCHI) to acquire an aggregate of 1,077,451,739 ordinary shares representing 56% of the ordinary and issued share capital of GBPC for a total consideration of ₱22.06 billion or ₱20.47 per share. BPHI incurred ₱0.09 billion direct costs in relation to the acquisition and were capitalized as the initial cost of the investment. 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 a long-term bank debt in August 2016 (see Note 7).

GBPC is a holding company which, through its subsidiaries, is one of the leading independent power producers in the Visayas region and Mindoro island. 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.

Dividend income from GBPC in 2016 amounted to ₱1,232.0 million payable in 2017. As at March 1, 2017, the dividend receivable has not yet been received by the Company.

6. **Accounts Payable and Other Current Liabilities**

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

| | |
|---|---|
| Accrued interest payable (see Note 7) | ₱235 |
| Withholding taxes | 14 |
| Other accrued expenses | 4 |
| | ₱253 |

7. **Long-term Debt**

In May 2016, BPHI entered into a vendor financing agreement amounting to ₱11.03 billion for the acquisition of 56% of GBPC (see Note 5). The loan bears fixed interest of 4.8% per annum payable in 90 days. On August 26, 2016, the Company fully settled the loan including the related interest amounting to ₱133.8 million using the proceeds from the *₱12,000.0 million Ten-Year Term Loan Facility* (Loan Facility).

The Loan Facility earns fixed interest of 5.50% per annum with the principal and interest payable semi-annually starting August 26, 2017. The Loan Facility is secured by a pledge on GBPC shares owned by BPHI. Other covenants include maintenance of reserve account and achievement of certain financial ratios such as (i) Debt Service Coverage Ratio (DSCR) at a minimum of 1.1x, to be first calculated in 2018; and (ii) DSCR before any restricted payments at 1.3x. As at December 31, 2016, BPHI is in compliance with all the requirements stipulated in the loan agreement.

The Company incurred debt issuance costs amounting to ₱73.3 million of which ₱3.6 million were amortized during the period. The unamortized debt issuance cost amounted to ₱69.7 million as at December 31, 2016.

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

| | |
|---|---|
| Within one year | ₱960 |
| After one year but not more than five years | 3,840 |
| After five years | 7,200 |
| | ₱12,000 |

8. **Equity**

Authorized Capital Stock
On May 18, 2016, BEAHI subscribed and paid ₱2.5 million representing 2.5 million common shares with a par value of ₱1.0 per share.

On May 23, 2016, BPHI's BOD and stockholders approved the (a) increase in authorized capital stock from ₱10.0 million divided into 10.0 million common shares at ₱1.00 par value per share to ₱4.0 billion divided into 4,000.0 million common shares at ₱1.00 par value per share, and (b) change of principal office address from Unit 9-2, 9/F Net One Center, 26th corner 3rd Avenue, Bonifacio Global City, Taguig City to Units 10-3 and 10-4, 10/F Net One Center, 26th corner 3rd Avenue, Bonifacio Global City, Taguig City. On August 5, 2016, SEC approved the aforementioned amendments.

On May 30, 2016, the Company and BEAHI entered into a subscription agreement whereby BEAHI subscribed for 1,120.0 million common shares of the Company for a total consideration of ₱11,200.0 million or ₱10.0 per common share. The proceeds were used by the Company to acquire 56% of the total outstanding capital stock of GBPC (see Note 5).

Transaction costs on issuance of shares amounting to ₱28.3 million were incurred and recorded under 'Additional paid-in capital' of the Company's statement of financial position.

## 9. 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 period May 18, 2016 to December 31, 2016 is as follows:

| | |
|---|---|
| Provision for income tax at statutory tax rate | ₱254 |
| Tax effects of: | |
| Dividend income exempted from final tax | (370) |
| Interest income already subjected to final tax | (2) |
| Unrecognized deferred tax assets on NOLCO | 117 |
| Nondeductible portion of interest expense | 1 |
| Actual provision for income tax | ₱– |

The Company's deferred tax assets arising from NOLCO amounting to ₱116.9 million have not been recognized in the statement of financial position since management believes that it is not probable that future taxable income will be available against which the deferred tax assets can be utilized.

NOLCO amounting to ₱389.6 million as at December 31, 2016 can be carried forward and claimed as deduction for regular taxable income until 2019.

The Company is not yet subject to Minimum Corporate Income Tax (MCIT) which is 2% of the gross income. The imposition of MCIT begins on the fourth taxable year immediately following the year in which the Company commenced its business operations.

## 10. 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, accounts payable and other current liabilities, and long-term debt 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.

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 as the interest rate of the Company's outstanding long-term debt as at December 31, 2016 is 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, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱770.2 million.  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 based on undiscounted contractual payments.

| | 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 | ₱3 | ₱ | ₱– | ₱– | ₱– | ₱– | ₱3 |
| Short-term deposits | – | 767 | – | – | – | – | 767 |
| Dividend receivable | – | 1,232 | – | – | – | – | 1,232 |
| Other receivables | | 56 | – | – | – | – | 56 |
| Available-for-sale financial assets | – | – | – | – | – | 22,145 | 22,145 |
| | 3 | 2,055 | – | – | – | 22,145 | 24,203 |
| **Financial Liabilities** | | | | | | | |
| Other financial liabilities: | | | | | | | |
| Accounts payable and other current liabilities(1): | | | | | | | |
| Accrued interest | – | 235 | – | – | – | – | 235 |
| Others | – | 4 | – | – | – | – | 4 |
| Long-term debt: | | | | | | | |
| Principal(2) | – | 960 | 960 | 960 | 960 | 8,160 | 12,000 |
| Interest | – | 676 | 608 | 554 | 502 | 1,892 | 4,232 |
| | – | 1,875 | 1,568 | 1,514 | 1,462 | 10,052 | 16,471 |
| | ₱3 | ₱180 | (₱1,568) | (₱1,514) | (₱1,462) | ₱12,093 | ₱7,732 |

*(1) Excluding statutory payables amounting to P14 million.*
*(2) Gross of unamortized debt issuance costs.*

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's credit risk is concentrated with GBPC at approximately 96% of its total receivables as at December 31, 2016 (see Note 5).

The aggregate of cash and cash equivalents and receivables amounting to ₱2,057.5 million as at December 31, 2016 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 consist of its equity. The capital of the Company derived from the issuance of capital stock, net of transaction costs, amounted to ₱11,174.2 million.

## 11. Financial Assets and Financial Liabilities

As at December 31, 2016, the carrying values of cash and cash equivalents, receivables 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 asset and liability for which fair values have been determined for measurement and/or disclosure as at December 31, 2016.

| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---|---|---|---|---|---|
| | | | *(In Millions)* | | |
| **Asset measured at fair value** | | | | | |
| AFS financial assets (Note 5) | ₱22,145 | ₱22,145 | ₱– | ₱– | ₱22,145 |
| **Liability for which fair values are disclosed** | | | | | |
| Long-term debt (current and noncurrent) (Note 7) | 11,930 | – | 12,008 | – | 12,008 |

AFS Financial Assets

The fair value of the unquoted equity shares is based on recent transaction price (see Note 5).

Long-term Debt

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%.

## 12. Future Changes in Accounting Policies

The standards, interpretations amendments and improvements to the standards that are issued, but not yet effective as at December 31, 2016 are disclosed below. The Company intends to adopt these, if applicable, when they become effective. Unless otherwise specified, we do not expect the amendments to have significant impact on the Company's financial statements.

*Effective beginning on or after January 1, 2017*

- Amendments 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.

- 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.

*Effective January 1, 2018*

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

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

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* – The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose

activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Company since the Company does not have activities that are predominantly connected with insurance or issue insurance contracts.

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

  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.

- 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 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.

- 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.

- 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.

*Effective 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.

*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.

## 13. 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 period:

All values presented below are rounded to the nearest peso.

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

| Transaction | Amount | DST |
|---|---|---|
| Loan availments | ₱12,000,000,000 | ₱60,000,000 |
| Original issuance of shares of stocks | 1,122,500,000 | 5,612,500 |
| Lease | 30,000 | 31 |
| Total | ₱13,122,530,000 | ₱65,612,531 |

Taxes and Licenses
The amount paid for taxes and licenses are as follows:

| | Amount |
|---|---|
| Business permits | ₱3,150 |
| Documentary stamp taxes* | 31 |
| | ₱3,181 |

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

Withholding Tax
The amount of withholding taxes paid/accrued for the period amounted to:

| | |
|---|---|
| Expanded Withholding Taxes | ₱24,156,195 |
| Final Withholding Taxes | 9,498,239 |
| Total | ₱33,654,434 |

Tax Assessment and Litigation
The Company has no outstanding tax assessments and litigation as at December 31, 2016.

The Company is not a VAT registered entity.