

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C S 2 0 1 0 1 0 7 8 0

COMPANY NAME

E N F I N I T Y P H I L I P P I N E S R E N E W A B L E
R E S O U R C E S I N C .

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

R o o m 6 A , P h i l e x c e l B u s i n e s s C e
n t e r I , P h i l e x c e l B u s i n e s s P a r
k , M . R o x a s H i g h w a y , C l a r k F r e
e p o r t Z o n e

Form Type

A A F S

Department requiring the report

Secondary License Type, if Applicable

COMPANY INFORMATION

Company's Email Address

-

Company's Telephone Number

(02) 805 8408

Mobile Number

-

No. of Stockholders

7

Annual Meeting (Month / Day)

1st Monday of April

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Maria Cecelia O. Canimo

Email Address

cecilia.canimo@sindicatum.com

Telephone Number/s

(02) 805 8408

Mobile Number

CONTACT PERSON'S ADDRESS

Room 6A, Philexcel Business Center I, Philexcel Business Park, M. Roxas Highway, Clark Freeport Zone

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notices of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Enfinity Philippines Renewable Resources Inc.
Room 6A, Philexcel Business Center I
Philexcel Business Park, M. Roxas Highway
Clark Freeport Zone

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Enfinity Philippines Renewable Resources 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 its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the financial statements as at December 31, 2017.

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 No. 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 No. 15-2010 in Note 21 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 Enfinity Philippines Renewable Resources Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Mariecris N. Barbaso

Mariecris N. Barbaso

Partner

CPA Certificate No. 97101

SEC Accreditation No. 1513-A (Group A),

October 6, 2015, valid until October 5, 2018

Tax Identification No. 202-065-716

BIR Accreditation No. 08-001998-108-2018,

February 14, 2018, valid until February 13, 2021

PTR No. 6621229, January 9, 2018, Makati City

April 12, 2018



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ENFINITY PHILIPPINES RENEWABLE RESOURCES INC.
STATEMENTS OF FINANCIAL POSITION



	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash in bank (Note 5)	P185,648,375	P543,992,188
Trade receivables	239,802,061	131,804,925
Subscription receivables (Notes 10 and 11)	-	404,100,000
Due from related parties (Note 11)	1,312,776	-
Other current assets (Note 6)	136,690,110	136,262,162
Total Current Assets	563,453,322	1,216,159,275
Noncurrent Assets		
Property, plant and equipment (Note 7)	1,732,250,279	1,805,688,616
Other noncurrent assets (Note 18)	614,250	641,250
Total Noncurrent Assets	1,732,864,529	1,806,329,866
	P2,296,317,851	P3,022,489,141
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Note 8)	P162,977,685	P252,414,245
Due to related parties (Note 11)	-	25,988,567
Long term debt - current portion (Note 9)	120,191,845	-
Loan payable to a shareholder (Note 11)	✓ 278,620,827 ✓	894,148,405
Income tax payable (Note 15)	72,250	373
Total Current Liabilities	561,862,607	1,172,551,590
Noncurrent Liabilities		
Long-term debt (Note 9)	1,216,865,110	1,334,528,701
Due to related parties (Note 11)	140,957,540 ✓	139,216,000
Other noncurrent liabilities	8,630,113	5,125,295
Total Noncurrent Liabilities	1,366,452,763	1,478,869,996
Total Liabilities	1,928,315,370	2,651,421,586
Equity		
Capital stock (Note 10)	539,999,999	539,999,999
Retained earnings	(171,997,518)	(168,932,444)
Total Equity	368,002,481	371,067,555
	P2,296,317,851	P3,022,489,141

See accompanying Notes to Financial Statements.



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ENFINITY PHILIPPINES RENEWABLE RESOURCES INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2017	2016
REVENUE		
Sale of electricity	₱267,164,385	₱207,275,699
Renewable energy credits	3,607,128	—
	270,771,513	207,375,699
COSTS AND EXPENSES		
Costs of sale of electricity (Note 12)	116,230,851	86,189,897
General and administrative expenses (Note 13)	52,655,343	59,306,073
	168,886,194	145,495,970
INTEREST AND OTHER FINANCIAL CHARGES (Note 14)	106,670,547	98,216,651
OTHER INCOME (LOSS) - Net (Note 14)	1,792,437	(116,757,904)
LOSS BEFORE INCOME TAX	2,992,791	153,094,826
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 15)		
Current	72,283	373
Deferred	—	(180,391)
	72,283	(180,018)
NET LOSS	3,065,074	152,914,808
OTHER COMPREHENSIVE INCOME (LOSS)	—	—
TOTAL COMPREHENSIVE LOSS	₱3,065,074	₱152,914,808

See accompanying Notes to Financial Statements.



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The total depreciation and amortization of property and equipment amounted to ₱73.64 million and ₱54.78 million for the year ended December 31, 2017 and 2016, respectively. The carrying value of property, plant and equipment as at December 31, 2017 and 2016 amounted to ₱1,732.25 million and ₱1,805.69 million, respectively (see Note 7).

Asset Retirement Obligation. The Company is required under local regulatory requirements to dismantle certain machinery and equipment and restore the leased site at the end of the lease contract term. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using the estimated cash flow and are recognized as part of the cost of the relevant asset. The cash flows are discounted at the current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed in profit or loss as finance costs. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the costs of the asset.

The total interest expense from asset retirement obligation amounted to ₱0.05 million and ₱0.04 million for the year ended December 31, 2017 and 2016, respectively (see Note 14). The total carrying value of asset retirement obligation included under "other noncurrent liabilities" amounted to ₱1.01 million and ₱0.96 million as at December 31, 2017 and 2016, respectively.

Provisions. The Company recognizes a provision for an obligation resulting from a past event when it has assessed that it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. These assessments are made based on available evidence, including opinion of experts. Future events and developments may result in changes in these assessments which may impact the Company's financial position and performance (see Note 8).

5. Cash in Bank

Cash in bank amounted to ₱137.27 million and ₱543.99 million in 2017 and 2016, respectively. These earn interest at the prevailing savings or demand deposit rates.

Interest income earned from cash in bank amounted to ₱835,862 and ₱133,740 in 2017 and 2016, respectively, at 0.25% rate per annum.

Debt service reserve account amounted to ₱48.38 million and nil in 2017 and 2016, respectively, is a restricted cash account used to pay the Company's long-term debt and interest accruing therein.



6. Other Current Assets

This account consists of:

	2017	2016
Input VAT	P127,604,600	P125,420,320
Refundable deposits	6,609,851	6,611,977
Prepayments	1,709,852	3,993,499
Deferred input VAT	520,387	-
Spare parts and supplies	245,420	236,366
	P136,690,110	P136,262,162

Refundable deposits consist mainly of deposits for electric bill and rental to be refunded within the next twelve (12) months.

Prepayments pertain to insurance payments for general accident insurance and performance security bond to be applied within the next twelve (12) months.

Spare parts and supplies pertain to cables, circuit breakers, fuse, isolators, valves, switches, diodes, etc. used for the repairs and maintenance of solar equipment to be utilized within the next twelve (12) months.

7. Property, Plant and Equipment

The details and movement of this account are shown below:

	2017			
	Solar Plant and Equipment	Other Equipment	Construction in Progress	Total
Cost				
Balance at beginning of year	P1,723,323,672	P97,562	P137,051,268	P1,860,472,502
Additions	234,457	-	(28,160)	206,297
Reclassification	156,242	-	(156,242)	-
Balance at end of year	1,723,714,371	97,562	136,866,866	1,860,678,799
Accumulated depreciation				
Balance at beginning of year	54,776,723	7,163	-	54,783,886
Depreciation (see Note 12)	73,625,122	19,512	-	73,644,634
Balance at end of year	128,401,845	26,675	-	128,428,520
Net book value	P1,595,312,526	P70,887	P136,866,866	P1,732,250,279
	2016			
	Solar Plant and Equipment	Other Equipment	Construction in Progress	Total
Cost				
Balance at beginning of year	P-	P-	P10,296,462	P10,296,462
Additions	59,782,206	97,562	1,790,296,272	1,850,176,040
Reclassification	1,663,541,466	-	(1,663,541,466)	-
Balance at end of year	1,723,323,672	97,562	137,051,268	1,860,472,502
Accumulated depreciation				
Depreciation (see Note 12)	54,776,723	7,163	-	54,783,886
Net book value	P1,668,546,949	P90,399	P137,051,268	P1,805,688,616



The 22.33 MW Clark Solar Power Project was successfully commissioned in March 2016 through confirmation from the Philippine Department of Energy (DOE) covering its Solar Energy Service Contract (SCC) No. 2014-07-086 and Amended Certificate of Commerciality No. SCC-2016-03-014-B valid for 25 years.

In 2016, "Construction in progress" account amounting to ₱1,663.54 million was transferred to "Solar plant and equipment" account. Included in the capitalized costs to solar plant and equipment are borrowing costs from the Company's loan from Lumos specifically for the construction of the solar plant amounting to ₱13.69 million incurred in 2016.

Assets Pledged as Security

Solar plant and equipment of the Company is provided as security for bank borrowings (see Note 9).

8. Accounts Payable and Other Current Liabilities

This account consists of:

	2017	2016
Accrued expenses	₱108,632,130	₱191,982,666
Business taxes payable	29,909,892	14,852,654
Accounts payable	15,258,774	21,057,267
Provisions	8,070,421	8,315,072
Withholding taxes payable	1,106,468	16,206,586
	<u>₱162,977,685</u>	<u>₱252,414,245</u>

Accrued expenses consist of:

	2017	2016
Construction cost	₱70,904,362	₱175,063,971
Interest	15,879,436	7,551,784
Accrued taxes	10,253,619	-
Operation and maintenance cost	1,753,120	-
Consultancy fees	817,920	875,649
Professional fees	426,000	3,373,190
Insurance	-	1,437,885
Others	8,597,673	3,680,187
	<u>₱108,632,130</u>	<u>₱191,982,666</u>

Accounts payable and accrued expenses are normally settled within 30 to 90 days.

Provisions represent estimates for losses from potential claims against the Company, the outcome of which are not presently determinable. Other information on these potential claims are not disclosed as this may prejudice the Company's position on such claims.



9. Long-term Debt

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

	2017	2016
Principal amount		
Balance at beginning of year	P1,350,000,000	P-
Additions	-	1,350,000,000
Balance at end of year	1,350,000,000	1,350,000,000
Debt issuance cost:		
Balance at beginning of year	15,471,299	-
Additions	-	15,620,991
Amortization	(2,528,254)	(149,692)
Balance at end of year	12,943,045	15,471,299
Net book value	1,337,056,955	1,334,528,701
Less: Current portion of long-term debt (net of unamortized debt issue costs)	120,191,845	-
	P1,216,865,110	P1,334,528,701

In 2016, the Company entered into a P1.35 billion Term Loan Facility with a local financial institution (FI). The facility was entered into to refinance the construction cost of 22.33 MW solar power project in Clark Freeport Zone, Pampanga. The entire facility was drawn on December 9, 2016.

The loan payable has a term of twelve (12) years, expiring on December 8, 2028, inclusive of one (1) year grace period, payable in forty-four (44) equal quarterly installments to commence on the fifth quarter from the date of initial drawdown. The Company shall pay interest at fixed rate based on the FI's prevailing rate under the relevant program applied for and determined on the date of initial drawdown, subject to a floor rate of 5.00% per annum, payable quarterly commencing at the end of the first quarter from the date of initial drawdown, and subject to adjustment by the FI at such rate as it may determine at the end of fifth and tenth year.

Under the loan agreement, the Company has certain restrictions to declare or pay dividends and requirements principally with respect to maintenance of required financial ratios and material change in ownership in control.

As at December 31, 2017 and 2016, the Company is in compliance with the terms as required in the loan covenants.

Total interest expense recognized on the loan amounted to P76.00 million and P4.57 million for the year ended December 31, 2017 and 2016, respectively (see Note 14).

In 2017 and 2016, interest expense on the loan includes amortization of debt issuance cost amounting to P2.53 million and P0.15 million, respectively. Unamortized debt issuance cost of the loan amounted to P12.94 million and P15.47 million as of December 31, 2017 and 2016, respectively.



10. Capital Stock

The respective holders of Class "A" Common Stock and Class "B" Common Stock shall be entitled to the same rights and privileges except for the right on dividend distribution which will be in accordance with the par value ratio. Foreign nationals may own and hold only Class "B" Common Shares. Details of capital stock in 2017 and 2016 are shown below:

Common Class A - ₱1 par value		
Authorized - 7,291,011 shares		
Issued and outstanding - 7,291,011 shares		₱7,291,011
Redeemable Preference Shares A - ₱27 per share		
Authorized - 1,729,922 shares		
Issued and outstanding - 1,729,922 shares		46,707,894
Common Class B - ₱13.5 par value		
Authorized - 4,856,985 shares		
Issued and outstanding - 4,856,985 shares		65,569,298
Redeemable Preference Shares B - ₱364.50 per share		
Authorized - 1,153,448 shares		
Issued and outstanding - 1,153,448 shares		420,431,796
Total Equity		₱539,999,999

Movements of the capital stock are shown below:

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Class A Common Shares - ₱1 par value				
Balance at beginning of year	7,291,011	₱7,291,011	145,003	₱145,003
New issuance of shares	-	-	7,146,008	7,146,008
Total	7,291,011	₱7,291,011	7,291,011	₱7,291,011
Class B Common Shares - ₱13.50 par value (2016 - ₱6 par value)				
Balance at beginning of year	4,856,985	₱65,569,298	129,169	₱775,014
Change in par value	-	-	(58,058)	184,985
New issuance of shares	-	-	4,785,874	64,609,299
Total	4,856,985	₱65,569,298	4,856,985	₱65,569,298
Class A Redeemable Preference Shares- ₱27 par value				
Balance at beginning of year	1,729,922	₱46,707,894	-	₱-
New issuance of shares	-	-	1,729,922	46,707,894
Total	1,729,922	₱46,707,894	1,729,922	₱46,707,894
Class B Redeemable Preference Shares- ₱364.50 par value				
Balance at beginning of year	1,153,448	₱420,431,796	-	₱-
New issuance of shares	-	-	1,153,448	420,431,796
Total	1,153,448	₱420,431,796	1,153,448	₱420,431,796

In June 2016, a joint special meeting of the stockholders was held and BOD of the Company approved the increase in capital stock of the Company from ₱1.20 million to ₱540.00 million, which comprise of common shares and redeemable preference shares. The redeemable preference shares shall be non-convertible, non-voting, and are redeemable at the option of the Company at par value. Such preferred shares are cumulative and participating and are subjected to a dividend of 6% per annum.



Further, the parties agree that subscription to the increase in capital stock shall either be through payment in cash or conversion of advances made to the Company or deposits for future stock subscription made in favor of the Company.

In December 2016, the application for increase in capital stock and the conversion of loan payables was approved by SEC.

As at December 31, 2016, the balance of subscription receivables from Mabalacat Solar and Lumos amounted to ₱40.29 million and ₱363.81 million, respectively. These subscription receivables were subsequently collected in February 2017 (see Note 11).

11. Related Party Disclosures

Companies 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 officers of the Company and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

Outstanding balances at year-end are unsecured and settlement occurs in cash throughout the financial year. There have been no guarantees provided or received for any related party receivables. The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

2017					
Related Party	Relationship	Nature of Transaction	Terms and Conditions	Amount of Transactions	Outstanding Balance
Due from Related Party					
Concepcion Solar Inc. (CSI)	With common stockholders	Advances	Unsecured, noninterest-bearing, payable on demand	₱1,312,776	₱1,312,776
					₱1,312,776
Due to Related Parties					
SREC	Intermediate Parent	Rendering of services	Unsecured, noninterest-bearing, payable on demand	₱21,399,464	(₱139,799,735)
SREHPI	With common stockholders	Rendering of services	Unsecured, noninterest-bearing, payable on demand	2,847,563	(1,157,805)
					(₱140,957,540)
Loan Payable to a Shareholder					
Lumos	Shareholder with significant influence	Advances	Unsecured, 8% interest per annum, payable in 20 equal semi-annual repayment starting January 1, 2017	₱615,527,578	(₱178,620,827)
Accrued Interest					
Lumos	Shareholder with significant influence	Interest on loans	Unsecured, payable along with principal repayments	8,126,914	(11,262,473)
					(₱289,883,300)



2016					
Related Party	Relationship	Nature of Transaction	Terms and Conditions	Amount of Transactions	Outstanding Balance
Due to Related Parties					
SREC	Intermediate Parent	Rendering of services	Unsecured, noninterest-bearing, payable on demand	₱161,199,199	₱161,199,199
SRE PH	With common stockholders	Rendering of services	Unsecured, noninterest-bearing, payable on demand	11,428,902	4,005,368
Sindicatum C-Solar Phils. Inc. (SCSFI)	With common stockholders	Payment of expenses on behalf of the Company	Unsecured, noninterest-bearing, payable on demand	2,000,000	-
SC & EM Singapore (SC&EM)	Under common control	Payment of expenses on behalf of the Company	Unsecured, noninterest-bearing, payable on demand	67,719	-
					₱165,204,567
Loan Payable to a Shareholder					
Lumos	Shareholder with significant influence	Advances	Unsecured, 8% interest per annum, payable in 20 equal semi-annual repayment starting January 1, 2017	₱1,570,495,577	₱894,148,405
Accrued Interest Lumos	Shareholder with significant influence	Interest on loans	Unsecured, payable along with principal repayments	104,896,325	3,135,559
					₱897,283,964
Subscription Receivables					
Lumos	Shareholder with significant influence	Subscription of shares	Unsecured, noninterest-bearing, payable on demand, no impairment	₱485,041,095	₱363,811,095
Mabalacat Solar	Shareholder with control	Subscription of shares	Unsecured, noninterest-bearing, payable on demand, no impairment	53,758,905	40,288,905
					₱404,100,000

Lumos

In December 2016, the Company entered into a loan facility agreement with Lumos amounting to \$40.00 million or ₱1,570.39 million accruing an annual interest of 8%. The terms of the agreement states the inclusion of outstanding advances made by Lumos in the total amount drawn from the facility. Hence, total advances made by Lumos as at the date of the loan agreement is converted as loan payable including the outstanding balances on advances amounting to ₱267.27 million in 2016.

In December 2016, the SEC approved the increase in authorized capital stock of the Company through conversion of some of its loan payable to Lumos amounting to ₱363.48 million and ₱121.23 million in 2016.

In February 2017, loan from shareholder was converted as collection of subscription receivable amounting to ₱363.81 million.

In 2017 and 2016, the Company made repayments to Lumos for the loan payable amounting to ₱274.29 million and ₱902.40 million, including interest of ₱18.07 million and ₱101.76 million, respectively.

SREC

In December 2016, SREC entered into a Deed of Assignment to transfer all rights over its receivables from the Company amounting to US\$5.70 million or ₱267.27 million to Lumos.



12. Costs of Sale of Electricity

This account consists of:

	2017	2016
Depreciation (see Note 7)	P73,644,634	P54,783,886
Operations and maintenance	13,745,072	3,188,614
Taxes and licenses	12,819,972	12,785,696
Utilities	5,634,977	4,365,106
Rental (see Note 18)	5,184,999	3,804,294
Insurance	4,689,683	3,281,036
Power delivery cost	289,997	201,911
Spare parts and supplies	221,517	230,517
Professional fees	-	3,548,837
	P116,230,851	P86,189,897

13. General and Administrative Expenses

This account consists of:

	2017	2016
Management and professional fees	P22,575,166	P46,745,853
Taxes and licenses	13,801,282	2,960,228
Penalties	8,096,186	-
Rent (see Note 18)	6,177,956	7,908,462
Insurance	304,598	276,333
Utilities	144,087	122,510
Transportation and travel	48,691	433,081
Advertising	500	305,250
Others	1,506,877	554,356
	P52,655,343	P59,306,073

14. Interest and Other Financial Charges and Other Income (Loss)

Interest and other financial charges include the following:

	2017	2016
Interest on:		
Long-term debt (see Note 9)	P75,998,179	P4,565,918
Loans from a shareholder (see Note 11)	28,333,443	91,208,207
Discount on receivable from a third party	1,652,710	2,130,004
Financing-related fees	465,500	-
Provision for asset retirement obligation	54,701	39,343
Others	166,014	273,179
	P106,670,547	P98,216,651



Other income (loss) consists of:

	2017	2016
Net foreign currency exchange loss	(P4,787,445)	(P116,904,166)
Interest income from TransCo	3,614,016	-
Interest income from time value of money	2,130,004	-
Interest income from cash in bank	835,862	146,262
	P1,792,437	(P116,757,904)

15. Income Tax

- a. The Company's current tax pertains to minimum corporate income tax (MCIT) computed at statutory income tax rate of 2% amounting to P72,283 and P373 for the years ended December 31, 2017 and 2016, respectively.
- b. A reconciliation between the provision for income tax computed at statutory income tax rates and the effective income tax follows:

	2017	2016
Income tax computed at statutory tax rate	(P897,837)	(P45,928,448)
Tax effects of:		
Net (income) loss under income tax holiday	(5,041,723)	5,857,109
Movement of unrecognized deferred tax asset	4,429,669	34,776,328
Nondeductible expense	2,471,933	6,314,338
Interest income from time value of money	(639,001)	-
Interest income subject to final tax	(250,758)	(40,122)
Stock issuance costs	-	(1,159,223)
Effective income tax	P72,283	(P180,018)

- c. The Company assessed that there might not be enough taxable income in the future from which the following deductible temporary difference and carryforward benefits of unused NOLCO may be applied. The Company has the following temporary differences as at December 31:

	2017	2016
Deductible temporary difference:		
Accrued rental	P6,676,817	P3,418,395
Unrealized foreign exchange loss	4,192,192	109,536,178
NOLCO	2,026,000	5,303,395
Provision for asset retirement obligation	1,013,734	959,034
MCIT	72,656	373
Others	10,253,618	-
	24,235,017	119,217,375
Taxable temporary difference:		
Asset retirement obligation	(847,149)	(890,234)
Unrealized foreign exchange gain	-	(2,406,918)
	(847,149)	(3,297,152)
	P23,387,868	P115,920,223
Tax effect	P7,067,220	P34,776,328



Deferred tax asset was recognized to the extent of deferred tax liability amounting to ₱254,145 and ₱989,145 in 2017 and 2016, respectively.

- d. As at December 31, 2017, the Company has NOLCO amounting ₱2,026,000 and MCIT amounting to ₱72,656. The Company has applied its available NOLCO against its ₱3,277,395 taxable income.

Year incurred	Available until	Balance as at January 1, 2017	Applied in 2017	Balance as at December 31, 2017
2016	2019	₱5,303,395	₱3,277,395	₱2,026,000

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

16. Financial Risk Management Objectives and Policies

The Company's financial assets and financial liabilities comprise cash in bank, receivables, accounts payable and other current liabilities (excluding statutory payables), due to related parties, loan payable to a shareholder and long-term debt. The Company is exposed to foreign currency risk, credit risk, liquidity risk, and capital risk management arising from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

Risk Management Process

Foreign Currency Risk

Foreign currency risk arises from the possibility that future cash flows of financial assets and financial liabilities will fluctuate because of changes in foreign currency exchange rates.

The Company has cash in bank and intercompany balances and transactions denominated in foreign currencies. Any depreciation in the value of these foreign currencies may post foreign exchange adjustments that may affect the valuation and measurement of these balances and transactions.

Foreign currency risk is managed through constant monitoring of political and economic environment. Returns are also calibrated on a per currency basis to account for the perceived risks with higher returns expected from weaker currencies.

The Company's significant foreign currency-denominated financial assets and financial liabilities as at December 31, 2017 and 2016 are as follows:

	2017		2016	
	USD	Peso	USD	Peso
Financial Asset				
Cash in bank	US\$778,683	₱38,879,642	US\$4,076,220	₱202,669,658
Financial Liabilities				
Accounts payable and other current liabilities	1,867,733	93,255,909	3,878,270	192,827,584
Advances from related parties:				
SREC	2,800,000	139,804,000	3,242,140	161,199,201
Loan payable to shareholders	5,580,218	278,620,285	17,983,677	894,148,420
	10,247,951	511,680,194	25,104,087	1,248,175,205
Net foreign currency denominated liabilities	(US\$9,469,268)	(₱472,800,552)	(US\$21,027,867)	(₱1,045,505,547)



In translating the foreign currency-denominated monetary financial assets and liabilities in Peso amounts, the exchange rates used are ₱49.93 to US\$1.00 and ₱49.72 to US\$1.00, the Peso to USD exchange rate as at December 31, 2017 and 2016, respectively.

The following tables demonstrate the sensitivity to a reasonably possible change in the exchange rate, with all other variables held constant, of the Company's income before income tax for the years ended December 31, 2017 and 2016. There is no impact on the Company's equity other than those affecting the profit or loss.

	Increase (Decrease) in Foreign Exchange Rate	Effect on Income before Income Tax
2017	0.42% (0.42%)	(₱1,996,945) ₱1,996,945
2016	0.42% (0.42%)	(4,415,852) 4,415,852

Credit Risk

Credit or counterparty risk is the risk due to uncertainty in a counterparty's ability to meet its obligations.

The Company has no significant concentration of credit risk. The Company monitors and manages the credit risk related to its trade receivables based on experience and customer's credit record.

When respect to credit risk arising from the cash in bank, trade receivables, due from related parties and refundable deposits of the Company, the Company's exposures arise from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Company's cash in banks are in fixed income investments in stable and reputable banks, trade receivables for the sale of electricity to spot market are assessed as secured accounts and creditors are government agencies. There are no indications that its financial asset is at risk of default or impairment in value.

The following table summarizes the Company's credit risk exposure as at December 31:

	2017	2016
Loans and receivables:		
Cash in bank	₱185,648,375	₱543,992,188
Receivable from third parties	239,802,061	131,804,925
Due from related parties	1,312,776	-
Refundable deposits*	6,609,851	6,611,977
	₱433,373,063	₱682,409,090

*Refundable deposits are recorded under "Other current assets" in the statement of financial position

Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Company using high quality and standard quality as internal credit ratings.

High Quality. Pertains to counterparty who is not expected by the Company to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies, government agencies and related parties.



Standard Quality. Other financial assets not belonging to high quality financial assets are included in this category.

As at December 31, 2017 and 2016, the credit analyses of the Company's financial assets that are neither past due nor impaired follow:

	2017		
	High Quality	Standard Quality	Total
Cash in bank	P185,648,375	P-	P185,648,375
Receivables:			
Third parties	239,802,061	-	239,802,061
Related parties	1,312,776	-	1,312,776
Refundable deposits*	6,609,851	-	6,609,851
	P433,373,063	P-	P433,373,063

*Refundable deposits are recorded under "Other current assets" in the statement of financial position

	2016		
	High Quality	Standard Quality	Total
Cash in bank	P543,992,188	P-	P543,992,188
Receivables:			
Third parties	131,804,925	-	131,804,925
Refundable deposits*	6,611,977	-	6,611,977
	P682,409,090	P-	P682,409,090

*Refundable deposits are recorded under "Other current assets" in the statement of financial position

Liquidity Risk

Liquidity risk is defined as the risk that the Company may not be able to settle or meet its obligations on time or at a reasonable price.

The Company has procedures with the object of minimizing such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

	2017					Total
	On Demand	Less than 1 year	Between 1 to 2 Years	Between 2 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities*	P-	P97,757,849	P-	P-	P-	P97,757,849
Due to related parties	-	-	140,957,540	-	-	140,957,540
Loan payable to shareholder**	289,883,300	-	-	-	-	289,883,300
Long-term debt***	-	193,072,080	186,406,682	519,432,962	862,269,684	1,761,181,408
	P289,883,300	P290,829,929	P327,364,222	P519,432,962	P862,269,684	P2,289,780,097

*Excluding statutory payables, provisions and accrued interest amounting to P65.22 million as at December 31, 2017.

**Including accrued interest amounting to P11.26 million as at December 31, 2017.

***Including interest "to be paid".

	2016					Total
	On Demand	Less than 1 year	Between 1 to 2 Years	Between 2 to 5 Years	More than 5 Years	
Accounts payable and other current liabilities*	P-	P209,904,373	P-	P-	P-	P209,904,373
Due to related parties	-	25,988,567	139,216,000	-	-	165,204,567
Loan payable to shareholder**	897,283,964	-	-	-	-	897,283,964
Long-term debt***	-	72,265,500	192,127,701	702,814,895	860,549,502	1,827,757,598
	P897,283,964	P308,158,440	P331,343,701	P702,814,895	P860,549,502	P3,100,150,502

*Excluding statutory payables, provisions and accrued interest amounting to P42.51 million as at December 31, 2016.

**Including accrued interest amounting to P3.14 million as at December 31, 2016.

***Including interest "to be paid".



Capital Management

The Company's objectives in managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares, or sell assets to decrease its borrowing.

In 2016, the Company availed ₱1.35 billion loan agreements from a local financial institution. In relation to this agreement, the Company closely monitors its debt covenants and maintains a capital expenditure program and dividend declaration policy that keeps the compliance of these covenants into consideration (see Note 9).

17. Financial Assets and Financial Liabilities

Fair-Value Determination

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

Cash in Bank, Trade Receivable, and Accounts Payable and Other Current Liabilities

Due to the short-term nature of these balances, the fair values approximate the carrying values at reporting date.

Long-Term Debt

The estimated fair value is based on the discounted value of future cash flows using the prevailing credit adjusted risk-free rates that are adjusted for credit spread in 2017. The fair value is categorized under level 2 of the fair value hierarchy as at December 31, 2017 and 2016.

There were no transfers between levels of fair value measurement in 2017 and 2016.

18. Significant Laws, Commitments and Contracts

Significant Laws

Renewable Energy (RE) Act of 2008

On December 16, 2008, the President of the Philippines approved R.A. 9513 or the RE Act also known as an Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes. The RE Act aims to:

- a. Accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development and thereby minimize the country's exposure to price fluctuations in the international markets;
- b. Increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application by providing fiscal and non-fiscal incentives;
- c. Encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and the environment; and,



- d. Establish the necessary infrastructure and mechanism to carry out the mandates specified in the RE Act and other existing laws.

As provided for in the Act, RE developers of RE facilities, including hybrid systems, in proportion to and to the extent of the RE component, for both power and non-power applications, as duly certified by the DOE, in consultation with the Board of Investments (BOI), shall be entitled to incentives, such as, income tax holiday, duty-free importation of RE machinery, equipment and materials, zero percent VAT rate on sale of power from RE sources, and tax exemption of carbon credits, among others.

The Company expects that the Act may have significant effect on its operating results as an RE developer. Impact on the operating results is expected to arise from the effective reduction in taxes.

Feed-in-Tariff (FIT)

Pursuant to Section 7 of the R.A. No. 9513, which mandates the establishment of the FIT System for electricity produced from wind, solar, ocean, run-of-river hydropower and biomass, the following regulations have been passed:

- (i) Department Circular No. DC2013-05-0009, the Guidelines for the Selection Process of Renewable Energy Projects under FIT System and the Award of Certificate for Eligibility; prescribing the rules for eligibility of RE Developer to avail of the FIT.
- (ii) ERC Resolution No. 10, Series of 2012, approved the FIT rates and equivalent degression rates for all Renewable Energy technologies entitled to FIT.

RE Technology	FIT Rate (PhP/kWh)	Degression Rate	Installation Target
Wind	8.53	0.5% after 2 years from effectivity of FIT	200
Biomass	6.63	0.5% after 2 years from effectivity of FIT	250
Solar	9.68	6% after 1 year from effectivity of FIT	50
Run-of-River Hydropower	5.90	0.5% after 2 years from effectivity of FIT	250

On March 20, 2015, the DOE confirmed the Declaration of Commerciality of the Company of its 22.33 MW Solar Power Project in Prince Balagtas Extension, Clark Special Economic Zone, Pampanga under SESC No. 2014-07-086. The DOE confirmation affirms the conversion of said SESC from Pre-Development to Commercial Stage.

On March 12, 2016, the 22.33 MW Solar Power Project started delivering power to the grid from the commissioning operations, hence started generating revenues and recognizing receivables from Philippine Electricity Market Corporation (PEMC) for the energy generated.

On June 3, 2016, the 22.33 MW Clark Solar Power Project of the Company was issued a Certificate of Endorsement (COE) for FIT Eligibility under COE-FIT No. S-2017-04-020 by the DOE. By virtue of the endorsement, the 22.33 MW Clark Solar Power Project is qualified to avail of the FIT System, subject to the issuance by the ERC of Certificate of Compliance.



On December 8, 2016, the Company received its Certificate of Compliance valid for five (5) years from the ERC for its 22.33 MW Clark Solar Power Project. The certificate entitles the Company to recognize FIT at an approved rate of ₱8.69/kWh, with a retroactive period beginning March 12, 2016, for a guaranteed period of 20 years until March 12, 2036. Previously, power delivered to the grid were priced at spot rate due from PEMC. Thus, additional revenues amounting to ₱128.21 million due to the use of FIT rate for the power delivered from March 12 to December 31, 2016 was recognized in 2016. The National Transmission Commission (TransCo) is the regulating body of all the FIT-rate eligible energy providers.

Outstanding receivables under the FIT System due from TransCo amounted to ₱199.71 million and ₱128.21 million as at December 31, 2017 and 2016, respectively. Discount on receivables from TransCo amounted to ₱1.65 million and ₱2.13 million as at December 31, 2017 and 2016, respectively. The Company earned interest income from its receivables from TransCo amounting to ₱3.61 million and nil in 2017 and 2016, respectively, which were included in the "Interest income from TransCo" account under "Other income (loss) - net" in the statements of comprehensive income.

Operating Lease Commitments

Lease with CDC

The Company entered into an agreement where the Company will lease from CDC a parcel of land where the Company's solar power plant will be constructed. The agreement was entered into on September 5, 2014 and was valid for twenty five (25) years, renewable upon mutual agreement of the parties. The agreement stipulates an escalation rate of 10% starting on the fifth year of the lease and every three (3) years thereafter and payment of security deposits, refundable upon termination of the lease. The Company was also given a rent-free period of one (1) year from the signing of the agreement or upon start of commercial operations, whichever comes first. Upon termination of the lease, the leased property shall revert to the lessor.

The future minimum lease payments for CDC lease agreements are as follows:

	2017	2016
Within one year	₱3,850,000	₱3,562,614
After one year but not more than five years	16,298,333	15,563,707
More than five years	95,731,081	98,410,016
	₱115,879,414	₱117,536,337

Leases with Individual Land-owners

For the establishment of Concepcion Solar Project, four lease agreements were entered effective in 2015 and 2016, covering 31.9148 and 17.7912 hectare area of land, respectively in Concepcion, Tarlac.

The future minimum lease payments on lease agreements with the individual land owners are as follows:

	2017	2016
Within one year	₱3,894,069	₱3,894,069
After one year but not more than five years	18,944,578	17,917,753
More than five years	102,634,748	107,555,642
	₱125,473,395	₱129,367,464



The Company recognized rent expense of ₱11.36 million and ₱11.71 million in 2017 and 2016, respectively, included in “Rental” account under “Costs of sale of electricity” and “General and administrative expense” in the statements of income (see Notes 12 and 13).

Details of prepaid rent related to these operating lease agreements are as follows:

	2017	2016
Prepaid rent		
Current*	₱760,887	₱569,192
Noncurrent	614,250	641,250
	₱1,375,137	₱1,210,442

*Included under “Other current assets” account in the statements of financial position (see Note 6).

19. Supplemental Cash Flow Information

In February 2017, loan payable to shareholder was converted as collection of subscription receivable amounting to ₱363,811,095 (see Notes 10 and 11).

Changes in Liabilities Arising from Financing Activities

	Beginning Balance	Transactions for the year	Cash flows for advances (repayments)	Foreign exchange movement	December 31, 2017
Long-term debt	₱1,334,528,701	₱2,528,254	₱-	₱-	₱1,337,056,955
Loan payable to shareholder	894,148,405	(363,811,095)	(256,220,803)	4,504,320	278,620,827
	₱2,228,677,106	(₱361,282,841)	(256,220,803)	₱4,504,320	₱1,615,677,782

20. Other Matters

The Company registered on October 16, 2016 with the BOI as RE Developer of 22.33 MW Clark Solar Power Project under Republic Act (R.A.) No. 9315, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, or also known as the “RE Act of 2008”.

The Company may avail of the following incentives under the administration of the BOI:

- Income Tax Holiday (ITH) for seven (7) years from date of actual commercial operation. The ITH shall be limited only to the revenues generated from the sales of electricity of the 22.33 MW Clark Solar Power Project at Prince Balagtas Extension, Clark Freeport Zone;
- Duty-free imporation of machinery, equipment and materials including control and communication equipment, within the first ten (10) years from the issuance of the DOE Certificate of Registration; and,
- Tax exemption of Carbon Credits.

The Company may also avail of the following incentives to be administered by appropriate government agencies subject to the Rules and Regulations of the respective administering government agencies.

- Realty and other taxes on civil works, equipment, machinery and other improvements of a registered enterprise actually and exclusively used for renewable energy facilities shall not exceed



one and a half percent (1.5%) of the original cost less accumulated normal depreciation or net book value.

- The NOLCO during the first three years from the start of commercial operation shall be carried over as a deduction from the gross income as defined by the National Internal Revenue Code of 1997 (NIRC) for the next seven consecutive taxable years immediately following the year of such loss.
- After availment of the ITH, the enterprise shall pay a corporate income tax of ten percent (10%) on its taxable income as defined by NIRC, provided that it shall pass on the savings to the end users in the form of lower rates.
- The plant, machinery and equipment that are reasonably needed and actually used for the exploration, development and utilization of renewable energy resources may be depreciated using a rate not exceeding twice the rate which would have been used had the annual allowance been computed in accordance with the rules and regulations prescribed by the Department of Finance and the provisions of the NIRC. The enterprise that applies for accelerated depreciation shall no longer be eligible to avail of the ITH.
- The sale of power generated by the Company as well as its purchases of local supply of goods, properties and services needed for the development, construction and installation of its plant facilities and the whole process of exploration and development of renewable energy sources up to its conversion into power shall be subject to zero value-added tax pursuant to the NIRC.
- The Company may be entitled to a cash generation-based incentive per kilowatt-hour rate generated, equivalent to fifty percent (50%) of the universal charge for power needed to services missionary areas, chargeable against the universal charge for missionary electrification.
- A tax credit equivalent to one hundred percent (100%) of the value of the value-added tax and custom duties that would have been paid on the renewable energy machinery, equipment, materials and parts had these items been imported shall be given to the enterprise that purchases machinery, equipment, materials and parts from a domestic manufacturer.

21. Supplementary Information Required Under Revenue Regulations No. 15-2010

In compliance with RR No. 15-2010, following are the information on the taxes that the Company reported and/or paid for the year:

a. VAT

Details of the Company's net sales/receipts, output VAT and input VAT accounts are as follows:

Output VAT

In 2017, the Company has declared a total of zero output VAT which solely pertains to gross receipts/collection on revenue from sale of electricity generated from its Solar Power Project. The Company is entitled to VAT zero-rating pursuant to Section 108 (B) of the Tax Code, as Amended.



Input VAT

Input VAT claimed in the Company's VAT returns filed for the year ended December 31, 2017 follows:

Balance as at January 1, 2017	
Carried over from previous period	₱3,283,197
Current year's domestic purchases/payments for:	
Services	3,010,987
Goods other than capital goods	278,782
<u>Balance as at December 31, 2017</u>	<u>₱6,572,966</u>

b. Importations

Under R. A. No. 7227, or the Bases Conversion and Development Act of 1992, the Company enjoys tax and duty free importation of raw materials, capital equipment, and household and personal items for use solely within the Subic Bay Freeport Zone. All importations by the Company are also exempt from inspection at the country of origin by companies designated by the Philippine government to perform the function of pre-inspection if such importations are delivered immediately to and for use solely within the Subic Bay Freeport Zone.

c. Excise Tax

The Company has no transaction subject to excise tax for the year ended December 31, 2017.

d. Customs Duties

In 2017, the Company paid ₱5,355 for Custom Duties arising from import duties and other transactions.

e. Other Taxes and Licenses

Other taxes and license fees consist of the following:

Real property tax	₱10,806,764
Local business tax	2,671,644
Local government share tax	1,516,111
Documentary stamp tax	876,019
Energy regulation tax	307,297
Registration and other fees	189,800
	<u>₱16,367,635</u>

Provision for DST amounted to ₱10,253,619 in 2017.

f. Withholding Taxes

Details of withholding taxes for the year ended December 31, 2017 are as follows:

	Paid	Accrued
Tax withheld on creditable income – expanded	₱4,471,256	₱252,031
Final withholding tax	2,735,132	854,437
	<u>₱7,206,388</u>	<u>₱1,106,468</u>



g. Tax Assessments and Cases

The Company has no deficiency tax assessments, protested or not, and not involved in any tax cases under preliminary investigation, litigation and prosecution in courts or bodies outside Bureau of Internal Revenue as at December 31, 2017.

