

for
AUDITED FINANCIAL STATEMENTS

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COMPANY INFORMATION

ap_investor@aboitiz.com

(02) 886-2800

Not Available

No. of Stockholders	629
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May 21

December 31

CONTACT PERSON INFORMATION	
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The designated contact person <u>MUST</u> be an Officer of the Corporation			
Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Liza Luv T. Montelibano	liza.montelibano@aboitiz.com	(02) 886-2800	Not Available

Liza Luv T. Montelibano

liza.montelibano@aboitiz.com

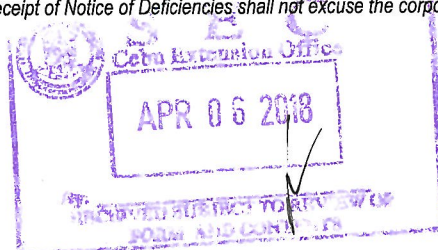
(02) 886-2800

Not Available

CONTACT PERSON'S ADDRESS

32nd Street, Bonifacio Global City, Taguig City, Metro Manila 1634

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 Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

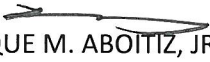
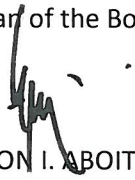
The management of Aboitiz Power Corporation is responsible for the preparation and fair presentation of the Parent financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016 in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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.

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

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

SyCip Gorres Velayo & Co., the independent auditor, appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


ENRIQUE M. ABOITIZ, JR.
Chairman of the Board
ERRAMON I. ABOITIZ
Chief Executive Officer
LIZA LUV T. MONTELIBANO
SVP & Chief Financial Officer/Corporate Information Officer

Signed this 8th day of March 2018

Republic of the Philippines)
City of Taguig) S.S.

Before me, a notary public in and for the city named above, personally appeared:

Name	Passport/CTC No.	Date/Place Issued
ENRIQUE M. ABOITIZ, JR.	EB9219812 11799943	September 24, 2013, Manila February 5, 2018, Cebu City
ERRAMON I. ABOITIZ	P2251997A 26936151	March 11, 2017; DFA Manila January 15, 2018, Cebu City
LIZA LUV T. MONTELIBANO	EC1111684 25044302	May 16, 2014, NCR South January 23 2018, City of Manila

who are personally known to me and to me known to be the same persons who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

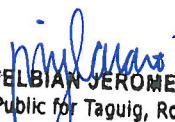
Witness my hand and seal this MAR 19 2018.

Doc. No. 112;

Page No. 124;

Book No. (XXV);

Series of 2018


ATTY. MELBIAN JEROME E. LARANO
Notary Public for Taguig, Roll No. 59294
Commission no. 26, until 31 Dec. 2019
PTR No. A-3693788/ 01.03.18 / Taguig City
IBP No. 1063530 / 11.23.17 / Cavite
MCLE Compliance No. V-0015571 / 03.14.16
3/F Bonifacio Technology Center 31st Street
corner 2nd Avenue Crescent Park West
Global City Taguig City, Philippines

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Aboitiz Power Corporation
32nd Street, Bonifacio Global City
Taguig City, Metro Manila
Philippines

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of Aboitiz Power Corporation (the Company), which comprise the parent company balance sheets as at December 31, 2017 and 2016, and the parent company statements of income, parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company 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 each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company 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 parent company 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 Parent Company Financial Statements

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



In preparing the parent company 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.

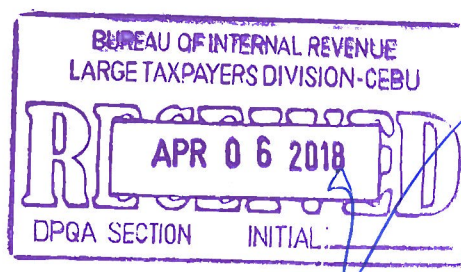
Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company 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 parent company 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 parent company 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 parent company 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 parent company financial statements, including the disclosures, and whether the parent company 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.

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

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

Our audits were conducted for the purpose of forming an opinion on the parent company financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 22 to the parent company 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 Aboitiz Power Corporation. 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.

The engagement partner on the audit resulting in this independent auditor's report is
Maria Veronica Andres R. Pore.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andres R. Pore

Maria Veronica Andres R. Pore

Partner

CPA Certificate No. 90349

SEC Accreditation No. 0662-AR-3 (Group A),

March 2, 2017, valid until March 1, 2020

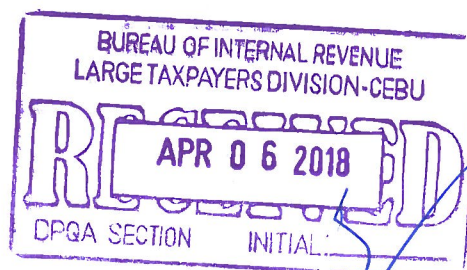
Tax Identification No. 164-533-282

BIR Accreditation No. 08-001998-71-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 6621311, January 9, 2018, Makati City

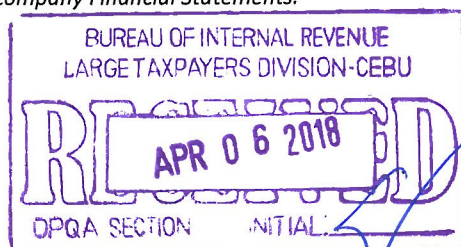
March 8, 2018



ABOITIZ POWER CORPORATION
PARENT COMPANY BALANCE SHEETS

	December 31	
	2017	2016
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱7,826,169,148	₱2,714,654,179
Trade and other receivables (Note 5)	519,646,158	925,785,292
Other current assets (Note 6)	797,032,600	521,012,573
Derivative asset	42,510,000	—
Total Current Assets	9,185,357,906	4,161,452,044
Noncurrent Assets		
Investments and advances (Note 7)	80,038,264,024	83,075,399,866
Project development costs (Note 10)	262,559,144	273,724,711
Available-for-sale (AFS) investment	99,374,831	96,689,232
Deferred income tax assets (Note 16)	71,384,885	91,862,690
Property and equipment (Note 8)	80,296,724	64,287,327
Pension asset (Note 15)	16,196,106	—
Other noncurrent assets (Note 9)	14,919,730	16,836,617
Total Noncurrent Assets	80,582,995,444	83,618,800,443
TOTAL ASSETS	₱89,768,353,350	₱87,780,252,487
LIABILITIES AND EQUITY		
Current Liability		
Trade and other payables (Note 11)	₱193,939,364	₱403,564,537
Noncurrent Liabilities		
Long-term debts - net of deferred financing cost (Note 12)	12,901,981,643	9,922,153,365
Pension liability (Note 15)	—	20,653,885
Total Noncurrent Liabilities	12,901,981,643	9,942,807,250
Total Liabilities	13,095,921,007	10,346,371,787
Equity		
Capital stock (Note 13a)	7,358,604,307	7,358,604,307
Additional paid-in capital (Note 13a)	12,588,894,332	12,588,894,332
Actuarial losses on defined benefit plan (Note 15)	(226,655,991)	(257,950,177)
Unrealized valuation loss on AFS investment	(625,169)	(3,310,768)
Retained earnings (Note 13b)		
Appropriated	34,060,000,000	34,060,000,000
Unappropriated	22,892,214,864	23,687,643,006
Total Equity	76,672,432,343	77,433,880,700
TOTAL LIABILITIES AND EQUITY	₱89,768,353,350	₱87,780,252,487

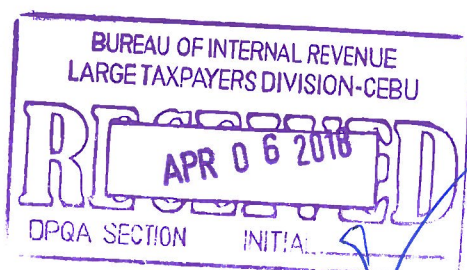
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
REVENUE			
Dividends	₱9,792,258,034	₱26,807,702,580	₱6,545,200,372
Technical, management and other service fees (Note 17)	1,403,850,375	1,287,351,539	974,356,863
Interest income (Notes 4 and 17e)	147,551,430	329,471,455	331,196,244
	11,343,659,839	28,424,525,574	7,850,753,479
GENERAL AND ADMINISTRATIVE EXPENSES			
Personnel (Note 14)	890,915,629	785,891,676	614,507,699
Interest and other financing charges (Note 12)	674,025,682	620,131,545	595,341,627
Professional fees (Note 17)	100,474,104	96,502,870	77,527,508
Service fees (Note 17)	82,072,061	104,581,971	114,339,626
Project and bidding expenses (Note 10)	76,839,564	323,240,970	317,162
Transportation and travel (Note 17)	50,593,806	59,564,834	51,092,150
Rent (Note 17)	28,159,917	25,054,795	21,737,582
Advertising and sponsorships	22,272,248	9,835,050	5,066,746
Depreciation and amortization (Notes 8 and 9)	22,220,782	21,256,849	19,249,923
Taxes and licenses	19,038,303	16,976,074	12,034,773
Training	17,750,495	28,301,772	12,914,939
Entertainment, amusement and recreation	8,212,799	8,612,605	8,184,351
Repairs and maintenance	6,839,603	6,625,413	5,690,407
Office supplies	5,013,861	4,133,728	4,317,790
Communication	2,982,031	2,787,762	3,262,869
Light and water	1,304,803	1,268,933	1,598,529
Others	8,917,061	9,355,041	7,059,749
	2,017,632,749	2,124,121,888	1,554,243,430
OTHER INCOME (CHARGES) - Net			
Foreign exchange gains (Note 18)	69,842,921	545,056,530	134,645,823
Gain on redemption of preferred shares (Note 7)	19,558,250	16,050,518	—
Provision for impairment of investment in a subsidiary (Note 7)	(169,469,408)	(120,733,027)	—
Others (Note 8)	2,767,574	8,547,746	12,451,211
	(77,300,663)	448,921,767	147,097,034
INCOME BEFORE INCOME TAX	9,248,726,427	26,749,325,453	6,443,607,083
PROVISION FOR INCOME TAX (Note 16)	36,452,711	72,627,378	62,984,123
NET INCOME	₱9,212,273,716	₱26,676,698,075	₱6,380,622,960

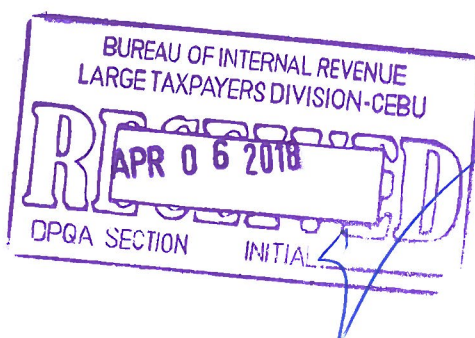
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2017	2016	2015
NET INCOME	₱9,212,273,716	₱26,676,698,075	₱6,380,622,960
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains (loss) on defined benefit plans (Note 15)	44,705,980	20,313,413	(265,058,671)
Income tax effect (Note 16)	(13,411,794)	(6,094,024)	79,517,601
Net other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods	31,294,186	14,219,389	(185,541,070)
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Unrealized gain (loss) on AFS investments	2,685,599	(3,310,768)	—
Total other comprehensive income (loss) for the year, net of tax	33,979,785	10,908,621	(185,541,070)
TOTAL COMPREHENSIVE INCOME	₱9,246,253,501	₱26,687,606,696	₱6,195,081,890

See accompanying Notes to Parent Company Financial Statements.

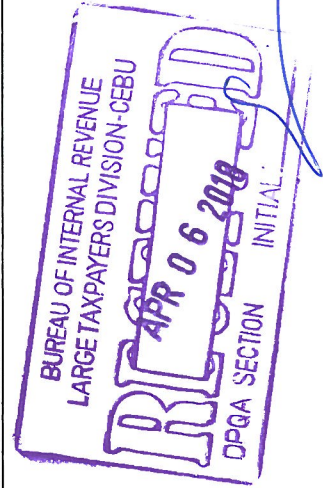


ABOITIZ POWER CORPORATION

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015**

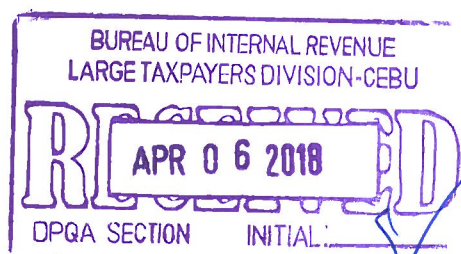
	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Losses on Defined Benefit Plan	Actuarial		Total
					Retained Earnings	Unappropriated	
Balances at January 1, 2017	₱7,358,604,307	₱12,588,894,332	(₱3,310,768)	(₱257,950,177)	₱34,060,000,000	₱23,687,643,006	₱77,433,880,700
Net income for the year	-	-	-	-	-	9,212,273,716	9,212,273,716
Other comprehensive income	-	-	-	31,294,186	-	-	31,294,186
Unrealized valuation on AFS investments	-	-	2,685,599	-	-	-	2,685,599
Total comprehensive income	-	-	2,685,599	31,294,186	-	9,212,273,716	9,246,253,501
Cash dividends (Note 13b)	-	-	-	-	-	(10,007,701,858)	(10,007,701,858)
Balances at December 31, 2017	₱7,358,604,307	₱12,588,894,332	(₱625,169)	(₱226,655,991)	₱34,060,000,000	₱22,892,214,864	₱76,672,432,343

	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Actuarial Losses on Defined Benefit Plan	Retained Earnings		Total
					Appropriated	Unappropriated	
Balances at January 1, 2016	₱7,358,604,307	₱12,588,894,332	₱-	(₱272,169,566)	₱20,900,000,000	₱22,386,228,081	₱62,961,557,154
Net income for the year	-	-	-	-	-	26,676,698,075	26,676,698,075
Other comprehensive income	-	-	-	14,219,389	-	-	14,219,389
Unrealized valuation on AFS investments	-	-	(3,310,768)	-	-	-	(3,310,768)
Total comprehensive income	-	-	(3,310,768)	14,219,389	-	26,676,698,075	26,687,606,696
Cash dividends (Note 13b)	-	-	-	-	-	(12,215,283,150)	(12,215,283,150)
Appropriation during the year (Note 13b)	-	-	-	-	13,160,000,000	(13,160,000,000)	-
Balances at December 31, 2016	₱7,358,604,307	₱12,588,894,332	(₱3,310,768)	(₱257,950,177)	₱34,060,000,000	₱23,687,643,006	₱77,433,880,700



	Capital Stock (Note 13a)	Additional Paid-In Capital	Unrealized Valuation on AFS Investments	Actuarial Losses on			Total
				Defined Benefit Plan	Appropriated	Unappropriated	
Balances at January 1, 2015	₱7,358,604,307	₱12,588,894,332	₱-	(₱86,628,496)	₱20,900,000,000	₱28,220,888,271	₱68,981,758,414
Net income for the year	-	-	-	-	-	6,380,622,960	6,380,622,960
Other comprehensive income	-	-	-	(185,541,070)	-	-	(185,541,070)
Total comprehensive income	-	-	-	(185,541,070)	-	6,380,622,960	6,195,081,890
Cash dividends (Note 13b)	-	-	-	-	-	(12,215,283,150)	(12,215,283,150)
Balances at December 31, 2015	₱7,358,604,307	₱12,588,894,332	₱-	(₱272,169,566)	₱20,900,000,000	₱22,386,228,081	₱62,961,557,154

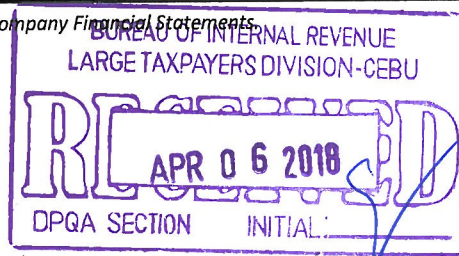
See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱9,248,726,427	₱26,749,325,453	₱6,443,607,083
Adjustments for:			
Interest and other financing charges (Note 12)	674,025,682	620,131,545	595,341,627
Provision for impairment of investment in a subsidiary (Note 7)	169,469,408	120,733,027	—
Project and bidding expenses (Note 10)	76,839,564	80,379,837	—
Depreciation and amortization (Notes 8 and 9)	22,220,782	21,256,849	19,249,923
Unrealized foreign exchange losses (gain)	8,809,781	54,174,161	(183,690)
Losses (gain) on disposal of assets	418,659	103,750	(99,425)
Gain on redemption of preferred shares (Notes 7)	(19,558,250)	(16,050,518)	—
Interest income (Notes 4 and 17e)	(147,551,430)	(329,471,455)	(331,196,244)
Operating income before working capital changes	10,033,400,623	27,300,582,649	6,726,719,274
Decrease (increase) in:			
Trade and other receivables	293,236,492	(477,330,607)	(2,338,966)
Other current assets	(145,859,575)	1,813,749	(920,496)
Pension asset	(16,196,106)	—	64,671,775
Increase (decrease) in:			
Pension liability	24,052,095	(198,138,608)	(25,952,765)
Trade and other payables	(171,627,870)	241,198,537	(20,155,804)
Net cash generated from operations	10,017,005,659	26,868,125,720	6,742,023,018
Income taxes paid	(159,547,151)	(165,584,323)	(180,567,998)
Net cash flows from operating activities	9,857,458,508	26,702,541,397	6,561,455,020
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	260,454,071	372,600,692	294,943,279
Proceeds from:			
Redemption on preferred shares (Note 7)	9,784,493,862	57,076,000	28,000,000
Disposal of investment property	—	—	25,000,000
Disposal of property and equipment (Note 8)	1,966,529	3,592,738	4,651,958
Collection of refundable deposit	340,990	—	—
Additions to:			
Computer software license (Note 9)	(20,982)	(4,062,937)	(2,982,065)
Property and equipment (Note 8)	(39,018,488)	(28,644,578)	(20,037,454)
Project development costs - net of transfers (Note 10)	(65,673,997)	(86,515,646)	(20,994,241)
AFS investments	—	(100,000,000)	—
Investments and advances	(6,897,269,177)	(12,864,053,304)	(389,595,383)
Net cash flows from (used in) investing activities	3,045,272,808	(12,650,007,035)	(81,013,906)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debts (Note 12)	3,000,000,000	—	—
Payments of:			
Transaction costs from availment of long-term debt	(32,938,058)	—	(1,016,706)
Interest and other financing charges	(699,256,650)	(609,202,229)	(585,034,687)
Cash dividends (Note 13b)	(10,007,701,858)	(12,215,283,150)	(12,215,283,150)
Amounts owed to related parties	—	(12,300,000,000)	—
Net cash flows used in financing activities	(7,739,896,566)	(25,124,485,379)	(12,801,334,543)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,162,834,750	(11,071,951,017)	(6,320,893,429)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(51,319,781)	(54,174,161)	183,690
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,714,654,179	13,840,779,357	20,161,489,096
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱7,826,169,148	₱2,714,654,179	₱13,840,779,357

See accompanying Notes to Parent Company Financial Statements.



ABOITIZ POWER CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of December 31, 2017, Aboitiz Equity Ventures, Inc. (AEV, a publicly-listed Company incorporated in the Philippines) owns 76.88% of the Company. The Company's ultimate parent is Aboitiz & Company, Inc. (ACO).

The Company's registered office address is 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

The parent company financial statements were approved and authorized for issue in accordance with a resolution by the Board of Directors (BOD) of the Company on March 8, 2018.

2. Basis of Preparation, Statement of Compliance and Summary of Significant Accounting Policies

Basis of Preparation

The accompanying parent company financial statements have been prepared on a historical cost basis, except for derivative financial instruments and AFS investments which are measured at fair value. The parent company financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest peso except for exchange rate and as otherwise indicated.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements that are presented in compliance with Philippine Financial Reporting Standards (PFRSs). These may be obtained at 32nd Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines.

Statement of Compliance

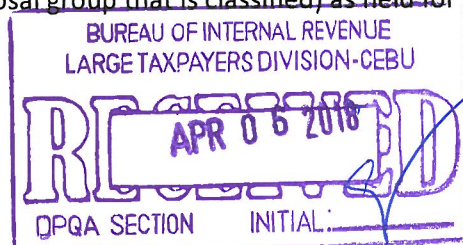
The parent company financial statements are prepared in compliance with PFRSs.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2017. These new and revised standards and interpretations did not have any significant impact on the parent company financial statements:

- Amendment 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.



Adoption of these amendments did not have any impact on the Company's financial statements.

- Amendments to Philippine Accounting Standards (PAS) 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*

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

The Company applied the amendments retrospectively. However, their application has no effect on the Company's financial position and performance as the Company has no deductible temporary differences or assets that are in the scope of the amendments.

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

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

The Company has provided the required information in Note 21 to the parent company financial statements. As allowed under the transition provisions of the standard, the Company did not present comparative information for the year ended December 31, 2016.

New Standards and Interpretations Issued and Effective after December 31, 2017

The Company will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its financial statements.

Effective January 1, 2018

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

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

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

These amendments will not be applicable to the Company since it has no share-based payment arrangements.



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

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

The amendments are not applicable to the Company since it is not engaged in the insurance business.

- 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. The Company plans to adopt the new standard on the required effective date using the modified retrospective method. In 2016, the Company performed a preliminary assessment of PFRS 15, which was continued with a more detailed analysis in 2017

Based on its initial assessment, the requirement of PFRS 15 on identification of performance obligations may have an impact on the Company's financial position, performance and disclosures. For contract with customers in which the rendering of services is generally expected to qualify as a series of distinct services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation, adoption of PFRS 15 is not expected to have significant impact on the Company's revenue and profit or loss. The Company expects the revenue recognition to occur over time wherein the customer simultaneously receives and consumes the benefits as the seller render the services.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Company is currently assessing what necessary changes it needs to make on its current systems, internal controls policies and procedures to enable the Company to collect and disclose the required information.

The recognition and measurement requirements in PFRS 15 also apply to gains or losses on disposal of nonfinancial assets (such as items of property and equipment and intangible assets), when that disposal is not in the ordinary course of business. However, on transition, the effect of these changes is not expected to be material for the Company



- PFRS 9, *Financial Instruments*

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

The Company plans to adopt the new standard on the mandatory effective date and will not restate comparative information.

The Company has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and is in the process of developing impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

(a) Classification and measurement

PFRS 9 requires that the Company classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

The Company assessed that the contractual cash flows of its debt financial assets are solely payments of principal and interest (SPPI) and are expected to be held to collect all contractual cash flows until their maturity. As a result, these debt financial assets are still expected to be measured at amortized cost.

Investments in unquoted equity shares currently carried at cost under PAS 39 are expected to be measured at FVTPL. The Company is in the process of determining how to measure the fair value of these unquoted investments.

(b) Impairment

PFRS 9 requires the Company record ECL for all loans and other debt financial assets not classified as at FVTPL, together with contract assets, loan commitments and financial guarantee contracts. The Company plans to apply the simplified approach and record lifetime ECL on all trade receivables and contract assets. For other debt financial assets measured at amortized cost, the general approach will be applied, measuring either a 12-month or lifetime expected losses, depending on the extent of the deterioration of their credit quality from origination. The Company is currently quantifying the impact of the change in measuring ECL.



(c) *Hedge accounting*

PFRS 9 introduces a new hedge accounting model which aims to reflect in the financial statements the effect of an entity's risk management activities that use financial instruments to manage exposures arising from particular risks that could affect profit or loss. The new hedge accounting model reduces restrictions on the classification and designation of hedged items and hedging instruments and provides a more principle-based criteria for measuring hedge effectiveness. The Company assessed that the adoption of the new hedge accounting requirements under PFRS 9 will have no impact in the 2018 financial statements since the Company does not designate hedging relationships on which PFRS 9 will apply.

The Company has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Company is continuously refining its internal controls and processes which are relevant in the proper implementation of PFRS 9.

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

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

These amendments are not applicable to the Company since it not a venture capital organization and has no interest in investment entity subsidiaries, associates or joint ventures.

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

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

These amendments are not applicable to the Company since it does not own any investment property.



- Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC)-22, *Foreign Currency Transactions and Advance Consideration*

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

Since the Company's current practice is in line with the clarifications issued, the Company does not expect any effect on its financial statements upon adoption of this interpretation.

Effective January 1, 2019

- PFRS 16, *Leases*

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

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

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

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.



The Company is currently assessing the impact of PFRS 16 and plans to adopt the new standard on the required effective date.

- 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.

The Company expects that adoption of these amendments will not have any impact on the Company's financial statements and plans to adopt these on the required effective date.

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

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

The interpretation specifically addresses the following:

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

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

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

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 (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Summary of Significant Accounting Policies

Current versus Noncurrent Classification

The Company presents assets and liabilities in the balance sheet based on current/noncurrent classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:

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

The Company classifies all other liabilities as noncurrent.

Deferred income tax assets and liabilities are classified as noncurrent assets and liabilities.

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 to 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 participants 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 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 parent company 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 parent company financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing 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.

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

Cash and Cash Equivalents

Cash and cash equivalents in the parent company balance sheet consist of cash on hand and with banks, and short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. They are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or a financial liability in the parent company balance sheet on the date when it becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognized on trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. Derivatives are recognized on a trade date basis.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) investments. For financial liabilities, the Company also classifies them into financial liabilities



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

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the parent company statement of income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in the parent company statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' difference amount.

a. Financial asset of financial liability at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities classified as held for trading and financial assets and liabilities designated upon initial recognition as at FVPL. Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term or upon initial recognition if it is designated by management as at FVPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated and considered as hedging instruments in an effective hedge.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded, unless the embedded derivative does not significantly modify the cash flow or it is clear, with little or no analysis, that it would not be separately recorded.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset or financial liability at FVPL, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets and liabilities at FVPL are recorded in the parent company balance sheet at fair value. Subsequent changes in fair value are recognized in the parent company statement of income. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

Included under this category is the Company's derivative asset (see Note 19).



b. 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 reclassified or designated as AFS investments or financial assets at FVPL. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the parent company statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Included under this category are the Company's cash and cash equivalents (excluding cash on hand) and trade other receivables.

c. HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Where the Company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. Gains and losses are recognized in the parent company statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Company does not have any HTM investments at December 31, 2017 and 2016.

d. AFS investments

AFS investments are non-derivative financial assets that are either designated as AFS or not classified in any of the other categories. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. Quoted AFS investments are measured at fair value with gains or losses being recognized as other comprehensive income, until the investments are derecognized or until the investments are determined to be impaired at which time, the accumulated gains or losses previously reported in other comprehensive income are included in the parent company statement of income. Unquoted AFS investments are carried at cost, net of impairment. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognized in the parent company statement of income when the right of payment has been established.

Included under this category are the Company's investment in unquoted shares of stocks (see Note 18).



e. Other financial liabilities

This category pertains to issued financial liabilities or their components that are neither held for trading nor designated as at FVPL upon the inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as fair value of the liability component on the date of issue. These include liabilities arising from operations or borrowings.

Other financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable financing costs. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term liability. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortized cost using the effective interest rate method.

Gains and losses are recognized in the parent company statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category are the Company's trade and other payables and long-term debts.

Derivative financial instruments

Derivative financial instruments, including embedded derivatives, are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently remeasured at FVPL, unless designated as effective hedge. Changes in fair value of derivative instruments not accounted as hedges are recognized immediately in the parent company statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. An embedded derivative is separated from the host financial or non-financial contract and accounted for as a separate derivative if all of the following conditions are met:

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

Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Embedded derivatives that are bifurcated from the host contracts are accounted for either as financial assets or financial liabilities at FVPL.

As of December 31, 2017 the Company has derivative assets classified as financial assets at FVPL (see Note 19).



Classification of financial instruments between liability and equity

A financial instrument is classified as liability 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.

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 income or expense. Distributions to holders of financial instruments classified as equity are charged directly to equity net of any related income tax benefits.

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

Financial liabilities

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new



liability, and the difference in the respective carrying amounts is recognized in the parent company statement of income.

Impairment of Financial Assets

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

Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). If the Company determines 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.

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 parent company statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the financial asset. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent period, the amount of the impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the parent company statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.



AFS investments

For AFS investments, the Company assesses at each balance sheet date whether there is objective evidence that an investment or group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence of impairment would include a significant or prolonged decline in the fair value of the investments below its 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 the parent company statement of income) is removed from the other comprehensive income and recognized in the parent company statement of income. Impairment losses on equity investments are not reversed through the parent company statement of income. Increases in fair value after impairment are recognized directly in the other comprehensive income.

In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on rate of interest used to discount future cash flows for measuring impairment loss. Such accrual is recorded as part of "Interest income" in the parent company statement of income. If, in subsequent period, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the parent company statement of income, the impairment loss is reversed through the parent company statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the parent company balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements whereby the related assets and liabilities are presented gross in the parent company balance sheet. 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 in Subsidiaries and Associates

A subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

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

Investments in subsidiaries and associates are carried at cost, less impairment in value, in the parent company financial statements.

The Company recognizes income from the investments only to the extent that the Company receives distributions or establishes a right to receive distributions from accumulated profits of the subsidiaries and associates arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.



Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value, if any. The initial cost of property and equipment comprises its purchase price, including import duties, if any, nonrefundable taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing parts of such property and equipment when that cost is incurred if the recognition criteria are met.

Depreciation is calculated on a straight-line basis over the useful lives of the assets as follows:

Category	Number of Years
Transportation equipment	5
Office equipment	3
Communication equipment	3
Leasehold improvements	10

Leasehold improvements are amortized over the period of the lease agreement or the estimated useful lives of the improvements, whichever is shorter.

Fully depreciated assets are retained in the accounts until these are no longer in use. When assets are retired or otherwise disposed of, both the cost and related accumulated depreciation and amortization and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited or charged to current operations. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the parent company statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

The asset's useful lives and depreciation and amortization method are reviewed, and adjusted if appropriate, at each financial year-end.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of the acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the parent company statement of income in the year in which the expenditure is incurred.



Computer software license

Computer software license is initially recognized at cost. Following initial recognition, the computer software license cost is carried at cost less accumulated amortization and any accumulated impairment in value.

The computer software license is amortized on a straight-line basis over its estimated useful economic life of three to five years and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization commences when the computer software license is available for use. The amortization period and the amortization method for the license are reviewed at each financial year end. Changes in the estimated useful life is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the parent company statement of income in the expense category consistent with the function of the computer software license.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the parent company statement of income when the asset is derecognized.

Project Development Costs

Project development costs include power plant projects in the development phase which meet the “identifiability” requirement under PAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at acquisition cost. These assets are transferred to “Property and equipment” when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Impairment of Nonfinancial Assets

The Company assesses at each balance sheet date whether there is an indication that assets 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 (CGU) fair value less costs to sell and its value in use (VIU) 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 VIU, 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. Impairment losses of continuing operations are recognized in the parent company statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each balance sheet 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 Company makes an estimates of the asset’s or CGU’s recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of 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.

Foreign Currency Transactions

The Company's financial statements are presented in Philippine Peso, which is the Company's functional currency. Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the rate of exchange at balance sheet date. Exchange gains and losses arising from foreign currency transactions and translations of foreign currency denominated monetary assets and liabilities are credited to or charged against current operations.

Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued. Capital stock includes common stock and preferred stock.

When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are debited to the "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against an equity reserve account.

Retained Earnings

The amount included in retained earnings includes accumulated earnings of the Company and reduced by dividends on capital stock. Dividends on capital stock are recognized as a liability and deducted from equity when they are approved by the BOD. Dividends for the year that are approved after the financial reporting date are dealt with as an event after the financial reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the transition provisions of new and amended standards.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The following specific recognition criteria must also be met before revenue is recognized:

Dividend income

Dividend income is recognized when the Company's right to receive payment is established.



Technical, management and service fees

Technical, management and services fees are recognized when the related services are rendered.

Interest income

Interest income is recognized as it accrues taking into account the effective interest method.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Expenses are recognized when incurred.

Pension Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the parent company statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to parent company statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined



benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the balance sheet date.

Deferred income tax

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

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

- where the deferred income tax liability arises from the initial recognition of goodwill or 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; and,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused net operating loss carryover (NOLCO) and excess minimum corporate income tax (MCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of unused NOLCO and excess MCIT can be utilized except:

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



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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value-added Tax (VAT)

Expenses and assets are recognized net of the amount of VAT, except:

- when the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognized as part of the cost of acquisition of asset or as part of the expense item, as applicable
- when receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Input VAT

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT is recognized as an asset and will be used to offset the Company's current output VAT liabilities and or applied for claim for tax credit certificates. Input VAT is stated at its estimated net realizable value.

Output VAT

Output VAT represents VAT due on the sale, lease or exchange of taxable goods or properties or service by any person registered or required to register under Philippine taxation laws and regulations.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and 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. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, 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 parent company statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined 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.

Contingencies

Contingent liabilities are not recognized in the parent company financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the parent company 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 position at balance sheet date (adjusting events) are reflected in the parent company financial statements. Post year-end events that are not adjusting events are disclosed when material.

3. Significant Accounting Judgment, Estimates and Assumptions

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

Judgment

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

Capitalization of Project Development Costs

The application of the Company's accounting policy for capitalization of project development costs requires management's judgement about the confirmation of technological and economic feasibility of a project, usually when a project development has reached a defined milestone according to an established project management model. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Estimation Uncertainty

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

Estimating Impairment of Project Development Costs

Impairment is determined for development costs by assessing the recoverable amount of each projects. Where the recoverable amount of the project is less than the carrying amount, an impairment loss is recognized. When calculating recoverable amount, the future cash flow is discounted by a discount factor that takes into consideration risk free interest and the risk associated with the specific project.



The Company did not recognize impairment loss on project development costs in 2017 and 2016. The carrying amount of the Company's project development costs amounted to ₱262.6 million and ₱273.7 million as of December 31, 2017 and 2016, respectively (see Note 10).

Estimating allowance for impairment of trade and other receivables

The Company maintains allowance for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectability of the accounts. These factors include, but are not limited to, the Company's relationship with its debtors, debtor's current credit status and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance either individually or collectively.

The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment of receivables will increase the Company's recorded expenses and decrease current assets. No allowance for impairment of receivables was recognized as of December 31, 2017 and 2016. As of December 31, 2017 and 2016, the Company's receivables amounted to ₱519.6 million and ₱925.8 million, respectively (see Note 5).

Estimating allowance for impairment of losses on investment in and advances to subsidiaries and associates

Investments in and advances to subsidiaries and associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2017, it was determined that the carrying value of the investment in Mactan Enerzone Corporation exceeded its recoverable amount. As a result, an impairment loss amounting to ₱169.5 million was recognized. In 2016, it was determined that the carrying value of the investment in AboitizPower International Pte. Ltd. exceeded its recoverable amount. As a result, an impairment loss amounting to ₱120.7 million was recognized. The aggregate carrying amount of the investments in and advances to subsidiaries and associates amounted to ₱80.0 billion and ₱83.1 billion as of December 31, 2017 and 2016, respectively (see Note 7).

Assessing impairment of nonfinancial assets

The Company assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property and equipment and other current and noncurrent assets) are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Determining the recoverable amount of the assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its financial statements. Future events could cause the Company to conclude that these assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

As of December 31, 2017, the carrying values of property and equipment and other current and noncurrent assets amounted to ₱80.3 million, ₱797.0 million, and ₱14.9 million, respectively. As of December 31, 2016, the carrying values of property and equipment, other current assets, and other noncurrent assets amounted to ₱64.3 million, ₱521.0 million, and ₱16.8 million, respectively (see Notes 6, 8, and 9).



Estimating useful lives of property and equipment

The Company estimates the useful lives of property and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors and circumstances mentioned above. As of December 31, 2017 and 2016, the net book values of property and equipment amounted to ₱80.3 million and ₱64.3 million, respectively (see Note 8).

Pension costs

The costs of defined benefit pension plans, as well as the present value of the pension obligation, are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each balance sheet date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

Further details about the assumptions used are provided in Note 15.

Net benefit expense amounted to ₱50.0 million in 2017, ₱58.3 million in 2016 and ₱38.7 million in 2015. Pension asset amounted to ₱16.2 million in 2017. Pension liability amounted to ₱20.7 million in 2016 (see Note 15).

Deferred income tax assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient income will be available to allow all or part of the deferred income tax assets to be utilized. As of December 31, 2017 and 2016, deferred income tax assets amounted to ₱173.4 million and ₱196.2 million, respectively. No deferred income tax assets were recognized for MCIT amounting to ₱44.4 million and ₱43.8 million and NOLCO amounting to ₱647.7 million and ₱228.1 million as of December 31, 2017 and 2016, respectively (see Note 16).

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2017 and 2016.



4. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	₱278,899,148	₱55,830,179
Short-term deposits	7,547,270,000	2,658,824,000
	₱7,826,169,148	₱2,714,654,179

Cash in banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods depending on the immediate cash requirements of the Company and earn interest at the respective short-term deposits rates.

Interest earned on cash and cash equivalents amounted to ₱147.6 million in 2017, ₱329.5 million in 2016 and ₱331.2 million in 2015.

5. Trade and Other Receivables

	2017	2016
Trade (see Note 17)	₱383,208,109	₱621,159,134
Dividends	94,300,000	149,358,000
Interest (see Note 17)	10,269,728	123,172,369
Nontrade	18,094,904	17,001,905
Others	13,773,417	15,093,884
	₱519,646,158	₱925,785,292

Trade receivables are non-interest bearing and are generally on 30 days' term.

For terms and conditions relating to related party receivables, refer to Note 17.

6. Other Current Assets

	2017	2016
Prepaid tax	₱784,917,756	₱511,455,599
Input VAT	7,093,225	4,535,355
Prepaid rent	5,021,619	5,021,619
	₱797,032,600	₱521,012,573



7. Investments and Advances

The details of the Company's investments and advances follow:

	2017	2016
<i>Investments in Subsidiaries</i>		
Therma Power, Inc. (TPI)	₱30,116,058,873	₱30,116,058,873
Aboitiz Renewables, Inc. (ARI)	27,172,988,814	36,654,338,814
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)	2,794,460,000	1,923,460,000
Therma Visayas, Inc. (TVI)	₱1,736,791,329	₱173,114,630
Hedcor Sabangan, Inc. (Hedcor Sabangan)	1,732,643,142	1,732,643,142
Lima Enerzone Corporation (LEZ)	1,329,696,667	1,329,696,667
Therma South, Inc. (Therma South)	877,892,679	877,892,679
Therma Mobile, Inc. (Therma Mobile)	742,400,000	742,400,000
Davao Light & Power Co., Inc. (DLPC)	738,472,506	738,472,506
Visayan Electric Co., Inc. (VECO)	665,388,202	665,388,202
Hedcor Tudaya, Inc. (HTI)	656,250,000	656,250,000
Mactan Enerzone Corporation (MEZC)	609,532,287	609,532,287
Balamban Enerzone Corporation (BEZC)	486,869,161	486,869,161
Hedcor, Inc. (HI)	245,000,000	—
Subic Enerzone Corporation (SEZC)	227,000,000	227,000,000
Cotabato Light & Power Co. (CLPC)	214,047,443	214,047,443
AboitizPower International Pte. Ltd. (AP Int)	120,733,027	120,733,027
East Asia Utilities Corporation (EAUC)	100,914,275	144,690,887
Aboitiz Energy Solutions, Inc. (AESI)	21,000,000	21,000,000
Cebu Private Power Corporation (CPPC)	17,806,608	17,806,608
AdventEnergy, Inc. (AI)	812,500	812,500
Prism Energy, Inc. (PEI)	750,000	750,000
Malvar Enerzone Corporation (Malvez)	100,000	—
Hedcor Sibulan, Inc. (Hedcor Sibulan)	—	231,000,000
	70,607,607,513	77,683,957,426
<i>Investments in Associates</i>		
STEAG State Power, Inc. (STEAG)	4,400,611,465	4,400,611,465
Hijos de F. Escaño, Inc. (Hijos)	858,069,586	858,069,586
AEV Aviation, Inc. (AAI)	249,491,000	258,300,000
Pampanga Energy Ventures, Inc. (PEVI)	209,465,106	209,465,106
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	180,863,801	180,863,801
Western Mindanao Power Corporation (WMPC)	79,099,377	79,099,377
Southern Philippines Power Corporation (SPPC)	45,776,067	45,776,067
	6,023,376,402	6,032,185,402
Less allowance for impairment loss	1,025,425,480	855,956,072
	75,605,558,435	82,860,186,756
<i>Advances</i>	4,432,705,589	215,213,110
	₱80,038,264,024	₱83,075,399,866



Investment in EAUC

In April 2017, EAUC redeemed 21,690 Redeemable Preference Shares (RPS) at a redemption price of ₱63.3 million or ₱2,920 per share attributable to the Company. The book value of the redeemed shares amounted to ₱43.8 million. As a result, the Company recognized a "Gain on redemption of preferred shares" amounting to ₱19.6 million.

In April 2016, EAUC redeemed 36,600 Series A RPS attributable to the Company at ₱2,920 per share. The book value of the redeemed shares amounted to ₱35.9 million and was redeemed at a total redemption price amounting to ₱52.0 million. As a result, the Company recognized "Gain on redemption of preferred shares" amounting to ₱16.1 million.

In June 2016, TPI acquired for ₱509.4 million the remaining 50% ownership interest in EAUC. As a result, EAUC became a wholly-owned subsidiary of the Company. The transaction was accounted for as a business combination achieved in stages, and the investment in EAUC was presented as an investment in a subsidiary in 2016.

Investment in Hedcor Sabangan

In 2016, the Company subscribed additional 70.0 million RPS for ₱70.0 million.

Investment in Hedcor Bukidnon

The Company subscribed additional 871.0 million and 1.69 billion RPS for ₱871.0 million and ₱1.69 billion in 2017 and 2016, respectively.

Investment in TVI

In 2017, the Company subscribed additional 2.56 million RPS for ₱1.56 billion.

Investment in HI

In 2017, the Company subscribed 245.0 million RPS for ₱245.0 million.

Investment in Malvez

In 2017, the Company subscribed 0.1 million common shares for ₱0.1 million.

Investment in Therma South

In 2016, the Company subscribed additional 106.3 million RPS for ₱106.3 million.

Investment in TPI

In 2016, the Company subscribed additional 1.10 billion common shares for ₱1.10 billion and 9.90 billion RPS for ₱9.90 billion.

Investment in AP Int

In 2016, the Company subscribed 2.4 million common shares for ₱120.7 million.

It was determined on the same year that the carrying value of the investment in AP Int exceeded its recoverable amount. As a result, an impairment loss amounting to ₱120.7 million was recognized.

Investment in MEZC

In 2017, it was determined that the carrying value of the investment in MEZC exceeded its recoverable amount. As a result, an impairment loss amounting to ₱169.5 million was recognized.



Investment in ARI

In 2017, ARI redeemed shares attributable to the Company at 948.1 million RPS for ₱9.5 billion at ₱10 per share.

Investment in AAI

AAI redeemed shares attributable to the Company at 8,809 RPS for ₱8.8 million and 5,100 RPS for ₱5.1 million in 2017 and 2016, respectively, at ₱1,000 per share.

Investment in Hedcor Sibulan

Hedcor Sibulan redeemed shares attributable to the Company at 231.0 million RPS for ₱231.0 million in 2017 at ₱1 per share.

Advances

These advances include advances to subsidiaries that will be applied against future subscriptions of the Company to the shares of stock of the subsidiaries.

In 2017, the Company has advances to TPI amounting to ₱4.2 billion, AP Int amounting to ₱50.7 and PEI amounting to ₱9.6 million.

The Company's subsidiaries, all incorporated in the Philippines except for AP Int which was incorporated in Singapore, and the corresponding percentage equity ownership are as follows:

Name of Company	Nature of Business	2017		2016	
		Direct	Indirect	Direct	Indirect
ARI	Holding company	100.00%	—	100.00%	—
TPI	Holding company	100.00%	—	100.00%	—
AP Int	Holding company	100.00%	—	100.00%	—
LEZ	Power distribution	100.00%	—	100.00%	—
Hedcor Sabangan	Power generation	—	100.00%	—	100.00%
HI	Power generation	—	100.00%	—	100.00%
Therma Mobile	Power generation	—	100.00%	—	100.00%
DLPC	Power distribution	99.93%	—	99.93%	—
VECO	Power distribution	55.26%	—	55.26%	—
HTI	Power generation	—	100.00%	—	100.00%
MEZC	Power distribution	100.00%	—	100.00%	—
BEZC	Power distribution	100.00%	—	100.00%	—
Hedcor Bukidnon*	Power generation	—	100.00%	—	100.00%
Hedcor Sibulan	Power generation	—	100.00%	—	100.00%
SEZC	Power distribution	65.00%	34.98%	65.00%	34.98%
CLPC	Power distribution	99.94%	—	99.94%	—
TVI*	Power generation	—	80.00%	—	100.00%
Therma South	Power generation	—	100.00%	—	100.00%
AESI	Retail electricity supplier	100.00%	—	100.00%	—
CPPC	Power generation	60.00%	—	60.00%	—
EAUC	Power generation	50.00%	50.00%	50.00%	50.00%
Malvez*	Power distribution	100.00%	—	100.00%	—
AI	Retail electricity supplier	100.00%	—	100.00%	—
PEI	Retail electricity supplier	60.00%	—	60.00%	—

*No commercial operations as of December 31, 2017



The percentage of the Company's ownership in associates is as follows:

Name of Company	Nature of Business	Percentage of Ownership	
		2017	2016
AAI	Service	49.25%	49.25%
Hijos	Holding company	46.73%	46.73%
PEVI*	Holding company	42.84%	42.84%
STEAG	Power generation	34.00%	34.00%
SFELAPCO*	Power distribution	20.29%	20.29%
SPPC	Power generation	20.00%	20.00%
WMPC	Power generation	20.00%	20.00%

*PEVI has direct ownership in SFELAPCO of 54.83% while the Company's direct ownership in SFELAPCO is 20.29% resulting to the Company's effective ownership in SFELAPCO of 43.78%.

8. Property and Equipment

December 31, 2017

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	P54,382,169	P30,697,894	P752,009	P38,667,172	P124,499,244
Additions	33,757,861	5,161,141	—	99,486	39,018,488
Disposals	(6,587,277)	(1,025,244)	—	—	(7,612,521)
Balances at end of year	81,552,753	34,833,791	752,009	38,766,658	155,905,211
Accumulated Depreciation:					
Balances at beginning of year	25,905,676	24,465,565	726,089	9,114,587	60,211,917
Depreciation and amortization	12,053,571	4,777,725	25,920	3,766,687	20,623,903
Disposals	(4,252,761)	(974,572)	—	—	(5,227,333)
Balances at end of year	33,706,486	28,268,718	752,009	12,881,274	75,608,487
Net Book Values	P47,846,267	P6,565,073	P—	P25,885,384	P80,296,724

December 31, 2016

	Transportation Equipment	Office Equipment	Communication Equipment	Leasehold Improvements	Total
Cost:					
Balances at beginning of year	P51,151,971	P25,150,867	P752,009	P26,891,876	P103,946,723
Additions	11,076,329	5,792,953	—	11,775,296	28,644,578
Disposals	(7,846,131)	(245,926)	—	—	(8,092,057)
Balances at end of year	54,382,169	30,697,894	752,009	38,667,172	124,499,244
Accumulated Depreciation:					
Balances at beginning of year	20,310,679	17,696,096	691,530	6,019,408	44,717,713
Depreciation and amortization	9,753,531	7,006,504	34,559	3,095,179	19,889,773
Disposals	(4,158,534)	(237,035)	—	—	(4,395,569)
Balances at end of year	25,905,676	24,465,565	726,089	9,114,587	60,211,917
Net Book Values	P28,476,493	P6,232,329	P25,920	P29,552,585	P64,287,327

The Company recognized a gain of P0.4 million and a loss of P0.1 million on disposal of property and equipment in 2017 and 2016, respectively.

There are no restrictions on the title and no property and equipment are pledged as security for liabilities.



Fully depreciated property and equipment with cost amounting to ₱44.5 million and ₱37.0 million as of December 31, 2017 and 2016, respectively, are still carried in the books of the Company and still in use.

9. Other Noncurrent Assets

	2017	2016
Computer software licenses	₱9,424,010	₱10,999,907
Recoverable deposits	5,495,720	5,836,710
	₱14,919,730	₱16,836,617

The rollforward analysis of computer software licenses is presented below:

	2017	2016
Cost:		
Balances at beginning of year	₱16,577,183	₱12,514,246
Additions	20,982	4,062,937
Balances at end of year	16,598,165	16,577,183
Accumulated amortization:		
Balances at beginning of year	5,577,276	4,210,200
Amortization for the year	1,596,879	1,367,076
Balances at end of year	7,174,155	5,577,276
Net book values	₱9,424,010	₱10,999,907

10. Project Development Costs

	2017	2016
Balances at beginning of year	₱273,724,711	₱267,588,902
Additions	65,673,997	95,992,721
Transfers	—	(9,477,075)
Write-offs	(76,839,564)	(80,379,837)
Balances at end of year	₱262,559,144	₱273,724,711

Project development costs consist of rights, titles and interests for various power plant development projects.

In February 2016, ₱9.5 million project costs were transferred to AP Renewables, Inc.



11. Trade and Other Payables

	2017	2016
Accrued interest (see Note 12)	₱66,285,228	₱28,287,924
Output VAT	55,122,268	58,157,741
Trade payables (see Note 18)	39,132,317	226,466,838
Accrued taxes and fees	25,611,103	70,748,142
Nontrade payables	7,264,277	19,429,594
Others	524,170	474,298
	₱193,939,363	₱403,564,537

Trade payables are noninterest-bearing and generally on 30-day term.

Accrued taxes and fees represent taxes withheld on compensation, benefits and other fees.

12. Long-term Debts

	Interest Rate	2017	2016
Financial and non-financial institutions - unsecured			
2014 7-year retail bonds	5.21%	₱6,600,000,000	₱6,600,000,000
2014 12-year retail bonds	6.10%	3,400,000,000	3,400,000,000
2017 10-year retail bonds	5.34%	3,000,000,000	—
		13,000,000,000	10,000,000,000
Less deferred financing costs		98,018,357	77,846,635
		₱12,901,981,643	₱9,922,153,365

Retail Bonds - ₱3.0 billion

In July 2017, the Company issued ₱3.0 billion 10-year bond due 2027 at an annual fixed rate of 5.34% p.a. The bonds have been rated PRS Aaa by PhilRatings.

Retail Bonds - ₱10.0 billion

In September 2014, the Company issued a total of ₱10.0 billion bonds, broken down into a ₱6.6 billion 7-year bond due 2021 at a fixed rate equivalent to 5.21% p.a. and a ₱3.4 billion 12-year bond due 2026 at a fixed rate equivalent to 6.10% p.a. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of these bonds shall be payable on a lump sum basis on the respective maturity date at its face value. These bonds may be redeemed in advance by the Company based on stipulated early redemption option dates and on agreed early redemption price.

Under the bond trust agreements, the Company shall not permit its debt-to-equity ratio to exceed 3:1 calculated based on the year-end debt and consolidated equity. The Company is in compliance with the debt covenants as of December 31, 2017.



Unamortized deferred financing cost reduced the carrying amount of long-term debt by ₱98.0 million and ₱77.8 million as of December 31, 2017 and 2016, respectively.

Total interest expense recognized amounted to ₱630.5 million, ₱550.9 million and ₱550.9 million in 2017, 2016 and 2015, respectively.

13. Equity

a. Capital Stock

Authorized - ₱1 par value

Preferred shares - 1,000,000,000 shares

Common shares - 16,000,000,000 shares

Issued

Common shares - 7,358,604,307 shares

₱7,358,604,307

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of ₱1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of ₱5.80 per share. On March 17, 2008, the Company listed an additional 170,940,307 common shares, which it issued pursuant to a share swap agreement at the IPO price of ₱5.80 per share. The total proceeds from the issuance of new shares amounted to ₱10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to ₱412.4 million, which is charged against "Additional paid-in capital" in the parent company balance sheet.

As of December 31, 2017, 2016 and 2015, the Company has 629, 628 and 608 shareholders, respectively.

Preferred shares are non-voting, non-participating, non-convertible, redeemable, cumulative, and may be issued from time to time by the BOD in one or more series. The BOD is authorized to issue from time to time before issuance thereof, the number of shares in each series, and all the designations, relative rights, preferences, privileges and limitations of the shares of each series. Preferred shares redeemed by the Company may be reissued. Holders thereof are entitled to receive dividends payable out of the unrestricted retained earnings of the Company at a rate based on the offer price that is either fixed or floating from the date of the issuance to final redemption. In either case, the rate of dividend, whether fixed or floating, shall be referenced, or be a discount or premium, to market-determined benchmark as the BOD may determine at the time of issuance with due notice to the SEC.

In the event of any liquidation or dissolution or winding up of the Company, the holders of the preferred stock shall be entitled to be paid in full the offer price of their shares before any payment in liquidation is made upon the common stock.

There are no preferred shares issued and outstanding as of December 31, 2017 and 2016.



b. Retained Earnings

On November 24, 2016, the BOD approved additional appropriation of ₱13.2 billion retained earnings for the following projects:

Projects	Full Commercial Operations by	Appropriation
300 MW Cebu Coal	1 st half of 2018	₱8,160,000,000
2x300 MW Coal-fired	End of 4 th quarter 2021	5,000,000,000
Total		₱13,160,000,000

On November 27, 2014, the BOD approved the appropriation of ₱20.9 billion retained earnings for the following projects:

Projects	Full Commercial Operations by	Appropriation
68 MW Manolo Fortich Hydro	End of 4 th quarter 2016	₱2,600,000,000
300 MW Davao Coal*	End of 1 st half 2015	9,500,000,000
14 MW Sabangan Hydro	End of 1 st half 2015	2,800,000,000
400 MW Coal Fired Pagbilao Unit3	End of 4 th quarter 2017	6,000,000,000
Total		₱20,900,000,000

* Full commercial operations by 1st quarter of 2016

On March 10, 2015, the BOD approved the declaration of regular cash dividends of ₱1.14 a share (₱8.39 billion) and special cash dividends of ₱0.52 a share (₱3.83 billion) to all stockholders of record as of March 24, 2015. The cash dividends were paid on April 20, 2015.

On March 8, 2016, the BOD approved the declaration of regular cash dividends of ₱1.20 a share (₱8.83 billion) and special cash dividends of ₱0.46 a share (₱3.38 billion) to all stockholders of record as of March 22, 2016. The cash dividends were paid on April 19, 2016.

On March 7, 2017, the BOD approved the declaration of regular cash dividends of ₱1.36 a share (₱10.01 billion) to all stockholders of record as of March 21, 2017. These dividends were paid on April 10, 2017.

To comply with the requirements of Section 43 of the Corporation Code, on March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. The cash dividends are payable on April 12, 2018.

14. Personnel Costs

	2017	2016	2015
Salaries and wages	₱533,005,712	₱454,007,818	₱353,592,235
Employee benefits	307,935,888	273,559,833	222,196,454
Retirement benefit costs (see Note 15)	49,974,029	58,324,025	38,719,010
	₱890,915,629	₱785,891,676	₱614,507,699



15. Retirement Costs

The Company has a funded, noncontributory, defined benefit pension plan ("Plan") covering all regular and full-time employees and requiring contributions to be made to separately administered fund. This retirement benefit fund ("Fund") is in the form of a trust being maintained and managed by AEV, under the supervision of the Board of Trustees (BOT) of the Plan. The BOT, whose members are also officers of AEV, is responsible for the investment of the Fund assets. Taking into account the Plan's objectives, benefit obligations and risk capacity, the BOT periodically defines the investment strategy in the form of a long-term target structure.

The following tables summarize the components of net benefit expense recognized in the parent company statements of income and the funded status and amounts recognized in the parent company balance sheets for the plan.

Net benefit expense (recognized as part of personnel costs):

	2017	2016	2015
Retirement expense to be recognized in the parent company statement of income:			
Current service cost	₱48,922,746	₱46,153,534	₱45,607,500
Net interest cost (income)	1,051,283	12,170,491	(6,888,490)
	₱49,974,029	₱58,324,025	₱38,719,010

Remeasurement effect to be recognized in other comprehensive income:

	2017	2016	2015
Actuarial gains (loss) due to:			
Experience adjustments	(₱43,972,045)	₱—	(₱295,832,497)
Changes in demographic assumptions	78,205,006	—	8,813,885
Changes in financial assumptions	1,172,525	—	36,532,907
Actual return excluding amount included in net interest cost	9,300,494	20,313,413	(14,572,966)
	₱44,705,980	₱20,313,413	(₱265,058,671)

Pension liability (asset)

	2017	2016
Present value of obligation	(₱633,459,869)	(₱570,175,589)
Fair value of plan assets	649,655,975	549,521,704
	₱16,196,106	(₱20,653,885)



Changes in the present value of the defined benefit obligation are as follows:

	2017	2016
At January 1	₱570,175,589	₱504,401,129
Net benefit expense:		
Current service cost	48,922,746	46,153,534
Interest cost	29,021,938	25,674,017
	77,944,684	71,827,551
Employee transfers	22,366,125	(459,134)
Benefits paid	(1,621,043)	(5,593,957)
Remeasurements in other comprehensive income:		
Actuarial loss (gain) due to:		
Experience adjustments	43,972,045	—
Changes in demographic assumptions	(78,205,006)	—
Changes in financial assumptions	(1,172,525)	—
	(35,405,486)	—
At December 31	₱633,459,869	₱570,175,589

Changes in the fair value of plan assets are as follows:

	2017	2016
At January 1	₱549,521,704	₱265,295,223
Actual contributions	42,118,040	256,462,633
Actual return excluding amount included in net interest cost	9,300,494	20,313,413
Interest income included in net interest cost	27,970,655	13,503,526
Transfers	22,366,125	(459,134)
Benefits paid	(1,621,043)	(5,593,957)
At December 31	₱649,655,975	₱549,521,704

Changes in pension liability recognized in the parent company balance sheets are as follows:

	2017	2016
At January 1	(₱20,653,885)	(₱239,105,906)
Retirement expense for the year	(49,974,029)	(58,324,025)
Actuarial gain (loss) recognized for the year	44,705,980	20,313,413
Actual contributions	42,118,040	256,462,633
At December 31	₱16,196,106	(₱20,653,885)

The fair value of plan assets by each class at the end of the reporting period are as follows:

	2017	2016
Cash and fixed income investments	₱235,140,145	₱423,294,166
Equity instruments - financial institution	419,347,451	129,859,129
Fair value of plan assets	₱654,487,596	₱553,153,295



All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.

The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2017, 2016 and 2015 in determining net pension liability for the Company's Plan is shown below:

	2017	2016	2015
Discount rate	5.13%	5.09%	5.09%
Salary increase rate	6.00%	6.00%	6.00%

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2017, assuming all other assumptions were held constant:

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(P24,866,826)
	(100)	28,579,547
Future salary increases	100	31,793,587
	(100)	(28,398,059)

The Company's defined benefit pension plan is funded by the Company.

The Company expects to contribute P37.9 million to the defined benefit plans in 2018. The average duration of the defined benefit obligation as of December 31, 2017 is 12.94 years.

The BOT reviews the performance of the plans on a regular basis. It assesses whether the retirement plans will achieve investment returns which, together with contributions, will be sufficient to pay retirement benefits as they fall due. The Group (to which the Company belongs) also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Plan in the subsequent year.

16. Income Tax

Details of provision for income tax are as follows:

	2017	2016	2015
Current:			
Corporate income tax	P10,440,532	P22,262,045	P11,707,926
Final	18,946,168	59,664,111	61,308,261
	29,386,700	81,926,156	73,016,187
Deferred	7,066,011	(9,298,778)	(10,032,064)
	P36,452,711	P72,627,378	P62,984,123

The provision for corporate income tax represents MCIT in 2017, 2016 and 2015.



The reconciliation of income tax computed at the statutory tax rate to the provision for income tax reported in the parent company statements of income is as follows:

	2017	2016	2015
At statutory rate of 30%	₱2,774,617,928	₱8,024,797,636	₱1,933,082,125
<i>Additions to (reductions in)</i>			
<i>income tax resulting from:</i>			
Final tax on interest income	18,946,168	59,664,111	61,308,261
Nondeductible interest expense	14,607,592	32,617,674	32,788,428
Nondeductible expenses:			
Project and bidding expenses	23,051,869	96,972,291	—
Others	5,921	3,885,332	9,600
Unrecognized deferred income tax asset on:			
Provision for impairment loss on investment in a subsidiary	50,840,822	36,219,908	—
MCIT	10,440,532	22,262,045	11,707,926
NOLCO	125,884,718	—	87,006,767
Applied NOLCO	—	(62,639,409)	—
Interest income already subjected to final tax at a lower rate	(44,265,429)	(98,841,436)	(99,358,872)
Dividend income	(2,937,677,410)	(8,042,310,774)	(1,963,560,112)
	₱36,452,711	₱72,627,378	₱62,984,123

The components of the Company's net deferred income tax assets (liability) are as follows:

	2017	2016
Deferred income taxes recognized in statement of income:		
<i>Deferred income tax assets:</i>		
Unamortized past service cost	₱73,530,211	₱85,595,953
Unrealized foreign exchange losses	2,713,515	70,581
	76,243,726	85,666,534
Deferred income tax liability on pension liability	(101,997,123)	(104,353,920)
Deferred income tax asset related to remeasurement effects in other comprehensive income	97,138,282	110,550,076
	₱71,384,885	₱91,862,690



As of December 31, 2017, the Company has MCIT that can be claimed as deduction from regular income tax liability as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2014	2015-2017	₱9,830,618	₱—	₱9,830,618	₱—
2015	2016-2018	11,707,926	—	—	11,707,926
2016	2017-2019	22,262,045	—	—	22,262,045
2017	2018-2020	10,440,532	—	—	10,440,532
		₱54,241,121	₱—	₱9,830,618	₱44,410,503

As of December 31, 2017, the Company has NOLCO which can be claimed as deduction against the regular taxable income as follows:

Period of Recognition	Availment Period	Amount	Applied	Expired	Balance
2015	2016-2018	₱290,022,557	₱61,947,637	₱—	₱228,074,920
2017	2018-2020	419,615,728	—	—	419,615,728
		₱709,638,285	₱61,947,637	₱—	₱647,690,648

The Company did not recognize deferred income tax assets on MCIT amounting to ₱44.4 million and ₱43.8 million as of December 31, 2017 and 2016, respectively, and NOLCO amounting to ₱647.7 million and ₱228.1 million as of December 31, 2017 and 2016, respectively, since management expects that it will not generate sufficient taxable income in the future that will be available to allow all of the deferred income tax assets to be utilized.

Republic Act No. 10963, Tax Reform for Acceleration and Inclusion Act (TRAIN)

TRAIN was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the balance sheet 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 balance as of the balance sheet date.

17. Related Party Disclosures

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions.

The Company, in its normal course of business, has transactions with its related parties, which principally consist of the following:

- The Company has management agreements with each of the following subsidiaries: CLPC, Cotabato Ice Plant, Inc. (CIPI), DLPC, and CPPC for which it is entitled to management fees.
- The Company renders various services to related parties such as technical and legal assistance for various projects, trainings and other services, for which it bills technical and service fees.



- c. The Company obtained standby letters of credit (SBLC) and is acting as surety for the benefit of certain subsidiaries, associates and joint ventures in connection with certain loans and credit accommodations. As at December 31, 2017, the Company provided SBLCs for AP Renewables, Inc. (APRI), Cebu Energy Development Corporation (CEDC), Luzon Hydro Corporation (LHC), SN Aboitiz Power-Benguet, Inc. (SNAP B), Therma South, STEAG, and TVI in the amount of ₱8.87 billion. As at December 31, 2016, the Company provided SBLCs for APRI, CEDC, LHC, SNAP B, Therma South, STEAG, and TVI in the amount of ₱10.72 billion.
- d. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Company and shares with the member companies the business expertise of its highly qualified professionals. Transactions are priced based on agreed rates, and billed costs are always benchmarked to third party rates to ensure competitive pricing. Service Level Agreements are in place to ensure quality of service. This arrangement enables the Company to maximize efficiencies and realize cost synergies.
- e. Cash deposits and money market placements with UBP. At prevailing rates, these fixed-rate investments earned interest income amounting to ₱52.09 million and ₱1.27 million in 2017 and 2016, respectively. Outstanding balances amounted ₱1.40 billion and ₱759.0 million as of December 31, 2017, and 2016, respectively.
- f. Rentals paid at current market rates to Cebu Praedia Development Corporation (CPDC) for the use of CPDC's properties by the Company's officers and employees.
- g. Aviation service fees paid at arm's length basis to AAI for the use of aircraft during travel of the Company's officers and employees.

The above transactions are expected to be settled in cash.



The Company's balance sheets and statements of income include the following accounts resulting from the above transactions with related parties:
Technical, Management and other Service Fees

	Revenue		Receivable		Terms	Conditions
	2017	2016	2015	2017	2016	
<i>Subsidiaries</i>						
DIPC	₱413,733,737	₱358,114,403	₱309,022,629	₱75,075,707	₱41,380,792	30-day, non-interest bearing Unsecured, no impairment
VECO	268,615,438	208,372,134	231,376,925	67,124,127	58,546,044	30-day, non-interest bearing Unsecured, no impairment
AESI	96,872,719	33,615,751	39,937,786	-	3,081,444	30-day, non-interest bearing Unsecured, no impairment
GNPower Mariveles Coal Plant Ltd. Co.	50,813,063	-	-	40,510,605	-	30-day, non-interest bearing Unsecured, no impairment
CLPC	39,639,944	26,539,922	24,588,044	7,585,989	3,831,682	30-day, non-interest bearing Unsecured, no impairment
AI	39,233,874	12,769,617	20,163,419	-	3,575,493	30-day, non-interest bearing Unsecured, no impairment
Therma Luzon, Inc. (TLU)	30,354,526	34,050,850	39,157,064	2,529,544	-	30-day, non-interest bearing Unsecured, no impairment
CPPC	20,812,863	18,499,199	31,096,285	18,322,609	18,019,103	30-day, non-interest bearing Unsecured, no impairment
Therma South	11,209,783	125,932,286	16,178,121	934,149	3,321,686	30-day, non-interest bearing Unsecured, no impairment
APRI	9,103,675	21,087,671	23,574,517	758,640	-	30-day, non-interest bearing Unsecured, no impairment
SEZC	8,071,653	6,001,481	6,447,310	1,366,644	1,700,558	30-day, non-interest bearing Unsecured, no impairment
HI	7,630,879	1,469,009	2,581,149	1,907,720	134,659	30-day, non-interest bearing Unsecured, no impairment
ARI	7,300,000	-	-	7,300,000	-	30-day, non-interest bearing Unsecured, no impairment
Therma Marine, Inc. (Therma Marine)	6,330,215	24,930,741	24,967,128	5,758,338	27,922,430	30-day, non-interest bearing Unsecured, no impairment
LEZ	6,242,089	2,326,220	2,020,705	91,809	734,261	30-day, non-interest bearing Unsecured, no impairment
BEZC	4,512,723	2,487,401	2,374,554	208,781	806,305	30-day, non-interest bearing Unsecured, no impairment
MEZC	3,986,055	2,469,917	2,384,220	208,781	780,626	30-day, non-interest bearing Unsecured, no impairment
EAUC	2,320,980	882,500	4,790,000	195,128	-	30-day, non-interest bearing Unsecured, no impairment
Therma Mobile	2,142,810	2,883,717	4,567,104	215,014	3,229,763	30-day, non-interest bearing Unsecured, no impairment
TVI	2,059,983	6,487,934	11,749,584	-	594,727	30-day, non-interest bearing Unsecured, no impairment
CPII	896,063	875,618	949,457	159,487	155,526	30-day, non-interest bearing Unsecured, no impairment
PEI	209,822	-	-	209,822	-	30-day, non-interest bearing Unsecured, no impairment
<i>Associates</i>						
CEDC	101,367,000	103,944,750	110,156,662	7,977,900	13,972,350	30-day, non-interest bearing Unsecured, no impairment
SFELAPCO	72,157,562	58,119,233	66,274,200	41,265,932	21,826,823	30-day, non-interest bearing Unsecured, no impairment
GNPower Dingin Ltd. Co.	40,556,253	-	-	40,556,253	-	30-day, non-interest bearing Unsecured, no impairment
Redondo Peninsula Energy, Inc. (RPEI)	-	5,882,353	-	-	-	30-day, non-interest bearing Unsecured, no impairment
	₱1,246,173,709	₱1,057,742,707	₱974,356,863	₱320,263,979	₱203,614,272	



Transportation and Travel

	Expense		Payable		Terms	Conditions
	2017	2016	2017	2016		
<i>Parent</i>						
AEV	₱4,097	₱143,493	₱-	₱32,500	30-day, non-interest bearing	Unsecured
<i>Associate</i>						
AAI	22,170,057	22,948,461	-	697,306	30-day, non-interest bearing	Unsecured
	₱22,174,154	₱23,091,954	₱-	₱729,806		

Rent

	Expense		Payable		Terms	Conditions
	2017	2016	2017	2016		
<i>Parent</i>						
AEV	₱1,326,732	₱4,242,384	₱-	₱2,465,004	30-day, non-interest bearing	Unsecured
<i>Other Related Parties</i>						
CPDC	842,044	724,593	-	84,010	30-day, non-interest bearing	Unsecured
	₱2,168,776	₱4,966,977	₱-	₱2,549,014		

Professional, Legal and Service Fees

	Expense		Payable		Terms	Conditions
	2017	2016	2017	2016		
<i>Parents</i>						
ACO	₱7,634,588	₱8,679,181	₱5,057,857	₱973,099	30-day, non-interest bearing	Unsecured
AEV	37,966,014	93,927,125	-	17,932,554	30-day, non-interest bearing	Unsecured
	₱45,600,602	₱102,606,306	₱2,674,588	₱18,905,653		



The Company obtained interest free temporary advances from TLI amounting to ₱12.3 billion in 2013. This shall be payable either one time or on a staggered basis, or such other receivables as may be due or demandable from TLI. In 2016, the advances were paid in full.

The Company's Fund is in the form of a trust being maintained and managed by AEV under the supervision of the BOT of the plan. In 2017 and 2016, other than contributions to the Fund, no transactions occurred between the Company or any of its subsidiaries and the Fund.

Total compensation and benefits of key management personnel of the Company are as follows:

	2017	2016	2015
Short-term benefits (see Note 15)	₱308,010,884	₱254,993,884	₱214,755,795
Post employment benefits (see Note 15)	16,499,116	12,036,116	18,224,205
	₱324,510,000	₱267,030,000	₱232,980,000

18. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise financing for the Company's operations. The Company has various other financial instruments such as trade and other receivables, AFS investment and trade and other payables which arise directly from its operations.

The Company also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases (see Note 19).

Risk Management Structure

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies and principles of the Company.

Financial risk committee

The Financial Risk Committee has the overall responsibility for the development of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Company's approach to risk issues in order to make relevant decisions.

Treasury service group

The Treasury Service Group is responsible for the comprehensive monitoring, evaluating and analyzing of the Company's risks in line with the policies and limits.

The main risks arising from the Company's financial instruments are credit risk involving possible exposure to counter party default on its cash and cash equivalents, and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements.



Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's credit risk on cash in banks and cash equivalents and trade and other receivables pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these assets. With respect to cash in banks and cash equivalents, the risk is mitigated by the short-term and/or liquid nature of its short-term deposits mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. With respect to trade and other receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Company's policy that all debtors who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentration risk to a counterparty or group of counterparties. The credit quality per class of financial assets as of December 31 is as follows (amounts in thousands):

2017

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents	P7,825,333	P—	P—	P—	P7,825,333
Trade and other receivables	111,978	—	—	407,668	519,646
Derivative asset	42,510	—	—	—	42,510
AFS investment	99,375	—	—	—	99,375
Total	P8,079,196	P—	P—	P407,668	P8,486,864

2016

	Neither past due nor impaired			Past due but not impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents	P2,713,868	P—	P—	P—	P2,713,868
Trade and other receivables	446,380	—	—	479,405	925,785
AFS investment	96,689	—	—	—	96,689
Total	P3,256,937	P—	P—	P479,405	P3,736,342

High grade pertain to receivables from customers with good favorable credit standing and have no history of default.

Standard grade pertain to those customers with history of sliding beyond the credit terms but pay a week after being past due.

Sub-standard grade pertain to those customers with payment habits that normally extend beyond the approved credit terms, and has high probability of being impaired.



The aging analyses of financial assets as of December 31 are as follows (amounts in thousands):

2017

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	P7,825,333	P7,825,333	P—	P—	P—
Trade and other receivables	519,646	111,978	229,479	152,262	25,927
Derivative asset	42,510	42,510	—	—	—
AFS investment	99,375	99,375	—	—	—
Total	P8,486,864	P8,079,196	P229,479	P152,262	P25,927

2016

	Total	Neither past due nor impaired	Past due but not impaired		
			30 days	30 - 60 days	More than 60 days
Cash and cash equivalents	P2,713,868	P2,713,868	P—	P—	P—
Trade and other receivables	925,785	446,380	388,083	21,975	69,347
AFS investment	96,689	96,689	—	—	—
Total	P3,736,342	P3,256,937	P388,083	P21,975	P69,347

Liquidity risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Company maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

In managing its short-term fund requirements, the Company's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term borrowings. With regard to its long-term financing requirements, the Company's policy is that not more than 25% of long-term borrowings should mature in any 12-month period.

The following tables summarize the maturity profile of the Company's financial liabilities based on contractual undiscounted payments as of December 31 (amounts in thousands):

2017

	Total Carrying Value	Contractual undiscounted payments			
		Total	On Demand	Less than 1 year	1 to 5 years More than 5 years
<i>Other financial liabilities</i>					
Long-term debts	P12,901,982	P17,706,453	P—	P711,031	P9,384,396
Trade and other payables*	167,804	167,804	—	167,804	—
Total	P13,069,786	P17,874,257	P—	P878,835	P9,384,396

*excluding statutory liabilities

2016

	Total Carrying Value	Contractual undiscounted payments			
		Total	On Demand	Less than 1 year	1 to 5 years More than 5 years
<i>Other financial liabilities</i>					
Long-term debts	P9,922,153	P13,675,018	P—	P558,582	P8,939,262
Trade and other payables*	332,342	332,342	—	332,342	—
Total	P10,254,495	P14,007,360	P—	P890,924	P8,939,262

*excluding statutory liabilities



Market Risk

The risk of loss, immediate or over time, due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Company's overall portfolio (whether on or off-balance sheet) is market risk. These are influenced by foreign and domestic interest rates, foreign exchange rates and gross domestic product growth.

Foreign exchange risk

The foreign exchange risk of the Company pertains to its foreign currency-denominated cash and cash equivalents.

	2017		2016	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Financial assets				
Cash and cash equivalents	\$40,158,320	₱2,005,104,918	\$4,211,282	₱209,381,461

The exchange rate for December 31, 2017 and 2016 is ₱49.93:US\$1 and ₱49.72:US\$1, respectively. As a result of the translation of these foreign currency denominated assets, the Company reported net unrealized foreign exchange loss of ₱8.8 million and ₱54.2 million in 2017 and 2016, respectively.

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Company's income before income tax as of December 31, 2017 and 2016 (amounts in thousands).

	Increase (decrease) in US dollar	Effect on income before tax
2017		
US dollar-denominated accounts	5%	₱100,255
US dollar-denominated accounts	(5%)	(100,255)
2016		
US dollar-denominated accounts	5%	₱10,476
US dollar-denominated accounts	(5%)	(10,476)

There is no other impact on the Company's equity other than those already affecting the parent company statements of income.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company considers equity as its capital.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Its policy is to keep the gearing ratio at 70% or below. The Company determines net debt as the sum of interest-bearing short-term and long-term loans less cash and short-term deposits.



	2017	2016
Long-term debts	₱12,901,981,643	₱9,922,153,365
Cash and cash equivalents	(7,826,169,148)	(2,714,654,179)
Net debt (a)	5,075,812,495	7,207,499,186
Equity	76,672,432,344	77,433,880,700
Equity and net debt (b)	₱81,748,244,839	₱84,641,379,886
Gearing ratio (a/b)	6.21%	8.52%

Part of the Company's capital management is to ensure that it meets financial covenants attached to long-term borrowings. Breaches in meeting the financial covenants would permit the banks to immediately call loans and borrowings. The Company is in compliance with the financial covenants attached to its long-term debts as of December 31, 2017 and 2016 (see Note 12).

No changes were made in the objectives, policies or processes during the years ended December 31, 2017 and 2016.

19. Financial Instruments

Fair Value of Financial Instruments

Fair value is defined as the amount at which the financial instrument could be sold in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price (amounts in thousands).

Set out below is a comparison by category of carrying amounts and fair values of the Company's financial instruments whose fair values are different from their carrying amounts.

	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Liabilities				
Long-term debts	₱12,901,982	₱12,389,478	₱9,922,153	₱9,808,741



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

Cash and cash equivalents, trade and other receivables and trade and other payables

The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate fair values due to the relatively short-term maturity of these financial instruments.

AFS investments

The fair value of AFS investments are based on quoted market prices.

Long-term debts

The fair value of long-term debt is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Discount rates used range from 6.23% to 7.13% in 2017 and 5.98% to 6.15% in 2016.

Derivative Financial Instruments

The Company enters into short-term forward contracts with counterparty banks to manage foreign currency risks associated with foreign currency-denominated liabilities and purchases.

As of December 31, 2017 the aggregate notional amount of the par forward contract is US\$39.0 million. In 2016, the Company has no outstanding foreign currency forward exchange contracts.

The Company recognized a gain from the net fair value changes relating to the forward contracts amounting to ₱31.0 million in 2017 under the "Foreign exchange gain" in the parent company statements of income.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For 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 were made.



20. Electric Power Industry Reform Act (EPIRA) of 2001

RA No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of National Power Corporation (NPC) and the restructuring of the electric power industry. The Implementing Rules and Regulations (IRR) were approved by the Joint Congressional Power Commission on February 27, 2002.

R.A. No. 9136 and the IRR impact the industry as a whole. The law also empowers the ERC to enforce rules to encourage competition and penalize anti-competitive behavior.

R.A. Act No. 9136, the EPIRA, and the covering IRR provides for significant changes in the power sector, which include among others:

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

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

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

21. Note to Statements of Cash Flows

The following are the cash flow movements of the Company's financing liabilities in 2017:

	January 1, 2017	Net cash flows	Non-cash Changes			December 31, 2017
			Amortized deferred financing costs	Interest expense	Others	
Non-current interest-bearing loans and borrowings	₱9,922,153,365	₱2,967,061,942	₱12,766,336	₱—	₱—	₱12,901,981,643
Interest on loans and borrowings	28,287,924	(699,256,650)	—	630,535,775	106,718,179	66,285,228
Total liabilities from financing activities	₱9,950,441,289	₱2,267,805,292	₱12,766,336	₱630,535,775	₱106,718,179	₱12,968,266,871



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

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

VAT

The Company's sales are subject to output value added tax (VAT) while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

a. Net Receipts and Output VAT declared in the Company's VAT returns in 2017

	Net Sales/ Receipts	Output VAT
Taxable Sales:		
Sales of services	₱1,444,799,575	₱173,375,949

The Company's sales that are subject to VAT are reported under the following accounts:

- Service Income - Management fees
- Service Income - Professional fees
- Service Income - Technical fees
- Miscellaneous Income - Operating
- Miscellaneous Income - Non-operating

The Company's sales of services are based on actual collections received, hence, may not be the same as amounts accrued in the parent company statement of income.

b. Input VAT for 2017

Balance at January 1	₱10,796,403
Current year's domestic purchases/payments for:	
Goods other than for resale or manufacture	1,729,680
Capital goods subject to amortization	4,511,577
Capital goods not subject to amortization	98,944
Services lodged under the other accounts	29,240,263
	46,376,867
Claims for tax credit/refund and other adjustments	(34,072,141)
Balance at December 31	₱12,304,726

Other taxes and licenses

Taxes and licenses, local and national, include real estate taxes, licenses and permit fees for 2017:

License and permit fees	₱10,495,753
Documentary stamp taxes (DST)	4,540,984
Fringe benefit taxes	3,983,829
Others	17,737
	₱19,038,303



Withholding taxes

Final withholding taxes	₱21,916,584
Withholding taxes on compensation and benefits	13,501,733
Expanded withholding taxes	2,591,070
	<u>₱38,009,387</u>

Tax Assessment and Cases

The Company has no pending tax cases outside of the administration of the BIR as of December 31, 2017.

