Beacon Electric Asset Holdings, Inc.
(A Subsidiary of Metro Pacific Investments Corporation)

Financial Statements
December 31, 2017 and 2016

and

Independent Auditor's Report

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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, 2017 and 2016, 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, 2017 and 2016, 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.

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PTR No. 6621301, January 9, 2018, Makati City

March 5, 2018

BEACON ELECTRIC ASSET HOLDINGS, INC.
(A Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF FINANCIAL POSITION
(Amounts in Millions)

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4, 12 and 13)	**₱4,533**	₱3,107
Receivables (Notes 12 and 13)	**5**	5
Other current assets	**6**	6
Total Current Assets	**4,544**	3,118
Noncurrent Assets		
Investments (Notes 5 and 6)	**94,747**	–
Available-for-sale (AFS) financial assets (Notes 6, 12 and 13)	**–**	115,549
	₱99,291	₱118,667
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 7, 12 and 13)	**₱511**	₱97
Current portion of long-term debt (Notes 8, 12 and 13)	**1,415**	1,195
Total Current Liabilities	**1,926**	1,292
Noncurrent Liabilities		
Long-term debt - net of current portion (Notes 8, 12 and 13)	**13,488**	9,981
Due to related parties (Note 9)	**–**	683
Total Noncurrent Liabilities	**13,488**	10,664
Equity		
Capital stock (Note 10)	**5,138**	5,138
Additional paid-in capital	**76,629**	76,629
Treasury shares (Note 10)	**(7,000)**	(2,500)
Other comprehensive income reserve (Note 6)	**–**	21,202
Retained earnings	**9,110**	6,242
Total Equity	**83,877**	106,711
	₱99,291	₱118,667

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.
(A Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Millions)

	Years Ended December 31	
	2017	2016
REVENUE		
Dividend income (Notes 5 and 6)	**₱7,182**	₱9,883
EXPENSES		
Taxes and licenses and other expenses	**6**	6
Professional and other service fees	**2**	2
	8	8
OTHER INCOME (EXPENSES)		
Interest expense (Note 8)	**(970)**	(890)
Interest income from accretion (Note 9)	**–**	181
Interest income, net of final tax (Note 4)	**63**	42
Amortization of debt issuance costs (Note 8)	**(25)**	(24)
	(932)	(691)
NET INCOME	**6,242**	9,184
OTHER COMPREHENSIVE LOSS		
Item to be reclassified to profit or loss in subsequent periods – Changes in fair value of available-for-sale financial assets (Note 6)	**–**	21,240
TOTAL COMPREHENSIVE INCOME (LOSS)	**₱6,242**	(₱12,056)

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC
(A Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Millions)

	Capital Stock						
	Preferred Stock (Note 10)	Common Stock (Note 10)	Additional Paid-in Capital (Note 10)	Treasury Shares (Note 10)	Other Comprehensive Income Reserve (Note 6)	Retained Earnings (Note 10)	Total
Balances as at January 1, 2017	**₱2,555**	**₱2,583**	**₱76,629**	**(₱2,500)**	**₱21,202**	**₱6,242**	**₱106,711**
Total comprehensive income –							
Net income	**–**	**–**	**–**	**–**	**–**	**6,242**	**6,242**
Reversal against AFS financial asset	**–**	**–**	**–**	**–**	**(21,202)**	**–**	**(21,202)**
Treasury shares	**–**	**–**	**–**	**(4,500)**	**–**	**–**	**(4,500)**
Dividends declared (Note 10)	**–**	**–**	**–**	**–**	**–**	**(3,374)**	**(3,374)**
Balances as at December 31, 2017	**₱2,555**	**₱2,583**	**₱76,629**	**(₱7,000)**	**₱–**	**₱9,110**	**₱83,877**
Balances as at January 1, 2016	₱2,000	₱2,583	₱70,201	₱–	₱42,442	₱5,855	₱123,081
Total comprehensive income –							
Net income	–	–	–	–	–	9,184	9,184
Other comprehensive loss	–	–	–	–	(21,240)	–	(21,240)
Shares issuance	555	–	6,445	–	–	–	7,000
Transaction costs	–	–	(17)	–	–	–	(17)
Treasury shares	–	–	–	(2,500)	–	–	(2,500)
Dividends declared (Note 10)	–	–	–	–	–	(8,797)	(8,797)
Balances as at December 31, 2016	₱2,555	₱2,583	₱76,629	(₱2,500)	₱21,202	₱6,242	₱106,711

See accompanying Notes to Financial Statements.

BEACON ELECTRIC ASSET HOLDINGS, INC.
(A Subsidiary of Metro Pacific Investments Corporation)

STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years Ended December 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**₱6,242**	₱9,184
Adjustments for:		
Dividend income (Notes 5 and 6)	**(7,182)**	(9,883)
Interest expense (Note 8)	**970**	890
Interest income from accretion (Note 9)	**–**	(181)
Interest income, net of final tax (Note 4)	**(63)**	(42)
Amortization of debt issuance costs (Note 8)	**25**	24
Operating loss before working capital changes	**(8)**	(8)
Decrease in accounts payable and other current liabilities	**(1)**	(62)
Net cash used in operations	**(9)**	(70)
Dividends received (Notes 5 and 6)	**7,182**	9,883
Interest received, net of final tax	**63**	40
Net cash from operating activities	**7,236**	9,853
CASH FLOWS FROM INVESTING ACTIVITIES		
Additional investments in AFS financial asset (Note 6)	**–**	(11,203)
Collections on sale of AFS financial asset (Note 9)	**–**	4,244
Net cash used in investing activities	**–**	(6,959)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of loan (Note 8)	**5,000**	–
Issuance of shares (Note 10)	**–**	7,000
Payments of/for:		
Interest on loans	**(955)**	(879)
Dividends declared (Notes 10 and 15)	**(3,374)**	(4,553)
Long-term debt (Note 8)	**(1,256)**	(1,108)
Redemption of preferred shares (Note 10)	**(4,500)**	(2,500)
Transaction costs on availment of loan (Note 8)	**(42)**	–
Transaction costs on issuance of shares	**–**	(17)
Due to related parties (Note 9)	**(683)**	–
Net cash used in financing activities	**(5,810)**	(2,057)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,426**	837
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**3,107**	2,270
CASH AND CASH EQUIVALENTS AT END OF YEAR	**₱4,533**	₱3,107

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 was originally 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. As at December 31, 2016, MPIC and PCEV's ownership interest in the Company are at 75% and 25%, respectively.

On June 27, 2017, MPIC entered into a Deed of Absolute Sale of Shares with PCEV to acquire the latter's remaining 25% interest in Beacon's common and preferred shares for an aggregate purchase price of ₱21.8 billion. The purchase consideration was settled as ₱12.0 billion in cash while the balance of ₱9.8 billion shall be settled in four (4) equal annual installment amounting to ₱2.45 billion per year payable starting June 2018. With MPIC acquiring control over Beacon, the transaction was accounted for using the acquisition method under PFRS 3, *Business Combination,* resulting in Beacon and its subsidiaries accounted for as subsidiaries of MPIC beginning June 27, 2017.

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) of MPIC as at December 31, 2017 and 2016. 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, 2017 and 2016. MPHI is a Philippine corporation whose stockholders are Enterprise Investment Holdings, Inc. (EIH; 60.0% interest), Intalink B.V. (26.7% interest) and First Pacific International Limited (FPIL; 13.3% interest). 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 part of 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. (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, 2017 and 2016 were approved and authorized for issuance by the BOD on March 5, 2018.

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared under the historical cost basis, except for 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.

For purposes of submission of the financial statements to the SEC and the Bureau of Internal Revenue, the Company, a subsidiary of MPIC beginning June 27, 2017 (see Note 1), elected not to prepare consolidated financial statements under the exemption provided in Philippine Financial Reporting Standards (PFRS) 10, *Consolidated Financial Statements.* MPIC prepares consolidated financial statements in conformity with PFRS and such consolidated financial statements are filed with the SEC and Philippine Stock Exchange and are available for public use. These consolidated financial statements may also be obtained at 10th Floor, MGO Building, Legaspi corner Dela Rosa Streets, Legaspi Village, Makati City.

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, 2017. 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 12, *Disclosure of Interests in Other Entities, Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* – The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative* – The amendments require an entity to provide disclosures of 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). See Note 15 for the required disclosures.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions upon the reversal of the temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 is classified 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 classified as 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.

All other liabilities are classified 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.

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 (3) 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 twelve (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 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, this category included investments in MERALCO and BPHI common shares (see Notes 6 and 13).

Financial Liabilities

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 twelve (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).

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.

<u>Derecognition of Financial Assets and Financial Liabilities</u>
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; 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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through arrangement", it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. 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.

Investments
Investments comprise the Company's investments in a subsidiary and an associate that are accounted for at cost. The investments are carried in the statement of financial position at cost less any impairment in value. The Company recognizes dividend income from these investments when its right to receive the dividend is established.

Any gain or loss arising from disposal of investment (calculated as the difference between the proceeds and the cost of investment) is included in profit or loss in the year investment is disposed.

Impairment of Nonfinancial Assets
The Company assesses at each reporting date whether there is an indication that investments may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each financial reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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 are 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 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 is 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 carry-over (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.

Judgments
Accounting for Investments in the common shares of MERALCO, BPHI and GBPC (through BPHI) – Prior to June 27, 2017. Before MPIC's step-up acquisition of the Company as discussed in Note 1, which resulted in BPHI and GBPC becoming subsidiaries of Beacon, and ultimately MPIC, the Company made a judgment under PFRS 10, *Consolidated Financial Statements*, 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 were accounted for as AFS financial assets under PAS 39, *Financial Instruments – Recognition and Measurement* as at December 31, 2016 (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.

Determination of Impairment of Nonfinancial Assets. Impairment review is performed when certain impairment indicators are present. Determining the fair value of assets requires the estimation of cash flows expected to be generated from the continued use and ultimate disposition of such assets.

While it is believed that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material impact on the results of operations.

There were no impairment indicators on the investment in BPHI as at December 31, 2017. The carrying value of the investment in BPHI as at December 31, 2017 amounted to ₱11,602.5 million (see Note 5). The fair value and carrying value of the investment in MERALCO as at December 31, 2017 amounted to ₱128,896.8 million and ₱83,144.4 million, respectively (see Note 5).

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 twelve (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.

The Company classified its investments in MERALCO and BPHI as AFS financial assets as at December 31, 2016. No impairment loss was recognized for AFS financial assets for the year ended December 31, 2016. The carrying value and fair value of the AFS financial assets amounted to ₱115,549.4 million as at December 31, 2016 (see Notes 6 and 13). As at December 31, 2017, in view of the Company becoming a subsidiary of MPIC as a result of the step up acquisition as previously discussed, the Company classifies its investments in MERALCO and BPHI as investments in an associate and a subsidiary, respectively, which are accounted for at cost.

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 ₱3,855.9 million and ₱5,243.7 million as at December 31, 2017 and 2016, respectively (see Note 11).

4. Cash and Cash Equivalents

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(In Million Pesos)	
Cash in banks	**₱4**	₱13
Short-term deposits	**4,529**	3,094
	₱4,533	₱3,107

Cash in banks earn interest at the prevailing bank deposit rates. Short-term deposits are made for varying periods of up to three (3) 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 ₱63.3 million and ₱42.1 million in 2017 and 2016, respectively.

5. Investments

	Relationship	Ownership Interest	**December 31, 2017**
			(In Million Pesos)
Cost:			
BPHI	Subsidiary	100.00%	₱11,603
MERALCO	Associate	34.96%	83,144
			₱94,747

BPHI

As discussed in Note 1, on May 30, 2016, the Company subscribed to 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 ₱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, 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 (CEDC); (ii) 164 MW and 150 MW clean coal-fired power plants in Iloilo City, which is operated by Panay Energy Development Corporation (PEDC); (iii) 60 MW coal facility, an 82 MW clean coal fired power plant and a 40 MW fuel oil facility operated by Toledo Power Co. (TPC); (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 (PPC); and (v) 7.5 MW fuel oil facility operated by GBH Power Resources Inc.

GBPC, through its operating generation subsidiaries, entered into bilateral off-take arrangements with power off-takers such as distribution utilities, electric cooperatives, retail electricity suppliers and directly connected industrial customers which together accounted for 92% and 95% of GBPC's total electricity sales for the years ended December 31, 2017 and 2016, respectively.

On December 19, 2017, the Company's BOD approved the Company's subscription to 40 million common shares in BPHI, at the price of ₱10.0 per common share, or the aggregate subscription price of ₱400 million, payable in cash. The subscription was fully settled on January 12, 2018.

MERALCO
MERALCO is the Philippines' largest electric power distribution company. MERALCO holds a congressional franchise under Republic Act (RA) No. 9209 effective June 28, 2003. RA No. 9209 grants MERALCO a 25-year franchise valid through June 28, 2028 to construct, operate, and maintain the electric distribution system in the cities and municipalities of Bulacan, Cavite, Metro Manila, and Rizal and certain cities, municipalities, and barangays in the provinces of Batangas, Laguna, Pampanga, and Quezon. On October 20, 2008, the ERC, granted MERALCO a consolidated Certificate of Public Convenience and Necessity for the operation of electric service within its franchise coverage, effective until the expiration of MERALCO's congressional franchise. MERALCO's participation in Retail Electricity Supply (RES) is through its local RES unit, Mpower. In 2017, the ERC granted MERALCO's wholly owned subsidiary, Vantage Energy Solutions and Management, Inc. (VESM), Solvre, Inc., a wholly owned subsidiary of Meralco PowerGen Corporation, and MeridianX Inc., a wholly owned subsidiary of Comstech Integration Alliance, Inc., distinct RES licenses to operate as retail electricity suppliers in Luzon and Visayas.

MERALCO is a Philippine corporation with its shares listed on the Philippine Stock Exchange. Fair value of MERALCO shares as at December 31, 2017 based on share price of ₱327.10 amounted to ₱128,896.8 million. 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 ₱7,181.7 million and ₱9,883.0 million in 2017 and 2016, respectively.

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

Movements in the AFS financial assets for the years ended December 31, 2017 and 2016 are as follows:

	2017		
	MERALCO	**BPHI**	**Total**
		(In Million Pesos)	
Acquisition costs:			
Balance at beginning of the year	**₱83,144**	**₱11,203**	**₱94,347**
Reclassified to Investments	**(83,144)**	**(11,203)**	**(94,347)**
	₱–	**₱–**	**₱–**
Accumulated changes in fair values:			
Balance at beginning of the year	**21,202**	–	**21,202**
Fair value changes offset against OCI reserve	**(21,202)**	–	**(21,202)**
	–	–	–
	₱–	**₱–**	**₱–**

	2016		
	MERALCO	BPHI	Total
	(In Million Pesos)		
Acquisition costs:			
Balance at beginning of the year	₱83,144	₱–	₱83,144
Additions	–	11,203	11,203
	83,144	11,203	94,347
Accumulated changes in fair values:			
Balance at beginning of the year	42,442	–	42,442
Unrealized loss	(21,240)	–	(21,240)
	21,202	–	21,202
	₱104,346	₱11,203	₱115,549

Before MPIC's step-up acquisition of the Company as discussed in Note 1, in applying PFRS 10, 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 were accounted for as AFS financial assets under PAS 39 as at December 31, 2016. As AFS financial assets, the investments in MERALCO and BPHI were stated at fair value. Fair value of MERALCO shares as at December 31, 2016 was based on share price of ₱264.8. The changes in fair value of the MERALCO shares were deferred in equity under "Other comprehensive income reserve". 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.

As a consequence of MPIC's step-up acquisition of the Company (see Note 1), the Company became MPIC's subsidiary starting June 2017. As a subsidiary of MPIC, the Company elected to account for its investments in MERALCO and BPHI using the cost approach by reinstating the investments to cost through the reversal of the accumulated fair value movements in investments against equity.

7. Accounts Payable and Other Current Liabilities

As at December 31, 2017 and 2016, this account consists of:

	2017	2016
	(In Million Pesos)	
Subscription payable (Note 5)	**₱400**	₱–
Interest (Note 8)	**93**	78
Withholding taxes	**16**	17
Others	**2**	2
	₱511	₱97

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. Other current liabilities include accruals for legal and professional fees that are due and demandable within a year.

8. Long-term Debt

As at December 31, 2017 and 2016, this account consists of:

Description	Interest Rate (per annum)	Terms	**2017**	2016
			(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	**₱2,720**	₱3,120
▪ ₱7,000.0 million (2nd Tranche)	7.09%		**4,760**	5,460
₱9,000.0 Million Corporate Note				
▪ ₱2,950.0 million (Tranche A)	6.00%	Availed of in 2013; payable in 10 years with semi-annual interest and principal repayments; final repayment in July 2023	**2,566**	2,685
₱5,000.0 Million Corporate Note	5.25%	Availed of in 2017; payable in 10 years with semi-annual interest and principal repayments; final repayment in May 2027	**4,963**	–
Total			**15,009**	11,265
Less unamortized debt issue cost			**106**	89
			14,903	11,176
Less current portion (net of unamortized debt issue cost of ₱25.7 million in 2017 and ₱22.7 million in 2016)			**1,415**	1,195
Noncurrent portion			**₱13,488**	₱9,981

Future repayments of principal as of December 31, 2017 and 2016 are as follows:

	2017	2016
	(In Million Pesos)	
Within one year	**₱1,441**	₱1,218
After one year but not more than five years	**8,784**	8,631
After five years	**4,784**	1,416
	₱15,009	₱11,265

The movements in unamortized debt issuance costs for the years ended December 31, 2017 and 2016 are as follow:

	2017	2016
	(In Million Pesos)	
Balance at beginning of year	**₱89**	₱113
Addition	**42**	–
Amortization	**(25)**	(24)
Balance at end of year	**₱106**	₱89

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 Notes 5 and 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, 2017 and 2016, Beacon is in compliance with all the requirements stipulated in the loan agreements.

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.

The amounts due to MPIC and PCEV included PSE crossing charges on the transferred shares in March 2010 and October 2011, 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. The balances as at December 31, 2016 amounting to ₱611.8 million and ₱71.5 million representing payable to MPIC and PCEV, respectively, were fully settled in 2017.

As at December 31, 2015, the Company has receivable from MPIC amounting to ₱8,450.3 million substantially pertaining to MPIC's payable to Beacon (net of discounting) from the sale of MERALCO shares in 2015. Under the Share Purchase Agreement, 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 reported under "Interest income from accretion" of the Company's statement of comprehensive income for the year ended December 31, 2016. 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.

<u>Compensation of Key Management Personnel</u>
The Company has no employees as at December 31, 2017 and 2016. The accounting and administrative functions are provided by MPIC at no cost.

10. **Equity**

The details of the Company's capital stock as at December 31, 2017 and 2016 are as follow:

	2017		2016	
	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**	3,000,000,000	₱3,000
Authorized preferred shares:				
Class A - ₱1.00 par value	**2,000,000,000**	**2,000**	2,000,000,000	2,000
Class B - ₱1.00 par value	**1,000,000,000**	**1,000**	1,000,000,000	1,000
Balance at December 31	**6,000,000,000**	**₱6,000**	6,000,000,000	₱6,000
Common shares (issued and outstanding)	**2,583,025,000**	**₱2,583**	2,583,025,000	₱2,583
Preferred shares - Class A (issued and outstanding)	**2,000,000,000**	**₱2,000**	2,000,000,000	₱2,000
Preferred shares - Class B				
Issued	**554,675,120**	**₱555**	554,675,120	₱555
Less: Redemption	**(554,675,120)**	**(555)**	(198,098,257)	(198)
Preferred shares - Class B (issued and outstanding)	**–**	**₱–**	356,576,863	₱357
Treasury shares – preferred shares Class B				
Balance at beginning of the year	**198,098,257**	**₱2,500**	–	₱–
Share buy-back	**356,576,863**	**4,500**	198,098,257	2,500
Balance at the end of the period	**554,675,120**	**₱7,000**	198,098,257	₱2,500

Authorized Capital Stock

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

- 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
- 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. As discussed in Note 1, MPIC purchased all the Class A preferred shares held by PCEV in 2016 and 2017.

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. Furthermore, in 2017, Beacon fully redeemed the Class B preferred shares held by PCEV (79,239,303 shares) and MPIC (277,337,560 shares) amounting to ₱4,500.0 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
July 14, 2016	July 14, 2016	July 29, 2016	6,057

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 13, 2017	June 13, 2017	July 31, 2017	₱1,273
April 20, 2017	August 31, 2016	April 25, 2017	945
March 6, 2017	August 31, 2016	March 10, 2017	945
June 30, 2016	June 30, 2016	July 29, 2016	1,485
March 31, 2016	March 31, 2016	July 29, 2016	945
Class B preferred shares:			
May 26, 2017	May 29, 2017	May 29, 2017	20
April 20, 2017	April 20, 2017	April 25, 2017	191
September 9, 2016	September 9, 2016	September 30, 2016	21

As at December 31, 2017, total cumulative dividends on Class A preferred shares not yet declared by the Company amounted to ₱887.4 million. As at December 31, 2016, undeclared cumulative dividends for Class A and Class B preferred shares amounted to ₱2,430.4 million and ₱106.4 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, 2017 and 2016 is as follows:

	2017	2016
	(In Million Pesos)	
Provision for income tax at statutory tax rate	**₱1,873**	₱2,755
Tax effects of:		
Nontaxable dividend income	**(2,155)**	(2,965)
Expired NOLCO	**709**	839
Accretion of interest income on receivable	**–**	(54)
Movement in unrecognized deferred tax assets on NOLCO	**(416)**	(568)
Income already subjected to final tax	**(19)**	(12)
Nondeductible portion of interest expense	**8**	5
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 ₱3,855.9 million and ₱5,243.7 million as at December 31, 2017 and 2016, respectively.

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

Date Incurred	Expiry Date	Amount
		(In Million Pesos)
December 31, 2015	December 31, 2018	₱1,974.4
December 31, 2016	December 31, 2019	904.4
December 31, 2017	December 31, 2020	977.1

The Company's NOLCO amounting to ₱2,364.9 million has expired in 2017.

For the years ended December 31, 2017 and 2016, 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, 2017.

No sensitivity analyses were made for 2017 and 2016 as the interest rates of the Company's outstanding long-term debt as at December 31, 2017 and 2016 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, 2017 and 2016, the Company has cash and cash equivalents, which are short-term in nature, amounting to ₱4,532.6 million and ₱3,107.2 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, 2017 and 2016 based on undiscounted contractual payments.

	2017						
	On Demand	**2018**	**2019**	**2020**	**2021**	**2022 and Beyond**	**Total**
	(In Million Pesos)						
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	**₱4**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4**
Short-term deposits	**–**	**4,529**	**–**	**–**	**–**	**–**	**4,529**
Receivables - Interest receivable	**–**	**5**	**–**	**–**	**–**	**–**	**5**
	4	**4,534**	**–**	**–**	**–**	**–**	**4,538**
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:							
Subscription payable	**–**	**400**	**–**	**–**	**–**	**–**	**400**
Others	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Long-term debt:							
Principal	**–**	**1,441**	**1,533**	**2,475**	**3,795**	**5,765**	**15,009**
Interest	**–**	**957**	**854**	**730**	**462**	**1,018**	**4,021**
	–	**2,799**	**2,387**	**3,205**	**4,257**	**6,783**	**19,431**
	₱4	**₱1,735**	**(₱2,387)**	**(₱3,205)**	**(₱4,257)**	**(₱6,783)**	**(₱14,893)**

* *Excluding statutory payables amounting to ₱16.2 million.*

	On Demand	2017	2018	2019	2020	2021 and Beyond	Total
				2016			
				(In Million Pesos)			
Financial Assets							
Loans and receivables:							
Cash and cash equivalents:							
Cash in banks	₱13	₱–	₱–	₱–	₱–	₱–	₱13
Short-term deposits	–	3,094	–	–	–	–	3,094
Receivables - Interest receivable	–	5	–	–	–	–	5
Available-for-sale financial assets	–	–	–	–	–	115,549	115,549
	13	3,099	–	–	–	115,549	118,661
Financial Liabilities							
Other financial liabilities:							
Accounts payable and other current liabilities*:	–	2	–	–	–	–	2
Long-term debt:							
Principal	–	1,218	1,366	1,395	2,275	5,011	11,265
Interest	–	794	704	606	489	349	2,942
	–	2,014	2,070	2,001	2,764	5,360	14,209
	₱13	₱1,085	(₱2,070)	(₱2,001)	(₱2,764)	₱110,189	₱104,452

* *Excluding statutory payables amounting to ₱16.9 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 and receivables amounting to ₱4,537.5 million and ₱3,112.0 million as at December 31, 2017 and 2016, 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 ₱74,766.4 million and ₱79,949.9 million as at December 31, 2017 and 2016, 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, 2017 and 2016 is as follows:

	2017	2016
	(In Million Pesos, except for Ratio)	
Long-term debt (Note 8)	**₱14,903**	₱11,176
Equity	**83,877**	106,711
Debt-to-equity ratio	**1:5.6**	1:9.5

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, 2017 and 2016:

	2017		2016	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
		(In Million Pesos)		
Financial Assets				
Loans and receivables:				
Cash and cash equivalents:				
Cash in banks	**₱4**	**₱4**	₱13	₱13
Short-term deposits	**4,529**	**4,529**	3,094	3,094
Interest receivable	**5**	**5**	5	5
Available-for-sale financial assets (Note 6)	–	–	115,549	115,549
	₱4,538	**₱4,538**	₱118,661	₱118,661
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other current liabilities:				
Subscription payable	**₱400**	**₱400**	₱–	₱–
Accrued expenses:				
Interest	**93**	**93**	78	78
Others	**2**	**2**	2	2
Long-term debt (current and noncurrent)	**14,903**	**15,149**	11,176	11,834
	₱15,398	**₱15,644**	₱11,256	₱11,914

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 assets and liabilities for which fair values have been determined for measurement and/or disclosure as at December 31, 2017 and 2016. During the years ended December 31, 2017 and 2016, 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.

			2017		
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
			(In Millions)		
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (Note 8)	**₱14,903**	**₱–**	**₱15,149**	**₱–**	**₱15,149**

	2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
			(In Millions)		
Assets measured at fair value					
AFS - MERALCO (Note 6)	₱104,347	₱104,347	₱–	₱–	₱104,347
AFS - BPHI (Note 6)	11,202	11,202	–	–	11,202
Liabilities for which fair values are disclosed					
Long-term debt (current and noncurrent) (Note 8)	11,176	–	11,834	–	11,834

AFS Financial Assets
As at December 31, 2016, the fair value of the quoted equity shares of MERALCO is determined by reference to published price quotations in an active market. 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.

As discussed in Notes 5 and 6, the Company's investments in MERALCO and BPHI were accounted for at cost beginning June 27, 2017 as a result of MPIC's step-acquisition of the Company.

Long-term Debt
The estimated fair value is based on the discounted value of future cash flows using the prevailing credit rates ranging from 2.43% to 5.70% and 1.89% to 4.63% in 2017 and 2016, respectively.

14. **Events After the Reporting Date**

MERALCO's Dividend Declaration. On February 26, 2018, the BOD of MERALCO approved the declaration of cash dividends of ₱8.065 a share to all shareholders of record as at March 28, 2018, payable on April 25, 2018. This consists of a final regular cash dividend of ₱4.478 per share and a special cash dividend of ₱3.587 per share.

15. **Supplemental Cash Flow Information**

The Company sold 112.7 million MERALCO shares at an aggregate consideration of ₱26,486.8 million in April 2015. Under the agreement, MPIC will receive dividends from Beacon at the same time it settles the balance of this transaction. For the 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 the Company.

On December 19, 2017, the Company subscribed to additional 40,000,000 BPHI common shares amounting to ₱400.0 million which was unpaid as at December 31, 2017. On January 12, 2018, the Company fully paid the subscription payable.

The following table shows significant changes in long-term debt, a financing activity, including changes arising from cash flows and non-cash changes:

	2017	2016
	(In Millions)	
Balance at beginning of the year	**₱11,176**	₱12,260
Cash flow statement (see statements of cash flow)		
Proceeds	**5,000**	–
Payments	**(1,256)**	(1,108)
Transaction costs	**(42)**	–
	3,702	(1,108)
Non-cash – Amortization of debt issue cost	**25**	24
Balance at end of the year	**₱14,903**	₱11,176

16. **Other Matters – MERALCO**

4th 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.

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 Rules for Setting Distribution Rates ("RDWR") for Privately-Owned Distribution Utilities Entering Performance Based Regulation ("PBR").

An initial hearing was originally set by the ERC for January 9, 2017 and all interested parties were to file their comments on the Petition by December 26, 2016.

Subsequently, however, the ERC reset the hearing to January 23, 2017 and deadline for filing comments was January 23, 2017. MERALCO filed its Comment to the Petition on January 9, 2017. Hearings were scheduled on May 15 and June 21, 2017. The *ERC* Order for the date of the next public consultation is pending.

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. As at March 5, 2018, the ERC has yet to resolve MERALCO's Omnibus Motion.

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. MERALCO has completed the presentation of its evidence and is set to file its Formal Offer of Evidence (FOE) after the ERC rules on pending motions. As at March 5, 2018, the *ERC*'s ruling on these motions is pending.

Capital Expenditures ("*CAPEX*") *for RY 2016.* Absent the release by the ERC of the final rules to govern the filing of its 4th RP Reset, MERALCO filed on February 9, 2015 an application for approval of authority to implement its CAPEX program for RY 2016 (July 1, 2015 to June 30, 2016) pursuant to Section 20(b) of Commonwealth Act No. 146, as amended, otherwise known as the Public Service Act. On June 15, 2016, MERALCO received a copy of the ERC Decision dated April 12, 2016 which partially approved MERALCO's CAPEX program for RY 2016 amounting to ₱15.5 billion out of the total *RY* 2016 *CAPEX* of ₱17.7 billion, subject to certain conditions. An intervenor has filed a Motion for Reconsideration (MR) of the Decision which is pending before the ERC. On July 25, 2016, MERALCO has filed its opposition to the Motion for Reconsideration. As at March 5, 2018, the *ERC* ruling on the *MR*s is pending.

CAPEX for RY 2017. On March 8, 2016, MERALCO filed an application for approval of authority to implement its CAPEX program for RY 2017 (July 1, 2016 to June 30, 2017) pursuant to the Public Service Act. On July 26, 2016, *MERALCO* received the Order dated May 5, 2016, which partially approved *MERALCO*'s *CAPEX* program for *RY* 2017 amounting to ₱8.8 billion out of the total *RY* 2017 *CAPEX* of ₱15.4 billion, subject to certain conditions. On August 16, 2016, *MERALCO* filed a Motion for Partial Reconsideration on the requirement to submit an accounting of the depreciation fund. Hearings on the application have been completed. On September 14, 2016, *MERALCO* filed a Motion for Resolution. Subsequently, on April 25, 2017, *MERALCO* filed a Very Urgent Motion for Resolution of the application. Thereafter, on October 18, 2017, *MERALCO* filed a Manifestation and Urgent Motion for Resolution. On November 9, 2017, *MERALCO* filed a Manifestation with Third Urgent Motion to Resolve the Application. As at March 5, 2018, MERALCO is awaiting the final decision of the ERC.

CAPEX for RY 2018. On April 3, 2017, *MERALCO* filed an application for approval of authority to implement its *CAPEX* program for *RY* 2018 (July 1, 2017 to June 30, 2018) pursuant to the Public Service Act. On May 26, 2017, *MERALCO* received the Order dated May 15, 2017, which set the case for initial hearing. Hearings were conducted on June 22 and August 1, 2017, August 25, 2017 and September 22, 2017. A conference was also conducted with the *ERC* technical staff and the intervenor on October 12, 2017. On November 9, 2017, *MERALCO* filed its *FOE*. As at March 5, 2018, the case is submitted for decision.

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 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 certain generating companies, the 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 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 a generating company 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 5, 2018, 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 MR.

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. Pursuant to the foregoing, PEMC has taken the position that the TRO enjoined the voluntary contestability of 750 kW to 999 kW customers and has not allowed them to switch to the contestable market. The DOE, in a press release, has advised that it is in the process, together with PEMC and ERC, of drafting a general advisory for the guidance of RCOA stakeholders. The PCCI petition was consolidated with two other separate petitions filed by Siliman University and several distribution utilities. The DOE and ERC have also filed a consolidated comment on these petitions.

On November 29, 2017, the DOE issued two (2) DOE Circulars, namely, DC 2017-12-0013, entitled, Providing Policies on the Implementation of RCOA for Contestable Customers in the Philippine Electric Power Industry and DC 2017-12-0014, entitled Providing Policies on the Implementation of RCOA for RES in the Philippine Electric Power Industry. The DOE Circulars became effective on December 24, 2017.

Under the DOE Circular No. DC 2017-12-0013, it is provided that voluntary participation for contestable customers under RCOA Phase 2 shall now be allowed upon effectivity of the said Circular, while voluntary participation of contestable customers with a monthly average peak demand of 50 kW to 749 kW for preceding twelve (12) months and demand aggregation for electricity end-users within a contiguous area with an aggregate average peak demand of not less than 500 kW for the preceding twelve (12)-month period, will also be allowed by June 26, 2018 and December 26, 2018, respectively.

On December 22, 2017, MERALCO wrote ERC and DOE seeking guidance on the impact of the DOE Circulars in the light of the TRO issued by the SC. The DOE responded on January 18, 2018 that there is no legal impediment to the implementation of the DOE Circulars but it defers to the OSG for guidance on the legal aspect of the issuances. The ERC has yet to respond to MERALCO’s letter.

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, 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.

- PFRS 9, *Financial Instruments*

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

  The 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.

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

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

- PFRS 15, *Revenue from Contracts with Customers*

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

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

- 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 non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

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

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

- PFRS 16, *Leases*

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

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

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

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

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

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

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

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

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

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

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

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 deferred 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 15-2010 became effective and amended certain provisions of RR 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 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 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
The Company has no revenue that is subject to output VAT in 2017.

Input VAT arising from domestic purchase of services is detailed as follows:

Balance at January 1, 2017	₱5,880,189
Domestic purchases of services for the year	270,150
Balance at December 31, 2017	₱6,150,339

Withholding Taxes and Importation Duties
The Company has accrued and paid expanded withholding tax amounting to ₱191,444,967 for the year ended December 31, 2017. The Company has no importation in 2017.

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

Transaction	Amount	DST
Loan facility	₱5,000,000,000	₱25,000,000
Lease	30,000	31
Total	₱5,000,030,000	₱25,000,031

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

Business taxes	₱4,974,156
Documentary stamp taxes*	31
Total	₱4,974,187

**Excluding DST from loan facility as shown in the DST schedule above which was paid but was charged against payables.*

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, 2017.