

COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

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S	U	B	S	I	D	I	A	R	I	E	S																	

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

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C	i	t	y	,		T	a	g	u	i	g		C	i	t	y	,		M	e	t	r	o		M	a	n	i	l
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Form Type
A A C F S

Department requiring the report
C F D

Secondary License Type, If Applicable
- N A -

COMPANY INFORMATION

Company's Email Address www.aboitizpower.com	Company's Telephone Number (02) 886-2800	Mobile Number None
No. of Stockholders 629	Annual Meeting (Month / Day) May/21	Fiscal Year (Month / Day) December/31

CONTACT PERSON INFORMATION

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

Name of Contact Person Liza Luv T. Montelibano	Email Address Liza.montelibano@aboitiz.com	Telephone Number/s (02) 886-2813	Mobile Number Not Available
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CONTACT PERSON'S ADDRESS

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

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.
2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

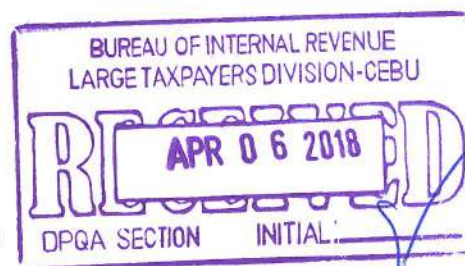
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for each of the three years in the 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 Consolidated Financial Statements* section of our report. We are independent of the Group 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 consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Accounting for Business Combination: Finalization of purchase price allocation for the acquisition of GNPowder Mariveles Coal Plant Ltd. Co. (GMCP)

In 2017, the Group finalized the fair value of the net assets acquired from its acquisition of partnership interests in GMCP on October 4, 2016. PFRS 3, *Business Combinations*, allows the fair value of assets acquired to be continually refined for a period of one year after the acquisition date in cases where judgment is required to ensure the adjustments made reflect new information obtained about facts and circumstances that existed as of acquisition date. The adjustments resulted in an increase in goodwill of ₱3.1 billion. Based on the quantitative materiality of the adjustment and degree of management judgment in assessing the fair value of the net assets, we have determined this to be a key audit matter.

The Group's disclosures about finalization of purchase price allocation for the acquisition of GMCP are included in Note 9 to the consolidated financial statements.

Audit Response

We obtained understanding on the Group's process of purchase price allocation which includes the identification of the fair value of the net assets. We reviewed the measurement of fair value of the net assets and adjustments made by the Group. Where the Group used an appraiser to perform valuation of its assets, we assessed the competence, capabilities and objectivity of the Group's specialist. We involved our internal specialist in reviewing the valuation methodology. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

Accounting for Business Combination: Increased ownership in San Carlos Sun Power, Inc. (SACASUN)

On December 27, 2017, the Group through AboitizPower International Pte. Ltd., acquired the remaining 50% ownership interest in SACASUN from SunE Solar B.V. Consequently, SACASUN became a wholly owned subsidiary of the Group and was consolidated as of the acquisition date. Provisional bargain purchase gain amounting to ₱328.7 million was recognized as of December 31, 2017. Based on the quantitative materiality of the transaction and degree of management judgment in remeasuring of previously held interest and in assessing the fair value of the net assets, we have determined this to be a key audit matter.



The Group's disclosures about increased ownership in SACASUN are included in Note 9 to the consolidated financial statements.

Audit Response

We reviewed the agreement covering the acquisition. We involved our internal specialist in reviewing the valuation methodology and assumptions used in valuing acquired assets, including the fair value of the previously-held interest. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

Impairment of Aseagas Corporation's (Aseagas) Property, Plant and Equipment

In November 2017, Aseagas temporarily ceased the operations of its biomass plant. In January 2018, after a full assessment of the biomass plant's issues, Aseagas decided to make the plant shutdown permanent. These circumstances indicate that the carrying amount of Aseagas's assets, which are primarily comprised of its property, plant and equipment, may not be recoverable. As of December 31, 2017, the Group performed an impairment test review which resulted to an impairment loss of ₱2.6 billion on its property, plant and equipment. We consider the impairment loss as a key audit matter due to the materiality of the amount and the significant management assumptions and judgment involved in estimating the recoverable amount of the property, plant and equipment.

The Group's disclosures about the impairment of assets of Aseagas are included in Notes 4 and 12 to the consolidated financial statements.

Audit Response

We obtained an understanding of management's process in estimating the recoverable amount of the property, plant and equipment. Since the Group engaged an independent appraiser to determine the estimated recoverable amount of Aseagas' property, plant and equipment, we assessed the competence, capabilities and objectivity of the independent appraiser. We reviewed the assumptions used in estimating the recoverable amount. We involved our internal specialist in reviewing the valuation methodology. We also evaluated the presentation and the disclosure of the transaction in the consolidated financial statements.

Recoverability of Goodwill

As of December 31, 2017, the goodwill amounted to ₱40.3 billion, which is attributable to several cash-generating units, which is considered significant to the consolidated financial statements. We consider the recoverability of goodwill as a key audit matter due to the materiality of the amount involved and the significant management assumptions and judgment involved, which includes cash-generating unit identification, discount and growth rate, revenue assumptions and material price inflation.

The Group's disclosures about goodwill are included in Note 13 to the consolidated financial statements.



Audit Response

We obtained an understanding of management's process in estimating the recoverable amount of goodwill and evaluate the related control. We involved our internal specialist in assessing the methodology and assumptions used by the Group in estimating value-in-use. We compared significant assumptions, such as growth rate, revenue assumptions and material price inflation, against historical data and industry outlook. Our internal specialist reviewed the discount rates by performing an independent testing on the derivation of the discount rates using market-based parameters. We performed sensitivity analyses to understand the impact of reasonable changes in the key assumptions. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive.

Revenue Recognition of Distribution Utilities

The Group's revenue from the sale of electricity accounts for 37% of the Group's consolidated revenue and is material to the Group. This matter is significant to the audit because the revenue recognized depends on the electric consumption captured, the rates applied across different customers and the systems involved in the billing process. Electric consumption captured is based on the meter readings taken on various dates for the different types of customers (i.e., industrial, commercial, and residential customers) within the franchise areas of operations of the distribution utilities.

Disclosures related to this matter are provided in Notes 3 and 21 to the consolidated financial statements.

Audit Response

We obtained an understanding and evaluated the design and tested the controls over the billing and revenue process which includes the capture and accumulation of meter data in the billing system and calculation of billed amounts, and uploading of billed amounts from the billing system to the financial reporting system. We performed a test calculation of the rates using the Energy Regulatory Commission-approved rates and formulae, then compared them with the rates used in billing statements.

Consolidation Process

Aboitiz Power Corporation owns a significant number of domestic and foreign entities at varying equity interests. We considered the consolidation process as a key audit matter because it required significant auditor attention, particularly on the following areas: (a) fair value adjustments arising from business combinations, (b) numerous intercompany transactions, (c) alignment of accounting policies of the investees with the Group's policy on property, plant and equipment and investment properties, (d) translation of investees' foreign-currency-denominated financial information to the Group's functional currency and (e) other equity adjustments.



The Group's disclosure on the basis of consolidation is in Note 3 to the consolidated financial statements.

Audit Response

We obtained an understanding of the consolidation process and the related controls, the Group's process for identifying related parties and related party transactions, as well as the reconciliation of intercompany balances. We also checked the entities included in the consolidation. We reviewed the eliminating entries recorded, including fair value adjustments. In addition, we reviewed the currency translation adjustments, as well as the alignment of accounting policies on property, plant and equipment and investment properties.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.



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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.



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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore

Maria Veronica Andresa R. Pore

Partner

CPA Certificate No. 90349

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

March 2, 2017, valid until March 1, 2020

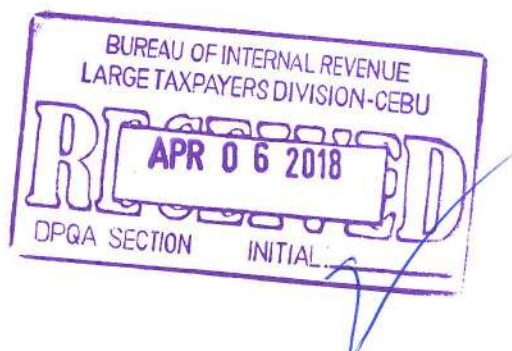
Tax Identification No. 164-533-282

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 AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

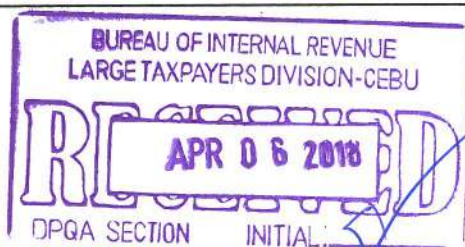
	December 31	
	2017	2016 (As Restated; Note 9)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P35,699,631	P47,094,741
Trade and other receivables (Note 6)	17,359,828	15,465,121
Derivative assets (Note 34)	228,644	188,417
Inventories (Note 7)	5,643,607	4,452,812
Other current assets (Note 8)	9,029,886	6,448,096
Total Current Assets	67,961,596	73,649,187
Noncurrent Assets		
Investments and advances (Note 10)	31,248,595	30,595,989
Property, plant and equipment (Note 12)	204,025,303	192,976,388
Intangible assets (Note 13)	46,344,658	46,718,057
Derivative assets - net of current portion (Note 34)	113,297	103,444
Available-for-sale (AFS) investments - net of allowance for impairment of P5,254	102,999	100,309
Net pension assets (Note 27)	56,400	45,667
Deferred income tax assets (Note 29)	1,406,796	1,802,570
Other noncurrent assets (Note 14)	10,217,355	11,015,283
Total Noncurrent Assets	293,515,403	283,357,707
TOTAL ASSETS	P361,476,999	P357,006,894

LIABILITIES AND EQUITY

Current Liabilities

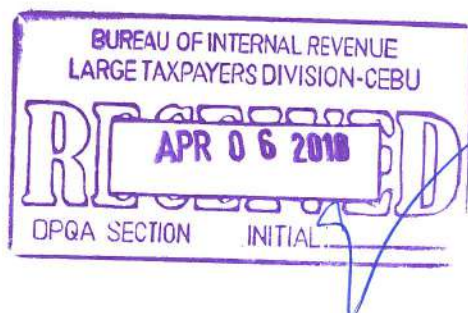
Short-term loans (Note 16)	P4,717,300	P4,155,600
Current portions of:		
Long-term debts (Note 17)	20,692,751	7,458,363
Finance lease obligation (Note 35)	3,316,165	2,968,491
Long-term obligation on power distribution system (Note 13)	40,000	40,000
Derivative liabilities (Note 34)	47,577	127,442
Trade and other payables (Note 15)	19,852,383	17,398,218
Income tax payable (Note 29)	646,115	654,392
Total Current Liabilities	49,312,291	32,802,506

(Forward)



	December 31	
	2017	2016 (As Restated; Note 9)
Noncurrent Liabilities		
Noncurrent portions of:		
Long-term debts (Note 17)	P131,360,749	P151,914,172
Finance lease obligation (Note 35)	45,909,089	49,371,713
Long-term obligation on power distribution system (Note 13)	186,071	197,248
Derivative liabilities - net of current portion (Note 34)	-	233,435
Customers' deposits (Note 18)	6,094,690	6,831,242
Asset retirement obligation (Note 19)	2,959,060	1,821,577
Net pension liabilities (Note 27)	361,228	247,387
Deferred income tax liabilities (Note 29)	912,601	1,043,996
Other noncurrent liabilities (Notes 11 and 36)	402,756	334,398
Total Noncurrent Liabilities	188,186,244	211,995,168
Total Liabilities	237,498,535	244,797,674
Equity Attributable to Equity Holders of the Parent		
Paid-in capital (Note 20a)	19,947,498	19,947,498
Net unrealized losses on AFS investments	(625)	(3,311)
Share in net unrealized valuation gains on AFS investments of an associate (Note 10)	124,121	114,920
Cumulative translation adjustments (Note 34)	113,637	(78,232)
Share in cumulative translation adjustments of associates and joint ventures (Note 10)	(144,507)	(128,203)
Actuarial losses on defined benefit plans (Note 27)	(601,461)	(607,913)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures (Note 10)	4,963	(1,878)
Acquisition of non-controlling interests	(259,147)	(259,147)
Excess of cost over net assets of investments (Note 9)	(421,260)	(526,883)
Loss on dilution (Note 2)	(433,157)	-
Retained earnings (Note 20b)		
Appropriated	34,060,000	34,060,000
Unappropriated (Notes 10 and 20c)	63,006,308	52,597,568
	115,396,370	105,114,419
Non-controlling Interests	8,582,094	7,094,801
Total Equity (Note 20c)	123,978,464	112,209,220
TOTAL LIABILITIES AND EQUITY	P361,476,999	P357,006,894

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in Thousands, Except Earnings Per Share Amounts)

	Years Ended December 31		
	2017	2016	2015
OPERATING REVENUES			
Sale of power (Notes 21 and 32):			
Generation	P57,418,126	P35,692,441	P33,368,797
Distribution	43,532,403	44,585,832	41,379,270
Retail electricity supply	18,065,832	8,478,789	10,227,771
Technical, management and other fees (Note 32)	374,942	406,207	198,114
	119,391,303	89,163,269	85,173,952
OPERATING EXPENSES			
Cost of purchased power (Notes 22 and 32)	35,392,094	28,909,987	27,902,180
Cost of generated power (Note 23)	28,557,756	17,316,272	18,524,059
Depreciation and amortization (Notes 12 and 13)	7,596,268	6,043,527	4,322,000
General and administrative (Note 24)	7,222,268	6,613,876	5,818,090
Operations and maintenance (Note 25)	6,449,188	3,969,307	3,921,046
	85,217,574	62,852,969	60,487,375
FINANCIAL INCOME (EXPENSES)			
Interest income (Notes 5 and 32)	927,012	1,083,535	846,293
Interest expense and other financing costs (Notes 16, 17 and 33)	(11,247,780)	(7,704,011)	(6,633,858)
	(10,320,768)	(6,620,476)	(5,787,565)
OTHER INCOME (EXPENSES)			
Share in net earnings of associates and joint ventures (Note 10)	4,697,864	3,641,210	3,979,947
Other income (expenses) - net (Note 28)	(1,704,000)	1,669,212	(336,639)
	2,993,864	5,310,422	3,643,308
INCOME BEFORE INCOME TAX	26,846,825	25,000,246	22,542,320
PROVISION FOR INCOME TAX (Note 29)	3,858,398	3,496,140	3,589,669
NET INCOME	P22,988,427	P21,504,106	P18,952,651
ATTRIBUTABLE TO:			
Equity holders of the parent	P20,416,442	P20,002,582	P17,603,797
Non-controlling interests	2,571,985	1,501,524	1,348,854
	P22,988,427	P21,504,106	P18,952,651
EARNINGS PER COMMON SHARE (Note 30)			
Basic and diluted, for income for the year attributable to ordinary equity holders of the parent	P2.77	P2.72	P2.39

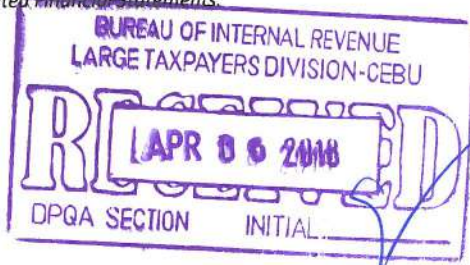
See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the parent	P20,416,442	P20,002,582	P17,603,797
Non-controlling interests	2,571,985	1,501,524	1,348,854
	22,988,427	21,504,106	18,952,651
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>			
Share in net unrealized valuation gains (losses) on AFS investments of an associate (Note 10)	9,201	-	(4,167)
Movement in unrealized gain (loss) on AFS investments	2,686	(3,311)	-
Movement in cumulative translation adjustments	389,254	(55,357)	147,340
Share in movement in cumulative translation adjustment of associates and joint ventures (Note 10)	(16,304)	128,173	119,113
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	384,837	69,505	262,286
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gain (losses) on defined benefit plans, net of tax (Note 27)	(13,186)	1,221	(81,205)
Share in actuarial gains on defined benefit plans of associates and joint ventures, net of tax (Note 10)	6,841	496	44,841
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	(6,345)	1,717	(36,364)
Total other comprehensive income for the year, net of tax	378,492	71,222	225,922
TOTAL COMPREHENSIVE INCOME	P23,366,919	P21,575,328	P19,178,573
ATTRIBUTABLE TO:			
Equity holders of the parent	P20,617,187	P20,124,770	P17,821,712
Non-controlling interests	2,749,732	1,450,558	1,356,861
	P23,366,919	P21,575,328	P19,178,573

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
(Amounts in Thousands, Except Dividends Per Share Amounts)**

	Attributable to Equity Holders of the Parent										
	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates (Note 27)	Excess of cost over net assets of investment (Note 9)	Loss on Dilution	Retained Earnings Appropriated (Note 20b)	Retained Earnings Unappropriated (Note 20b)	Non-controlling Interests	Non-controlling Interests	Total
Balances at January 1, 2017	₱114,920	(₱128,203)	(₱607,913)	(₱1,878)	(₱526,883)	₱-	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220	22,988,427
Net income for the year	-	-	-	-	-	-	-	20,416,442	2,571,985	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-
Movement in unrealized loss on AFS investments	2,686	-	-	-	-	-	-	-	-	-	11,887
Movement in cumulative translation adjustments	-	-	-	-	-	-	-	-	-	-	389,254
Share in movement in cumulative translation adjustment of associates and joint ventures	-	191,869	-	-	-	-	-	-	-	-	-
Actuarial gains (losses) on defined benefit plans, net of tax	-	-	6,452	-	-	-	-	-	-	-	(16,304)
Share in actuarial gains on defined benefit plans of associates and joint ventures	-	-	-	6,841	-	-	-	-	-	-	(13,186)
Total comprehensive income (loss) for the year	2,686	191,869	6,452	6,841	-	-	-	20,416,442	2,749,732	23,366,919	-
Reversal of excess of cost over net assets of investments	-	-	-	-	105,623	-	-	-	-	-	105,623
Loss on dilution	-	-	-	-	-	(433,157)	-	-	-	-	(433,157)
Cash dividends - ₱1.36 a share (Note 20b)	-	-	-	-	-	-	-	(10,007,702)	-	-	(10,007,702)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(1,281,223)	-	(1,281,223)
Change in non-controlling interests	-	-	-	-	-	-	-	-	18,784	-	18,784
Balances at December 31, 2017	₱124,121	(₱144,507)	(₱601,461)	₱4,963	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464	22,988,427

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION-CEBU
RC
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DPGA SECTION INITIAL: _____



Attributable to Equity Holders of the Parent

	Share in Net Unrealized Investments	Share in Net Unrealized Loss on AFS Investments	Share in Net Unrealized Loss on AFS an Associate (Note 10)	Share in Net Unrealized Valuation Gains on AFS	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Share in Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Excess of cost over net assets of investment (Note 9)	Acquisition of Non-controlling Interests (Note 27)	Retained Earnings Appropriated (Note 20b)	Retained Earnings Unappropriated (Note 20b)	Non-controlling Interests (As Restated; Note 9)	Total
Balances at January 1, 2016	₱19,947,498	₱114,920	₱185,431	₱256,376	₱3,748	₱259,147	₱20,900,000	₱57,970,269	₱4,045,046	1,501,524	₱101,613,567	21,504,106		
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Movement in unrealized loss on AFS investments	(3,311)	-	-	-	-	-	-	-	-	-	-	-	-	(3,311)
Movement in cumulative translation adjustments	-	-	(5,697)	-	-	-	-	-	-	-	-	-	(49,660)	(55,357)
Share in movement in cumulative translation adjustment of associates and joint ventures	-	-	-	128,173	-	-	-	-	-	-	-	-	-	128,173
Actuarial gains (losses) on defined benefit plans, net of tax	-	-	-	2,527	-	-	-	-	-	-	-	-	(1,306)	1,221
Share in actuarial gains on defined benefit plans of associates and joint ventures	-	-	-	-	-	496	-	-	-	-	-	-	-	496
Total comprehensive income (loss) for the year	(3,311)	(5,697)	2,527	496	-	-	-	-	-	-	-	-	1,450,558	21,575,328
Acquisition of subsidiaries (As Restated; Note 9)	-	-	-	1,374	-	-	-	-	-	-	-	-	3,164,230	2,800,641
Appropriation during the year	-	-	(257,966)	-	-	-	-	-	(105,623)	-	-	-	-	-
Cash dividends - ₱1.66 a share (Note 20b)	-	-	-	-	-	-	-	-	-	13,160,000	-	(13,160,000)	-	-
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	(12,215,283)	-	(12,215,283)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,614,684)	(1,614,684)
Balances at December 31, 2016	₱19,947,498	₱114,920	₱78,232	₱128,203	₱1,878	₱259,147	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220	₱112,209,220	₱112,209,220	₱112,209,220	₱112,209,220

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS DIVISION - CEBU
BR
APR 06 2018
OPGA SECTION INITIAL: _____



Attributable to Equity Holders of the Parent

	Paid-in Capital (Note 20a)	Net Unrealized Losses on AFS Investments (Note 10)	Share in Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Movement in Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Losses on Defined Benefit Plans (Note 27)	Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Excess of cost over net assets of investment (Note 9)	Retained Earnings		Non-controlling Interests	Total
									Appropriated (Note 20b)	Unappropriated (Note 20b)		
Balances at January 1, 2015	₱19,947,498	₱-	₱119,087	₱38,091	(₱375,489)	(₱519,854)	(₱48,589)	(₱421,260)	₱20,900,000	₱52,581,755	₱4,118,348	₱96,080,440
Net income for the year	-	-	-	-	-	-	-	-	-	17,603,797	1,348,854	18,952,651
Other comprehensive income	-	-	(4,167)	-	-	-	-	-	-	-	-	(4,167)
Share in net unrealized valuation losses on AFS investments of an associate	-	-	(4,167)	-	-	-	-	-	-	-	-	(4,167)
Movement in cumulative translation adjustments	-	-	-	147,340	-	-	-	-	-	-	-	147,340
Share in movement in cumulative translation adjustment of associates and joint ventures	-	-	-	-	119,113	-	-	-	-	-	-	119,113
Actuarial gains (losses) on defined benefit plans, net of tax	-	-	-	-	-	(89,212)	-	-	-	-	8,007	(81,205)
Share in actuarial gains on defined benefit plans of associates and joint ventures	-	-	-	-	-	-	44,841	-	-	-	-	44,841
Total comprehensive income (loss) for the year	-	-	(4,167)	147,340	119,113	(89,212)	44,841	-	-	17,603,797	1,356,861	19,178,573
Cash dividends - ₱1.66 a share (Note 20b)	-	-	-	-	-	-	-	-	-	(12,215,283)	-	(12,215,283)
Cash dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,278,953)	(1,278,953)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(151,210)	(151,210)
Balances at December 31, 2015	₱19,947,498	₱-	₱114,920	₱185,431	(₱256,376)	(₱609,066)	(₱3,748)	(₱421,260)	₱20,900,000	₱57,970,269	₱4,045,046	₱101,613,567

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in Thousands)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	P26,846,825	P25,000,246	P22,542,320
Adjustments for:			
Interest expense and other financing costs (Note 33)	11,247,780	7,704,011	6,633,858
Depreciation and amortization (Notes 12 and 13)	7,596,268	6,043,527	4,322,000
Impairment loss on property, plant and equipment, goodwill and other assets (Notes 4, 12, 13 and 14)	3,233,036	169,469	-
Net unrealized foreign exchange losses	333,868	1,505,671	1,390,459
Loss (gain) on disposal of property, plant and equipment	86,913	(70,252)	(5,656)
Write-off of project costs and other assets (Note 13)	79,881	249,176	69,137
Gain on redemption of shares (Note 28)	-	(16,051)	-
Share in net earnings of associates and joint ventures (Note 10)	(4,697,864)	(3,641,210)	(3,979,947)
Interest income (Notes 5 and 32)	(927,012)	(1,083,535)	(846,293)
Unrealized fair valuation loss (gains) on derivatives (Note 34)	(451,270)	3,316	(317,645)
Gain on remeasurement in step acquisition (Note 9)	(310,198)	(350,939)	-
Operating income before working capital changes	43,038,227	35,513,429	29,808,233
Decrease (increase) in:			
Trade and other receivables	(3,062,564)	401,465	(249,822)
Inventories	(1,190,795)	(996,007)	128,229
Other current assets	(2,263,317)	(1,831,918)	(1,453,104)
Increase (decrease) in:			
Trade and other payables	(1,834,708)	464,167	(421,548)
Long-term obligation on power distribution system	(40,000)	(40,000)	(40,000)
Customers' deposits	(736,552)	447,964	696,788
Net cash generated from operations	33,910,291	33,959,100	28,468,776
Income and final taxes paid	(3,674,360)	(4,071,120)	(3,269,179)
Net cash flows from operating activities	30,235,931	29,887,980	25,199,597
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Note 10)	5,070,559	7,847,263	4,071,041
Proceeds from redemption of shares (Note 10)	8,809	57,076	2,677,204
Interest received	1,135,069	1,132,366	837,978
Net collection of advances (Note 10)	7,443	-	285,520
Proceeds from sale of property, plant and equipment	10,846	162,190	35,714

(Forward)



	Years Ended December 31		
	2017	2016	2015
Additional AFS investments	P-	(P100,000)	P-
Acquisitions through business combinations, net of cash acquired (Note 9)	894,655	(44,353,542)	-
Additions to:			
Property, plant and equipment (Note 12)	(16,068,050)	(28,203,291)	(15,701,414)
Intangible assets - service concession rights (Note 13)	(86,159)	(45,875)	(20,046)
Decrease (increase) in other noncurrent assets	1,073,472	(6,055,228)	(636,988)
Additional investments (Note 10)	(1,499,569)	(11,821,307)	(451,655)
Net cash flows used in investing activities	(9,452,925)	(81,380,348)	(8,902,646)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of long-term debt - net of transaction costs (Note 17)	43,957,187	73,474,514	16,350,925
Cash dividends paid (Note 20b)	(10,007,702)	(12,215,283)	(12,215,283)
Payments of:			
Long-term debt (Note 17)	(50,967,235)	(3,085,581)	(908,611)
Finance lease obligation (Note 35)	(7,877,292)	(7,517,917)	(7,482,447)
Net availments of short-term loans (Note 16)	561,700	1,587,600	2,465,000
Changes in non-controlling interests	(757,071)	(1,614,684)	(1,430,153)
Interest paid	(7,032,286)	(3,145,421)	(2,228,186)
Net cash flows from (used in) financing activities	(32,122,699)	47,483,228	(5,448,755)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,339,693)	(4,009,140)	10,848,196
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(55,417)	5,612	18,198
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	47,094,741	51,098,269	40,231,875
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 5)	P35,699,631	P47,094,741	P51,098,269

See accompanying Notes to Consolidated Financial Statements.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in Thousands, Except Earnings per Share and Exchange Rate Data and When Otherwise Indicated)

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, also incorporated in the Philippines) owns 76.88% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

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

The consolidated financial statements of the Group 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. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and joint operation that are subject to joint control (collectively referred to as "the Group"; see Note 11). The following are the subsidiaries as of December 31 of each year:

	Nature of Business	Percentage of Ownership					
		2017		2016		2015	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	-	100.00	-	100.00	-
AP Renewables, Inc. (APRI)	Power generation	-	100.00	-	100.00	-	100.00
Aboitiz Power Distributed Energy, Inc.	Power generation	-	100.00	-	-	-	-
Aboitiz Power Distributed Renewables, Inc. (formerly Kookaburra Equity Ventures, Inc.)	Power generation	-	100.00	-	100.00	-	100.00
Hedcor, Inc. (HI)	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Sibulan, Inc. (HSI)	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Tudaya, Inc. (Hedcor Tudaya)	Power generation	-	100.00	-	100.00	-	100.00
Luzon Hydro Corporation (LHC)	Power generation	-	100.00	-	100.00	-	100.00
AP Solar Tiwi, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Aseagas Corporation (Aseagas, see Note 9)*	Power generation	-	100.00	-	100.00	-	-
Bakun Power Line Corporation*	Power generation	-	100.00	-	100.00	-	100.00
Cleanergy, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Cordillera Hydro Corporation*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Benguet, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Kabayan, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Ifugao, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Kalinga, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Itogon Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Manolo Fortich, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Mt. Province, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Sabangan, Inc. (Hedcor Sabangan)	Power generation	-	100.00	-	100.00	-	100.00
Hedcor Tamugan, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Mt. Apo Geopower, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Negron Cuadrado Geopower, Inc. (NCGI)*	Power generation	-	100.00	-	100.00	-	100.00
Tagoloan Hydro Corporation*	Power generation	-	100.00	-	100.00	-	100.00
Luzon Hydro Company Limited*	Power generation	-	100.00	-	100.00	-	100.00
Hydro Electric Development Corporation*	Power generation	-	99.97	-	99.97	-	99.97

(Forward)



	Nature of Business	Percentage of Ownership					
		2017		2016		2015	
		Direct	Indirect	Direct	Indirect	Direct	Indirect
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	-	100.00	-	100.00	-
Mindanao Sustainable Solutions, Inc.*	Services	-	100.00	-	-	-	-
Therma Luzon, Inc. (TLI)	Power generation	-	100.00	-	100.00	-	100.00
Therma Marine, Inc. (Therma Marine)	Power generation	-	100.00	-	100.00	-	100.00
Therma Mobile, Inc. (Therma Mobile)	Power generation	-	100.00	-	100.00	-	100.00
Therma South, Inc. (TSI)	Power generation	-	100.00	-	100.00	-	100.00
Therma Power-Visayas, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Therma Central Visayas, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Therma Subic, Inc.*	Power generation	-	100.00	-	100.00	-	100.00
Therma Mariveles Holdings L.P. (A,D)	Holding company	-	-	-	100.00	-	-
Therma Mariveles, LLC (A,D)	Holding company	-	-	-	100.00	-	-
Therma Mariveles Consulting Services, LLC (A,D)	Holding company	-	-	-	100.00	-	-
Therma Mariveles Holding Cooperatief U.A. (A)	Holding company	-	100.00	-	100.00	-	-
Therma Mariveles B.V. (A)	Holding company	-	100.00	-	100.00	-	-
Therma Mariveles Holdings, Inc. (A)	Holding company	-	100.00	-	100.00	-	-
GNPower Mariveles Coal Plant Ltd. Co. (GMCP) (A,C)	Power generation	-	66.07	-	82.82	-	-
Therma Dinginin L.P. (B,D)	Holding company	-	-	-	100.00	-	-
Therma Dinginin, LLC (B,D)	Holding company	-	-	-	100.00	-	-
Therma Dinginin Offshore Services Inc. (B,D)	Holding company	-	-	-	100.00	-	-
Therma Dinginin Holding Cooperatief U.A. (B)	Holding company	-	100.00	-	100.00	-	-
Therma Dinginin B.V. (B)	Holding company	-	100.00	-	100.00	-	-
Therma Dinginin Holdings, Inc. (B)	Holding company	-	100.00	-	100.00	-	-
Therma Visayas, Inc. (TVI)*	Power generation	-	80.00	-	80.00	-	80.00
Abovont Holdings, Inc.	Holding company	-	60.00	-	60.00	-	60.00
AboitizPower International Pte. Ltd. (API)	Holding company	100.00	-	100.00	-	100.00	-
Aboitiz Energy Solutions, Inc. (AESI)	Retail electricity supplier	100.00	-	100.00	-	100.00	-
Adventenergy, Inc. (AI)	Retail electricity supplier	100.00	-	100.00	-	100.00	-
Balamban Enerzone Corporation (BEZ)	Power distribution	100.00	-	100.00	-	100.00	-
Lima Enerzone Corporation (LEZ)	Power distribution	100.00	-	100.00	-	100.00	-
Mactan Enerzone Corporation (MEZ)	Power distribution	100.00	-	100.00	-	100.00	-
Malvar Enerzone Corporation*	Power distribution	100.00	-	-	-	-	-
East Asia Utilities Corporation (EAUC)	Power generation	50.00	50.00	50.00	50.00	50.00	-
Cotabato Light and Power Company (CLP)	Power distribution	99.94	-	99.94	-	99.94	-
Cotabato Ice Plant, Inc.	Manufacturing	-	100.00	-	100.00	-	100.00
Davao Light & Power Company, Inc. (DLP)	Power distribution	99.93	-	99.93	-	99.93	-
Maaraw Holdings San Carlos, Inc. (MHSCI, see Note 9)	Holding company	-	100.00	-	60.00	-	60.00
San Carlos Sun Power, Inc. (Sacasan, see Note 9)	Power generation	-	100.00	-	50.00	-	50.00
Sunedison Philippines Helios B.V. (see Note 9)	Holding company	-	100.00	-	-	-	-
Subic Enerzone Corporation (SEZ)	Power distribution	65.00	34.98	65.00	34.98	65.00	34.98
Cebu Private Power Corporation (CPPC)	Power generation	60.00	-	60.00	-	60.00	-
Prism Energy, Inc. (PEI)	Retail electricity supplier	60.00	-	60.00	-	60.00	-
Visayan Electric Company (VECO)	Power distribution	55.26	-	55.26	-	55.26	-

¹ Malvar Enerzone Corporation was incorporated in 2017. Aboitiz Power Distributed Energy, Inc. and Mindanao Sustainable Solutions, Inc. were incorporated in 2016.

² On July 25, 2017, SEC approved the change in corporate name of Kookaburra Equity Ventures, Inc. to Aboitiz Power Distributed Renewables, Inc.

^{a)} Acquired as part of GNPower acquisition (see Note 9); part of Therma Mariveles Group

^{b)} Acquired as part of GNPower acquisition (see Note 9); part of Therma Dinginin Group

^{c)} In 2017, per Partnership Agreement, TPI's indirectly held Partnership interest in GMCP reduced to 66.07% following the return of capital to the Partners.

^{d)} Dissolved and liquidated in 2017 as part of TPI's restructuring of its offshore intermediary companies acquired as part of the GNPower acquisition

* No commercial operations as of December 31, 2017.

All of the foregoing subsidiaries are incorporated and registered with the Philippine SEC and operate in the Philippines except for the following:

Subsidiary	Country of incorporation
AboitizPower International Pte. Ltd.	Singapore
Sunedison Philippines Helios B.V.	Netherlands
Therma Mariveles Holdings L.P. (formerly World Power Holdings, L.P.)	Cayman Islands
Therma Mariveles, LLC (formerly SG GNPower, LLC)	United States
Therma Mariveles Consulting Services, LLC (formerly Sithe Global Consulting Services, LLC)	United States
Therma Mariveles Holding Cooperatief U.A. (formerly SG Philippines Holding Cooperatief U.A.)	Netherlands
Therma Mariveles Camaya B.V. (formerly Sithe Global Camaya B.V.)	Netherlands
Therma Dinginin L.P. (formerly Sithe Global Power, L.P.)	Cayman Islands
Therma Dinginin, LLC (formerly SG GNPD, LLC)	United States
Therma Dinginin Offshore Services Inc. (formerly GNPD Offshore Services, Inc.)	United States
Therma Dinginin Holding Cooperatief U.A. (formerly SG GNPD Holding Cooperatief U.A.)	Netherlands
Therma Dinginin B.V. (formerly Sithe Global GNPD B.V.)	Netherlands



Material partly-owned subsidiary

Information of subsidiaries that have material non-controlling interests is provided below:

	2017	2016	2017	2016
	GMCP	GMCP	VECO	VECO
Summarized balance sheet information				
Current assets	₱8,651,514	₱8,396,681	₱2,991,399	₱2,838,786
Noncurrent assets	33,933,609	35,855,820	11,383,609	10,808,537
Current liabilities	3,155,175	5,897,234	4,941,197	3,980,760
Noncurrent liabilities	28,879,142	23,018,248	4,079,627	4,750,203
Non-controlling interests	3,862,520	2,640,459	2,151,399	2,062,253
Summarized comprehensive income information				
Profit for the year	₱3,176,397	₱326,063	₱2,161,403	₱1,971,240
Total comprehensive income	3,543,125	326,063	2,114,727	1,966,169
Summarized other financial information				
Profit attributable to non-controlling interests	₱731,560	₱56,018	₱939,279	₱854,192
Dividends paid to non-controlling interests	-	-	829,245	916,725
Summarized cash flow information				
Operating	₱6,654,877	-	₱2,558,506	₱2,877,837
Investing	(1,117,258)	-	(980,638)	(784,580)
Financing	(7,571,198)	-	(1,703,531)	(1,886,207)
Net increase (decrease) in cash and cash equivalents	(2,055,404)	-	(125,662)	207,050

3. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment properties which are measured at fair value. The consolidated financial statements are presented in Philippine peso which is the Company's functional currency and all values are rounded to the nearest thousand except for earnings per share and exchange rates and as otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous periods.

Statement of Compliance

The consolidated financial statements are prepared in compliance with Philippine Financial Reporting Standards (PFRSs).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and joint operation that are subject to joint control as at December 31 of each year. The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.



When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company using consistent accounting policies.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses, cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Transactions with Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets in the subsidiaries not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from the equity attributable to equity holders of the parent. Transactions with non-controlling interests are accounted for as equity transactions. On acquisitions of non-controlling interests, the difference between the consideration and the book value of the share of the net assets acquired is reflected as being a transaction between owners and recognized directly in equity. Gain or loss on disposals of non-controlling interest is also recognized directly in equity.



Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the 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 Group's consolidated 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 Group's consolidated 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 Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group 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 Group has provided the required information in Note 38 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

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

The Group will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRSs, PAS and Philippine Interpretations to have significant impact on its consolidated 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 Group 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 Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective method. In 2016, the Group performed a preliminary assessment of PFRS 15, which was continued with a more detailed analysis in 2017.



Based on its initial assessment, the requirements of PFRS 15 on the following may have an impact on the Group's consolidated financial position, performance and disclosures:

- Identification of performance obligations

Sale of power and electricity

Contract with customers for the Group generally includes power distribution and retail supply, power generation and ancillary services.

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are expected to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation is expected to qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Under the current standards, revenue from power generation is recognized in the period actual capacity is generated. Under PFRS 15, the Group expects the revenue recognition to occur over time wherein the customer simultaneously receives and consumes the benefits as the seller supplies power. In this case, the fixed capacity payments for the entire contract period determined at contract inception will be recognized over time. Adoption of PFRS 15 is expected to have an impact on the Group's revenue and profit or loss, specifically on contract where capacity payments are fixed but escalates throughout the contract period without any reference to market indices. The fixed escalation will be recognized on a straight-line basis over the contract period.

Power distribution and retail supply are also expected to qualify as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. The Group expects revenue to be recognized over time based on amounts billed.

- Variable considerations

Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and volume and prompt payment discounts. Such provisions give rise to variable consideration under PFRS 15, and will be required to be estimated at contract inception and updated thereafter.

However, PFRS 15 also requires the estimated variable consideration to be constrained to prevent a significant reversal in the amount of cumulative revenue recognized. The Group expects that application of the constraint will result in the same revenue recognition under PAS 18.



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

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

The Group 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 Group 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 Group 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 Group is in the process of determining how to measure the fair value of these unquoted investments.

(b) *Impairment*

PFRS 9 requires the Group to 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 Group 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 Group is currently quantifying the impact of the change in measuring ECL.

(c) *Hedge accounting*

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationships under PAS 39 will continue to qualify for hedge accounting under PFRS 9. On transition, the Group will not retrospectively apply PFRS 9 to the hedges where the Group excluded the forward points from the hedge designation under PAS 39.

As PFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of PFRS 9 will not have a significant impact on the Group's consolidated financial statements.

The Group 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 Group 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 Group since none of the entities within the Group is a venture capital organization or an investment entity, nor does the Group have investment entity 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.

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated financial statements upon adoption of these amendments.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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

Since the Group's current practice is in line with the clarifications issued, the Group does not expect any effect on its consolidated 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 Group 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 Group expects that adoption of these amendments will not have any impact consolidated financial statements and plans to adopt these on the required effective date.

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

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

The Group expects that adoption of these amendments will not have any impact on the consolidated 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 Group 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

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree pertaining to instruments that represent present ownership interests and entitle the holders to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS. Acquisition-related costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.



Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of goodwill

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized.

Common control business combination

Business combination of entities under common control is accounted for similar to pooling of interest method, which is scoped out of PFRS 3. Under the pooling of interest method, any excess of acquisition cost over the net asset value of the acquired entity is recorded in equity.



Current versus Noncurrent Classification

The Group 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 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 settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as noncurrent.

Deferred income tax assets and liabilities are classified as non-current 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 by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.



The Group 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 consolidated 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 consolidated financial statements on a recurring basis, the Group 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 Group 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.

The Group's valuation team (the Team) determines the policies and procedures for fair value measurement of its investment properties. External valuers (the Valuers) are involved in the periodic valuation of these assets. The respective subsidiary's Team decides the selection of the external valuers after discussion with and approval by its Chief Financial Officer (CFO). Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Team also determines, after discussions with the chosen Valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the Team analyses the movements in the values of the investment properties which are required to be re-measured or re-assessed in accordance with the subsidiaries' accounting policies. The team, in coordination with the Valuers, also compares each of the changes in the fair value of each property with relevant external sources to determine whether the change is reasonable.

On the re-appraisal year, the Team and Valuers present the valuation results and the major assumptions used in the valuation to its CFO.

Investments in Associates and Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.



A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.



Interest in Joint Operations

A joint arrangement is classified as a joint operation if the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. For interest in joint operations, the Group recognizes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

The accounting and measurement for each of these items is in accordance with the applicable PFRS.

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of Therma Mariveles Group, Therma Dinginin Group, LHC, subsidiaries, and STEAG State Power, Inc. (STEAG), associate, is the United States (US) Dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group (the Philippine peso) at the rate of exchange ruling at the balance sheet date and their statement of income and statement of comprehensive income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to other comprehensive income. Upon disposal of the subsidiary and associate, the deferred cumulative amount recognized in other comprehensive income relating to that particular entity is recognized in the consolidated statement of income.

Cash and Cash Equivalents

Cash and cash equivalents in the consolidated 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.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.



Inventories

Materials and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined on weighted average method. NRV is the current replacement cost. An allowance for inventory obsolescence is provided for slow-moving, defective or damaged goods based on analyses and physical inspection.

Financial Instruments

Date of recognition

The Group recognizes a financial asset or a financial liability in the consolidated 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 Group 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 Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and AFS investments. For financial liabilities, the Group 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 Group determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting 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 Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the consolidated statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

(a) Financial assets or financial liabilities at FVPL

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading purposes 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 and repurchasing in the near term. 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 and liabilities 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 liabilities, or recognizing gains or losses on them on a different basis; (ii) the assets and liabilities are part of a group of financial assets, liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk managing strategy; or (iii) the financial instruments contains an embedded derivative that would need to be recorded separately, 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 at the consolidated balance sheet at fair value. Subsequent changes in fair value are recognized in the consolidated 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 payments has been established.

The Group's derivative assets and derivative liabilities are classified as financial assets and financial liabilities at FVPL, respectively (see Note 34).

(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. These are not entered into with the intention of immediate or short-term resale and are not classified or designated as AFS investments or financial assets at FVPL. Loans and receivables are carried at amortized cost less allowance for impairment. Amortization is determined using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral to the effective interest rate. Gains and losses are recognized in the consolidated 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 Group's cash and cash equivalents and trade and other receivables (see Note 33).

(c) HTM investments

HTM investments are quoted non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After 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 Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and would have to be reclassified as AFS investments. Gains and losses are recognized in the consolidated statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Group does not have any HTM investment as of 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 consolidated 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 consolidated statement of income when the right of payment has been established.

The Group's AFS investments as of December 31, 2017 and 2016 include investments in unquoted shares of stock (see Note 33).

(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 the fair value of the liability component on the date of issue.

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 consolidated statement of income when liabilities are derecognized, as well as through amortization process.

Included under this category are the Group's trade and other payables, customers' deposits, short-term loans, finance lease obligation, long-term obligation on power distribution system and long-term debts (see Note 33).



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 consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group 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 and 2016, the Group has freestanding derivatives in the form of non-deliverable foreign currency forward contracts entered into to economically hedge its foreign exchange risk. In 2017 and 2016, the Group applied hedge accounting treatment on its derivative transactions.

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 Group; 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 Group 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.

Redeemable Preferred Shares (RPS)

The component of the RPS that exhibits characteristics of a liability is recognized as a liability in the consolidated balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the consolidated statement of income. On issuance of the RPS, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortized cost basis until extinguished on redemption.

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 expires;
- the Group 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 Group 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 Group 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 Group'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 consolidated statement of income.

Impairment of Financial Assets

The Group 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 Group 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 Group 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 consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount based on the original EIR 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 Group. 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 consolidated 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 Group 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 consolidated statement of income) is removed from other comprehensive income and recognized in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income. Increases in fair value after impairment are recognized directly in 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 consolidated 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 consolidated statement of income, the impairment loss is reversed through the consolidated statement of income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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 consolidated balance sheet.

Property, Plant and Equipment

Except for land, property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The initial cost of property, plant and equipment comprises its purchase price, including import duties, if any, and 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, plant and equipment when that cost is incurred if the recognition criteria are met. Cost also include asset retirement obligation relating to the decommissioning of power plant equipment, if any. Repairs and maintenance costs are recognized in the consolidated statement of income as incurred.

Land is stated at cost less any accumulated impairment in value.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Category</u>	<u>Estimated Useful Life (in years)</u>
Buildings, warehouses and improvements	10-50
Power plant equipment	2-50
Transmission, distribution and substation equipment:	
Power transformers	30
Poles and wires	20-40
Other components	12-30
Transportation equipment	5-10
Office furniture, fixtures and equipment	2-20
Electrical equipment	5-25
Meters and laboratory equipment	25
Steam field assets	20-25
Tools and others	2-20

Leasehold improvements are amortized over the shorter of the lease terms and the lives of the improvements.

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



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, plant 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 consolidated statement of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

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

Construction in progress represents structures under construction and is stated at cost. This includes cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property, plant and equipment are capitalized during the construction period.

Arrangement Containing a Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Finance lease

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Obligations arising from plant assets under finance lease agreement are classified in the consolidated balance sheet as finance lease obligation.



Lease payments are apportioned between financing charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Financing charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful life of the assets when there is reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Operating lease payments are recognized as an expense in the consolidated statement of income on a straight-line basis over the lease term.

Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the entities in the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls-through ownership, beneficial entitlement or otherwise-any significant residual interest in the infrastructure at the end of the term of the arrangement, are accounted for under the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements*. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of this Interpretation if the conditions in (a) are met.

This interpretation applies to both: (a) infrastructure that the entities in the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the entity in the Group access for the purpose of the service arrangement.

Infrastructures within the scope of this Interpretation are not recognized as property, plant and equipment of the Group. Under the terms of contractual arrangements within the scope of this Interpretation, an entity acts as a service provider. An entity constructs or upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

An entity recognizes and measures revenue in accordance with PAS 11, *Construction Contracts*, and PAS 18, *Revenue*, for the services it performs. If an entity performs more than one service (i.e. construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable shall be allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

When an entity provides construction or upgrades services, the consideration received or receivable by the entity is recognized at its fair value. An entity accounts for revenue and costs relating to construction or upgrade services in accordance with PAS 11. Revenue from construction contracts is recognized based on the percentage-of-completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for each contract. The applicable entities account for revenue and costs relating to operation services in accordance with PAS 18.



An entity recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. An entity recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the applicable entities have contractual obligations it must fulfill as a condition of its license (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the balance sheet date.

Borrowing cost attributable to the construction of the asset if the consideration received or receivable is an intangible asset, is capitalized during the construction phase. In all other cases, borrowing costs are expensed as incurred.

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 consolidated statement of income in the year in which the expenditure is incurred.

Software and licenses

Software and licenses are initially recognized at cost. Following initial recognition, the software and licenses are carried at cost less accumulated amortization and any accumulated impairment in value.

The software and licenses 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 software development costs is available for use. The amortization period and the amortization method for the software development costs 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 treating them as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the software development costs.

Service concession right

The Group's intangible asset - service concession right pertains mainly to its right to charge users of the public service in connection with the service concession and related arrangements. This is recognized initially at the fair value which consists of the cost of construction services and the fair value of future fixed fee payments in exchange for the license or right. Following initial recognition, the intangible asset is carried at cost less accumulated amortization and any accumulated impairment losses.



The intangible asset - service concession right is amortized using the straight-line method over the estimated economic useful life which is the service concession period, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated economic useful life is ranging from 18 to 25 years. The amortization period and the amortization method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.

Franchise

The Group's franchise pertains to VECO's franchise to distribute electricity within an area granted by the Philippine Legislature, acquired in the business combination in 2013. The franchise is initially recognized at its fair value at the date of acquisition. Following initial recognition, the franchise is carried at cost less accumulated amortization and any accumulated impairment losses. The Group's franchise is amortized using the straight-line method over the estimated economic useful life, and assessed for impairment whenever there is an indication that the franchise may be impaired. The estimated economic useful life of the franchise is 40 years. The amortization period and amortization method for franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise are accounted for by changing the amortization period or method, as appropriate, and treated as a change in accounting estimates. The amortization expense on franchise is recognized in the consolidated statement of income in the expense category consistent with its function.

Intangible assets - customer contracts

The Group's intangible assets - customer contracts pertain to contracts entered by subsidiaries relating to the provision of utility services to locators within an industrial zone.

These are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The intangible assets - customer contracts are amortized using the straight-line method over the remaining life of the contract, and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and method are reviewed at least at each financial year end.

The amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset.



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, plant and equipment” when construction of each power plant commences. During the period of development, the asset is tested for impairment annually.

Research and Development Expenditure

The Group’s policy is to record research expenses in the consolidated statement of income in the period when they are incurred.

Development costs are recognized as an intangible asset on the consolidated balance sheet if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and accumulated impairment losses. Amortization of the asset begins when development is complete and the asset is available for use. It is amortized over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Investment Properties

Investment properties, which pertain to land and buildings, are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are carried at fair value, which reflects market conditions at the balance sheet date. Gains or losses arising from changes in fair values of investment properties are included in the consolidated statement of income in the year in which they arise.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development with a view to sale. For a transfer from investment property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income. When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognized in the consolidated statement of income.



Impairment of Non-financial Assets

Other current assets, property, plant and equipment, intangible assets, and investment and advances

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the consolidated 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 recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated 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.

Asset Retirement Obligation

The asset retirement obligation arose from the Group's obligation, under their contracts, to decommission, abandon and perform surface rehabilitation at the end of the useful lives of the steam field assets, or the end of the lease term, or upon abandonment of the plant. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the asset retirement obligation. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income under "Interest expense" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively.

Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of property, plant and equipment. The amount deducted from the cost of property, plant and equipment, shall not exceed its carrying amount.

If the decrease in the liability exceeds the carrying amount of the property, plant and equipment, the excess shall be recognized immediately in the consolidated statement of income.



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 "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 "Paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against equity.

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 Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates and other sales taxes or duties. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or an agent. The following specific recognition criteria must also be met before revenue is recognized:

Sale of power

Revenue from power distribution and retail energy supply contracts are recognized from retail and wholesale electricity sales upon supply of power to the customers. Revenue from power generation is recognized in the period actual capacity is generated and earned. In the case of ancillary services, revenue for scheduled capacity without energy dispatched is recognized as the scheduled time for the approved reserved capacity occurs. For scheduled capacity with energy dispatched, revenue is recognized as the actual dispatch is performed.

Dividend income

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

Technical, management and other fees

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



Interest income

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

Other income

Revenue is recognized when non-utility operating income and surcharges are earned.

Costs and Expenses

Costs and 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 Group has defined benefit pension plans which require contributions to be made to separately administered funds. 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 profit or loss. 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 consolidated 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 consolidated 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 Group, nor can they be paid directly to the Group. 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.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset shall be determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally, the amount of borrowing costs eligible for capitalization shall be determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period shall not exceed the amount of borrowing costs incurred during that period.

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.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statement of comprehensive income and not in the consolidated statement of income.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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 tax credits and unused tax losses, 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 tax credits and unused tax losses 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.

Income tax relating to items recognized directly in other comprehensive income is also recognized in other comprehensive income and not in the consolidated statement of income.

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

Input Value-Added Tax (VAT)

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

Input VAT, which is presented as part of "Other current assets" and/or "Other noncurrent assets" in the consolidated balance sheets, is recognized as an asset and will be used to offset the Group's current output VAT liabilities and/or applied for claim for tax credit certificates. Input VAT is stated at its estimated NRV.



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 Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group 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 consolidated statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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 a borrowing cost.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Events After the Reporting Period

Post year-end events that provide additional information about the Group's position at balance sheet date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed when material.

Earnings Per Common Share

Basic earnings per common share are computed by dividing consolidated net income for the year attributable to the equity holders of the Company by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect for any stock dividends declared and stock rights exercised during the year.

Diluted earnings per share amounts are calculated by dividing the consolidated net income for the year attributable to the equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued for outstanding common stock equivalents. The Group does not have dilutive potential common shares.

Operating Segments

For management purposes, the Group is organized into two major operating segments (power generation and power distribution) according to the nature of the services provided, with each segment representing a significant business segment. The Group's identified operating segments are consistent with the segments reported to the BOD which is the Group's Chief Operating Decision Maker (CODM). Financial information on the operating segment is presented in Note 31.



4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the companies in the Group, the functional currency of the companies in the Group has been determined to be the Philippine Peso except for certain subsidiary and associates whose functional currency is the US Dollar. The Philippine Peso is the currency of the primary economic environment in which companies in the Group operates and it is the currency that mainly influences the sale of power and services and the costs of power and of providing the services. The functional currency of the Group's subsidiaries and associates is the Philippine Peso except for Therma Mariveles Group, Therma Dinginin Group, LHC, and STEAG whose functional currency is the US Dollar.

Service concession arrangements - Companies in the Group as Operators

Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12 apply to SEZ's Distribution Management Service Agreement (DMSA) with Subic Bay Metropolitan Authority (SBMA); MEZ's Built-Operate-Transfer agreement with Mactan Cebu International Airport Authority (MCIAA) and LHC's Power Purchase Agreement (PPA) with the National Power Corporation (NPC). SEZ, MEZ and LHC's service concession agreements were accounted for under the intangible asset model.

The Company's associate, STEAG, has also determined that the provisions of Philippine Interpretation IFRIC 12 apply to its PPA with NPC. STEAG's service concession agreement was accounted for under the financial asset model. Refer to the accounting policy on service concession arrangements for the discussion of intangible asset and financial asset models.

Determining fair value of customers' deposits

In applying PAS 39 on transformer and lines and poles deposits, the Group has made a judgment that the timing and related amounts of future cash flows relating to such deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using alternative valuation techniques since the expected timing of customers' refund or claim for these deposits cannot be reasonably estimated. These customers' deposits, which are therefore stated at cost, amounted to ₱6.09 billion and ₱6.83 billion as of December 31, 2017 and 2016, respectively (see Note 18).



Finance lease - Company in the Group as the lessee

In accounting for its Independent Power Producer (IPP) Administration Agreement with the Power Sector Assets and Liabilities Management Corporation (PSALM), the Group's management has made a judgment that the IPP Administration Agreement of TLI is an arrangement that contains a lease. The Group's management has made a judgment that TLI has substantially acquired all the risks and rewards incidental to ownership of the power plant principally by virtue of its right to control the capacity of power plant and its right to receive the transfer of the power plant at the end of the IPPA Administration Agreement for no consideration. Accordingly, the Group accounted for the agreement as a finance lease and recognized the power plant and finance lease obligation at the present value of the agreed monthly payments to PSALM (see Note 35).

The power plant is depreciated over its estimated useful life, as there is reasonable certainty that the Group will obtain ownership by the end of the lease term. As of December 31, 2017 and 2016, the carrying value of the power plant amounted to ₱35.76 billion and ₱36.86 billion, respectively (see Notes 12 and 35). The carrying value of finance lease obligation amounted to ₱49.23 billion and ₱52.34 billion as of December 31, 2017 and 2016, respectively (see Note 35).

Nonconsolidation of Manila-Oslo Renewable Enterprise, Inc. (MORE) and its investees

The Group has 83.33% interest in MORE which has a 60% ownership interest in SN Aboitiz Power-Magat, Inc., SN Aboitiz Power-Benguet, Inc., SN Aboitiz Power-RES, Inc., and SN Aboitiz Power-Generation, Inc.

The Group does not consolidate MORE since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE, and their respective investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE. Management of MORE are vested in their BOD and the affirmative vote of the other shareholder is required for the approval of certain corporate actions which include financial and operating undertakings (see Note 10).

Determining a joint operation

The Group has 50% interest in PEC. The Group assessed that the joint arrangement is a joint operation as the financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

Classification of financial instruments

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated balance sheet.

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:



Acquisition accounting

The Group accounts for acquired businesses using the acquisition method of accounting which requires that the assets acquired and the liabilities assumed be recorded at the date of acquisition at their respective fair values.

The application of the acquisition method requires certain estimates and assumptions especially concerning the determination of the fair values of acquired intangible assets and property, plant and equipment as well as liabilities assumed at the date of the acquisition. Moreover, the useful lives of the acquired intangible assets and property, plant and equipment have to be determined.

The judgments made in the context of the purchase price allocation can materially impact the Group's future results of operations. Accordingly, for significant acquisitions, the Group obtains assistance from third party valuation specialists. The valuations are based on information available at the acquisition date (see Note 9).

Estimating allowance for impairment losses on investments and advances

Investments and advances are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. There were no impairment indicators in 2017 and 2016 based on management's assessment. The carrying amounts of the investments and advances amounted to ₱31.25 billion and ₱30.60 billion as of December 31, 2017 and 2016, respectively (see Note 10).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as of December 31, 2017 and 2016 amounted to ₱40.27 billion. Goodwill impairment recognized in 2016 amounted to ₱169.5 million (see Note 13). No impairment of goodwill was recognized in 2017 and 2015.

Estimating useful lives of property, plant and equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which assets are expected to be available for use. The estimated useful lives of property, plant 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, plant 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, plant and equipment, excluding land, amounted to ₱202.43 billion and ₱191.54 billion, respectively (see Note 12).

Estimating residual value of property, plant and equipment

The residual value of the Group's property, plant and equipment is estimated based on the amount that would be obtained from disposal of the asset, after deducting estimated costs of disposal, if the asset is already of the age and in the condition expected at the end of its useful life. Such estimation is based on the prevailing price of property, plant and equipment of similar age and condition. The estimated residual value of each asset is reviewed periodically and updated if expectations differ



from previous estimates due to changes in the prevailing price of a property, plant and equipment of similar age and condition. As of December 31, 2017 and 2016, the aggregate net book values of property, plant and equipment, excluding land, amounted to ₱202.43 billion and ₱191.54 billion, respectively (see Note 12).

Estimating useful lives of intangible asset - franchise

The Group estimates the useful life of VECO distribution franchise based on the period over which the asset is estimated to be available for use over 40 years, which consist of the 15 years remaining contract period from the date of business combination and an expected probable renewal covering another 25 years. As of December 31, 2017 and 2016, the carrying value of the franchise amounted to ₱2.73 billion and ₱2.80 billion, respectively (see Note 13).

Estimating useful lives of intangible asset - customer contracts

The Group estimates the useful lives of intangible asset arising from customer contracts based on the period over which the asset is expected to be available for use which is six years. The Group has not included any renewal period on the basis of uncertainty, as of reporting date, of the probability of securing renewal contract at the end of the original contract term. As at December 31, 2017 and 2016, the net book values of intangible assets - customer contracts amounted to ₱20.0 million and ₱31.5 million, respectively (see Note 13).

Estimating useful lives of intangible asset - service concession rights

The Group estimates the useful lives of intangible asset arising from service concessions based on the period over which the asset is expected to be available for use which is 18 to 25 years. The Group has not included any renewal period on the basis of uncertainty, as of balance sheet date, of the probability of securing renewal contracts at the end of the original contract term. As of December 31, 2017 and 2016, the aggregate net book values of intangible asset - service concession rights amounted to ₱2.97 billion and ₱3.22 billion, respectively (see Note 13).

Assessing impairment of nonfinancial assets

The Group assesses whether there are any indicators of impairment for nonfinancial assets at each balance sheet date. These nonfinancial assets (property, plant and equipment, intangible assets (excluding goodwill), 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 non-financial assets, which requires the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Group to make estimates and assumptions that can materially affect its consolidated financial statements. Future events could cause the Group to conclude that the property, plant and equipment, intangible assets (excluding goodwill), and other current and noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the consolidated balance sheet and consolidated statement of income.

As of December 31, 2017 and 2016, the aggregate net book values of these assets amounted to ₱226.70 billion and ₱211.90 billion, respectively (see Notes 8, 12, 13 and 14). Impairment losses recognized on these non-financial assets in 2017 amounted to ₱3.13 billion (see Note 12). No impairment losses were recognized in 2016 and 2015.



Estimating allowance for impairment of trade and other receivables

The Group maintains allowance for impairment of trade and other 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 collectibility of the accounts. These factors include, but are not limited to, the Group's relationship with its clients, client's current credit status and other known market factors. The Group 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 Group made different judgment or utilized different estimates. An increase in the Group's allowance for impairment of trade and other receivables will increase the Group's recorded expenses and decrease current assets. As of December 31, 2017 and 2016, allowance for impairment of trade and other receivables amounted to ₱1.77 billion and ₱1.76 billion, respectively. Trade and other receivables, net of allowance for impairment, amounted to ₱17.36 billion and ₱15.47 billion as of December 31, 2017 and 2016, respectively (see Note 6).

Estimating allowance for inventory obsolescence

The Group estimates the allowance for inventory obsolescence based on the age of inventories. The amounts and timing of recorded expenses for any period would differ if different judgments or different estimates are made. An increase in allowance for inventory obsolescence would increase recorded expenses and decrease current assets. As of December 31, 2017 and 2016, allowance for inventory obsolescence amounted to ₱35.7 million. The carrying amount of the inventories amounted to ₱5.64 billion and ₱4.45 billion as of December 31, 2017 and 2016, respectively (see Note 7).

Estimating asset retirement obligation

Under the Geothermal Resource Service Contract (GRSC), the Group has a legal obligation to decommission, abandon and perform surface rehabilitation on its steam field asset at the end of its useful life. The Group also has a legal obligation under its land lease agreements to decommission the power plants at the end of its lease term. The Group recognizes the present value of the obligation to decommission the plant, abandon and perform surface rehabilitation of the steam field asset and capitalizes the present value of these costs as part of the balance of the related property, plant and equipment, which are being depreciated and amortized on a straight-line basis over the useful life of the related asset.

These costs are accrued based on in-house estimates, which incorporates estimates of the amount of obligations and interest rates, if appropriate. Assumptions used to compute the provision are reviewed and updated annually. Each year, the provision is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under "Interest expense" in the consolidated statement of income.

Changes in the asset retirement obligation that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statement of income as it occurs.



While the Group has made its best estimate in establishing the decommissioning provision, because of potential changes in technology as well as safety and environmental requirements, plus the actual time scale to complete decommissioning activities, the ultimate provision requirements could either increase or decrease significantly from the Group's current estimates.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

Asset retirement obligation amounted to ₱2.96 billion and ₱1.82 billion as of December 31, 2017 and 2016, respectively, (see Note 19).

Recognition of deferred income tax assets

The Group 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. The Group recognize deferred taxes based on enacted or substantially enacted tax rates for renewable of 10% and for non-renewable of 30%. The Group has deferred income tax assets amounting to ₱1.41 billion and ₱1.80 billion as of December 31, 2017 and 2016, respectively.

The Company did not recognize deferred income tax assets on Minimum Corporate Income Tax (MCIT) amounting to ₱39.1 million and ₱43.8 million as of December 31, 2017 and 2016, respectively, and Net Operating Loss Carryover (NOLCO) amounting to ₱647.9 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 (see Note 29).

Pension benefits

The cost 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 reporting 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 27.

Net benefit expense amounted to ₱219.4 million in 2017, ₱199.4 million in 2016 and ₱193.7 million in 2015. The net pension assets as of December 31, 2017 and 2016 amounted to ₱56.4 million and ₱45.7 million, respectively. Net pension liabilities as of December 31, 2017 and 2016 amounted to ₱361.2 million and ₱247.4 million, respectively.



Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated balance sheet cannot be derived from active markets, their fair value is determined using valuation techniques which include the discounted cash flow model and other generally accepted market valuation model. The inputs for these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The fair values of the Group's financial instruments are presented under Note 34.

Legal contingencies

The estimate of probable costs for the resolution of possible claims has been developed in consultation with outside counsels handling the Group'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 in the Group's consolidated financial statements for the years ended December 31, 2017, 2016 and 2015.

5. Cash and Cash Equivalents

	2017	2016
Cash on hand and in banks	₱10,219,777	₱11,133,591
Short-term deposits	25,479,854	35,961,150
	₱35,699,631	₱47,094,741

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 Group and earn interest at the respective short-term deposits rates. Interest income earned from cash and cash equivalents amounted to ₱907.6 million in 2017, ₱1.08 billion in 2016 and ₱845.2 million in 2015.

6. Trade and Other Receivables

	2017	2016
Trade receivables - net of allowance for impairment losses of ₱1.77 billion in 2017 and ₱1.76 billion in 2016 (see Note 33)	₱14,604,984	₱12,155,048
Others		
Dividends receivable (see Note 10)	792,000	748,000
Advances to contractors	105,690	773,545
Accrued revenue	614,363	548,852
Non-trade receivable	453,885	256,447
Interest receivable	29,534	256,998
Others	759,372	726,231
	₱17,359,828	₱15,465,121

Trade and other receivables are non-interest bearing and are generally on 10 - 30 days' term.



For terms and conditions relating to related party receivables, refer to Note 32.

Advances to contractors refer to non-interest bearing advance payments made for project mobilization which are offset against progress billings to be made by the contractors.

The rollforward analysis of allowance for impairment losses of receivables, which pertains to trade receivables, is presented below:

	2017	2016
January 1	P1,761,636	P1,841,625
Provision (see Note 24)	77,708	145,786
Write-off	(64,506)	(225,775)
December 31	P1,774,838	P1,761,636

Allowance for impairment losses as of December 31, 2017 and 2016 pertains to receivables that are either individually or collectively determined to be impaired at balance sheet date.

These individually determined accounts relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings. These receivables are not secured by any collateral or credit enhancements.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence yet of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

7. Inventories

	2017	2016
Fuel and lube oil	P3,294,622	P2,845,119
Plant spare parts and supplies	1,625,064	893,729
Transmission and distribution supplies	502,825	509,440
Other parts and supplies	221,096	204,524
	P5,643,607	P4,452,812

Inventories are carried at cost as of December 31, 2017 and 2016.

The cost of inventories recognized as part of cost of generated power in the consolidated statements of income amounted to P22.32 billion in 2017, P12.21 billion in 2016 and P13.60 billion in 2015 (see Note 23). The cost of inventories recognized as part of operations and maintenance in the consolidated statements of income amounted to P412.1 million in 2017, P572.5 million in 2016 and P910.5 million in 2015 (see Note 25).



8. Other Current Assets

	2017	2016
Restricted cash	P2,642,327	P2,100,611
Input VAT	1,978,904	1,906,810
Prepaid tax	1,942,081	1,126,628
Prepaid expenses	2,252,905	935,926
Prepaid rent (see Note 35)	102,033	49,845
Notes receivable - current portion (see Notes 14 and 32)	-	142,824
Others	111,636	185,452
	P9,029,886	P6,448,096

Restricted cash represents proceeds from sale of power under the control of trustees of TSI's lenders as per loan agreement (see Note 17). The asset will be used to pay the current portion of loans payable and interest payments in the following period.

Prepaid expenses mainly include prepayments for insurance.

9. Business Combinations

Step-acquisition of SACASUN

In 2014, ARI, entered into a joint framework agreement to develop solar photovoltaic projects in the Philippines. Pursuant to their agreement, SunEdison Inc. (SEI), the ultimate parent company of SunE BV and Helios BV, and ARI invested in MHSCI and Sacasun for the 59-MWp solar project in San Carlos City, Negros Occidental.

On December 4, 2017, AboitizPower International Pte. Ltd. (API), signed a Share Purchase Agreement ("SPA") with SunE Solar B.V. (SunE BV) for the acquisition of 100% equity interest in Sunedison Philippines Helios BV (Helios BV). The offshore execution of the Deed of Transfer is subject to certain closing conditions under the SPA. These conditions were met on December 27, 2017.

The transaction will result in API owning all the issued and outstanding shares of Helios BV, which owns a 40% equity interest in each of MHSCI and SACASUN. This allows the Company to increase its indirect ownership interest in MHSCI and SACASUN to 100%. The transaction was accounted for as a business combination achieved in stages.



The provisional fair values of the identifiable assets and liabilities assumed on acquisition date:

Assets:	
Cash and cash equivalents	₱894,655
Trade and other receivables	60,927
Other current assets	52,564
Property, plant, and equipment	2,993,238
Other assets	54,861
	4,056,245
Liabilities:	
Trade and other payables	657,103
Notes payable	2,739,632
	3,396,735
Total identifiable net assets at fair value	659,510
Total consideration	-
Fair value of previously-held interest in SACASUN	330,851
Bargain purchase gain	₱328,659
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱894,655
Cash paid	-
Net cash outflow	₱894,655

Remeasurement of the previously-held interest in SACASUN as at the date of acquisition follows:

Carrying value of the previously held interest	₱349,312
Fair value of previously-held interest	330,851
Loss on the remeasurement of previously held interest	₱18,461

The accounting for this business combination was determined provisionally as the Group is still finalizing the fair valuation of the nonfinancial assets acquired. This will be finalized within one year as allowed by PFRSs.

In 2017, SACASUN contributed nil to the consolidated revenue and a net loss contribution to the Group amounting to ₱399.7 million. If the combination had taken place at the beginning of 2017, the Group's revenue would have been ₱119.41 billion and net income would have been ₱22.19 billion.

GNPower acquisition

On October 4, 2016, TPI finalized the purchase and sale agreements for the acquisition of the partnership interests held by affiliated investment funds of The Blackstone Group L.P. which own indirectly the majority and minority interests in GMCP and GNPower Dinginin Ltd. Co. (GNPD), respectively. The completion of the transaction is subject to certain conditions, including approvals by the Philippine Competition Commission (PCC) and the Board of Investments (BOI), as may be applicable.

The transaction price of approximately US\$1.22 billion will be paid upon completion of the transaction and will be subject to purchase price adjustments at closing depending on certain conditions. The PCC and the BOI approved the acquisition on December 19, 2016 and November 21, 2016, respectively.



GMCP

GMCP owns and operates the Mariveles subcritical coal-fired power plant, consisting of two units totaling 604 MW. The plant is located in Mariveles, Bataan and started commercial operations in 2014. TPI acquired the 82.82% indirect interest in GMCP through its acquisition of Therma Mariveles Holdings L.P. (see Note 2).

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets.

The fair value of the identifiable assets and liabilities on acquisition date were:

Assets:	
Cash and cash equivalents	₱5,567,064
Trade and other receivables	2,152,589
Inventories	1,321,660
Prepaid expenses	679,956
Property, plant, and equipment	34,004,836
Deferred income tax assets	620,556
Other assets	144,747
	44,491,408
Liabilities:	
Trade and other payables	₱2,057,368
Long-term debt	28,125,489
Derivative liabilities	351,210
Asset retirement obligation	318,136
Other liabilities	32,925
	30,885,128
Total identifiable net assets	₱13,606,280
Total consideration	₱49,787,176
Fair value of non-controlling interest	3,164,230
	52,951,406
Goodwill	₱39,345,126
Cash flow on acquisition:	
Net cash acquired with the subsidiary	₱5,567,064
Cash paid	(49,787,176)
Net cash outflow	(₱44,220,112)

The accounting for this business combination was determined provisionally as TPI had not yet completed the valuation of the assets and liabilities by the date the 2016 financial statements were approved for issue by the BOD.

In December 2017, the valuation was completed and the acquisition date fair value of property, plant and equipment was ₱34.00 billion, an increase of ₱342.8 million over the provisional value. The fair value of long-term debt was also determined to be ₱28.13 billion, an increase of ₱1.65 billion over the provisional value. The 2016 comparative information was restated to reflect the adjustment to the provisional amounts. As a result, there was a decrease in the deferred tax



asset of ₱434.1 million, a decrease in the derivative asset of ₱752.3 million, and an increase in the non-controlling interest of ₱579.8 million. There was a corresponding increase in goodwill of ₱3.08 billion, resulting in ₱39.35 billion of total goodwill arising on the acquisition. The increased depreciation charge on property, plant and equipment from the acquisition date to December 31, 2016 was not material.

In 2016, GMCP contributed ₱663.8 million to the consolidated revenue and ₱326.1 million to the net income of the Group. If the combination had taken place at the beginning of 2016, the Group's revenue would have been ₱105.48 billion and net income would have been ₱25.06 billion.

GNPD

GNPD is the project company established to develop, finance, design, engineer, construct, complete, maintain, own and operate the proposed supercritical coal-fired power project located also in Bataan. The GNPD project is currently under development and consists of up to two units totaling 668 MW. TPI acquired the 50.00% indirect interest in GNPD through its acquisition of Therma Dinginin L.P. (see Note 2).

Step-acquisition of EAUC

EAUC is a Philippine Economic Zone Authority (PEZA) registered power generation company, which provides electric power to PEZA economic zones in Lapu-Lapu City and Balamban, province of Cebu. Prior to the acquisition, EAUC was 50% owned by the Company and 50% owned by El Paso Philippines Energy Company, Inc. (EPPECI).

In June 2016, TPI acquired 50% ownership interest in EAUC from EPPECI. As a result of the acquisition, EAUC became a wholly owned subsidiary of the Company. The transaction was accounted for as a business combination achieved in stages.

The resulting bargain purchase gain of ₱34.2 million and the gain on remeasurement of previously held interest of ₱316.7 million are included in other income in the 2016 consolidated statement of income.

In 2016, EAUC contributed ₱415.8 million to the consolidated revenue and ₱92.5 million to the net income of the Group. If the combination had taken place at the beginning of 2016, the Group's revenue would have been ₱89.47 billion and net income would have been ₱21.54 billion.

In 2017, the purchase price allocation in the step- acquisition of EAUC was finalized. No changes were made on the provisional accounting done in 2016.

Aseagas acquisition

In July 2016, ARI completed its acquisition of 100% ownership interest in Aseagas from AEV. Total cash consideration was ₱605.0 million. Aseagas is currently constructing an 8.8 MW biomass power plant in Lian, Batangas which was expected to be fully operational by the second quarter of 2017.



The above transaction was treated as a business combination involving entities under common control of AEV, and such control is not transitory. The acquisition was accounted for under the pooling of interests method applied on a prospective basis. The pooling of interests method affected only the values assigned to the assets and liabilities of Aseagas, the newly-acquired subsidiary, that is now under the control of ARI. Accordingly, there was no restatement of financial information made in the consolidated financial statements of the Company for the periods prior to the combination under common control, and the pre-acquisition income and expenses of Aseagas in the current year were excluded.

The acquisition of Aseagas resulted to an excess of acquisition cost over the book value amounting to ₱105.6 million, which was recognized by the Group under “Excess of cost over net assets of investments” in the equity section of the consolidated balance sheets.

10. Investments and Advances

	2017	2016
Acquisition cost:		
Balance at beginning of the year	₱27,528,339	₱15,892,748
Additions during the year	1,499,035	11,821,307
Step acquisition to subsidiary (Note 9)	(878,009)	(144,691)
Redemptions during the year	(8,809)	(41,025)
Balance at end of year	28,140,556	27,528,339
Accumulated equity in net earnings:		
Balance at beginning of the year	3,618,877	7,340,367
Share in net earnings	4,697,864	3,641,210
Step acquisition to subsidiary (Note 9)	528,697	(87,437)
Dividends received or receivable	(5,178,467)	(7,275,263)
Balance at end of year	3,666,971	3,618,877
Share in net unrealized valuation gains on AFS investment of an associate	124,121	114,920
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	4,963	(1,878)
Share in cumulative translation adjustments of associates and joint ventures	(144,507)	(128,203)
	(15,423)	(15,161)
	31,792,104	31,132,055
Less allowance for impairment losses	568,125	568,125
Investments at equity	31,223,979	30,563,930
Advances	24,616	32,059
	₱31,248,595	₱30,595,989

As of December 31, 2017 and 2016, the undistributed earnings of the associates and joint ventures included in the Group’s retained earnings amounting to ₱3.67 billion and ₱3.62 billion, respectively, are not available for distribution to the stockholders unless declared by the investees (see Note 20).

2017

In 2017, the Group, through TPI, subscribed and paid for additional shares of Redondo Peninsula Energy, Inc. (RPEI) amounting to ₱243.8 million.



In June 2017, AEV Aviation, Inc. (AAI) redeemed 8,809 RPS held by the Company for ₱8.8 million.

In 2017, the Group, through Therma Dinginin BV, made capital contributions to GNPD amounting to US\$23.8 million.

2016

In December 2016, TPI completed its acquisition of all of Therma Dinginin L.P.'s indirect ownership interests in GNPD as part of the GNPower acquisition (see Note 9).

In July 2016, AAI redeemed 5,100 RPS held by the Company for ₱5.1 million.

In April 2016, the Group, through TPI, subscribed and paid for additional shares of RPEI amounting to ₱169.6 million.

In April 2016, the Group, through ARI, subscribed and paid for additional MORE shares amounting to ₱25.0 million.

In January 2016, the Group, through ARI, subscribed and paid for additional MHSCI and SACASUN shares amounting to ₱127.9 million and ₱298.5 million, respectively.

The Group's associates and joint ventures and the corresponding equity ownership are as follows:

	Nature of Business	Percentage of Ownership		
		2017	2016	2015
MORE ¹	Holding company	83.33	83.33	83.33
GNPD (see Note 9)*	Power generation	50.00	50.00	–
Hijos	Holding company	46.73	46.73	46.73
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	Power distribution	43.78	43.78	43.78
Pampanga Energy Ventures, Inc. (PEVI)	Holding company	42.84	42.84	42.84
LFEI*	Power generation	40.00	40.00	40.00
STEAG	Power generation	34.00	34.00	34.00
AAI	Service	26.69	26.69	26.69
CEDC	Power generation	26.40	26.40	26.40
RPEI*	Power generation	25.00	25.00	25.00
SPPC	Power generation	20.00	20.00	20.00
WMPC	Power generation	20.00	20.00	20.00
MHSCI (see Note 9)	Holding company	–	60.00	60.00
SACASUN (see Note 9)	Power generation	–	35.00	35.00
EAUC (see Note 9)	Power generation	–	–	50.00

¹ Joint ventures.

* No commercial operations as of December 31, 2017.

Unless otherwise indicated, the principal place of business and country of incorporation of the Group's associates and joint ventures are in the Philippines.

All ownership percentages presented in the table above are direct ownership of the Group except for SFELAPCO. PEVI has direct ownership in SFELAPCO of 54.83% while the Group's direct ownership in SFELAPCO is 20.29% resulting to the Group's effective ownership in SFELAPCO of 43.78%.

The Group does not consolidate MORE since it does not have the ability to direct the relevant activities which most significantly affect the returns of MORE, and its investees. This is a result of the shareholders' agreements which, among others, stipulate the management and operation of MORE. Management of MORE is vested in their respective BOD and the affirmative vote of the



other shareholder is required for the approval of certain corporate actions, which include financial and operating undertakings.

The carrying values of investments, which are accounted for under the equity method follows:

	2017	2016
GNPD	₱12,251,529	₱11,200,790
MORE	9,926,376	9,764,599
STEAG	3,787,507	3,761,763
CEDC	3,019,192	3,070,016
RPEI	714,191	481,759
PEVI	523,356	458,677
SFELAPCO	365,809	376,011
Hijos	201,337	201,337
WMPC	112,420	128,034
SPPC	86,537	137,437
SACASUN	-	525,391
MHSCI	-	223,633
Others	235,725	234,483
	₱31,223,979	₱30,563,930

Following is the summarized financial information of significant associates and joint ventures:

	2017	2016	2015
MORE:			
Total current assets	₱126,125	₱149,022	₱133,894
Total noncurrent assets	11,889,592	11,692,969	15,705,943
Total current liabilities	(56,336)	(96,106)	(91,473)
Total noncurrent liabilities	-	(5,190)	(260)
Equity	₱11,959,381	₱11,740,695	₱15,748,104
Gross revenue	₱170,236	₱170,236	₱166,636
Operating profit	4,893,753	2,601,566	2,557,392
Net income	4,891,630	2,573,164	2,552,419
Other comprehensive income	55,115	145,426	113,073
Group's share in net income	₱4,160,480	₱2,164,217	₱2,127,016
Additional information:			
Cash and cash equivalents	₱16,134	₱39,817	₱26,500



	2017	2016	2015
WMPC:			
Total current assets	P695,570	P555,637	P1,256,744
Total noncurrent assets	418,808	305,394	414,139
Total current liabilities	(457,032)	(222,299)	(266,259)
Total noncurrent liabilities	(82,718)	(71,782)	(93,109)
Equity	P574,628	P566,950	P1,311,515
SPPC:			
Gross revenue	P1,439,482	P1,636,339	P1,430,260
Operating profit	98,838	130,244	926,475
Net income	71,933	91,646	776,764
Other comprehensive income (loss)	-	(9,634)	2,270
Group's share in net income	P14,387	P18,329	P155,353
SFELAPCO*:			
Total current assets	P344,106	P361,706	P529,902
Total noncurrent assets	364,648	351,903	351,948
Total current liabilities	(221,096)	(42,285)	(123,326)
Total noncurrent liabilities	(68,326)	(66,430)	(69,638)
Equity	P419,332	P604,894	P688,886
Gross revenue	P523,854	P632,504	P709,403
Operating profit	133,508	204,593	430,392
Net income	272,756	272,756	365,152
Other comprehensive income (loss)	-	28,550	(360)
Group's share in net income	P19,101	P41,034	P73,030
STEAG:			
Total current assets	P1,576,530	P1,406,869	P1,302,248
Total noncurrent assets	2,215,130	1,996,643	2,015,544
Total current liabilities	(770,041)	(710,301)	(742,792)
Total noncurrent liabilities	(751,789)	(618,579)	(565,278)
Equity	P2,269,830	P2,074,632	P2,009,722
Gross revenue	P4,211,674	P4,255,286	P4,208,990
Operating profit	366,492	310,511	170,695
Net income	671,268	272,756	165,094
Other comprehensive income	334,246	8,671	-
Group's share in net income	P323,674	P73,415	P146,977
CEDC:			
Total current assets	P5,419,700	P5,666,952	P5,083,812
Total noncurrent assets	14,308,208	14,901,922	15,418,308
Total current liabilities	(2,444,036)	(3,840,126)	(5,250,521)
Total noncurrent liabilities	(10,422,073)	(9,751,438)	(9,127,815)
Equity	P6,861,799	P6,977,310	P6,123,784

(Forward)



	2017	2016	2015
Gross revenue	₱8,751,540	₱7,965,518	₱8,108,516
Operating profit	3,183,144	3,433,767	3,196,976
Net income	1,686,941	2,546,339	2,366,296
Other comprehensive income	2,451	7,188	39,595
Group's share in net income	₱742,254	₱1,120,389	₱1,041,170
SACASUN:			
Total current assets	₱-	₱838,410	₱984,914
Total noncurrent assets	-	3,642,924	2,515,145
Total current liabilities	-	(285,178)	(956,524)
Total noncurrent liabilities	-	(2,696,727)	(1,645,852)
Equity	₱-	₱1,499,429	₱897,683
Gross revenue	-	₱101,339	₱-
Operating loss	-	(112,596)	(829)
Net loss	-	(250,887)	(4,099)
Other comprehensive income	-	-	-
Group's share in net loss	₱-	(₱87,810)	(₱1,434)
Additional information:			
Cash and cash equivalents	₱-	₱378,908	₱935,637
Noncurrent financial liabilities	-	2,696,727	1,645,852
GNPD			
Total current assets	₱2,486,668	₱533,725	₱-
Total noncurrent assets	16,762,108	6,593,951	-
Total current liabilities	(539,651)	(131,137)	-
Total noncurrent liabilities	(14,242,277)	(4,537,895)	-
Equity	₱4,466,848	₱2,458,644	₱-
Gross revenue	₱-	₱-	₱-
Operating loss	(251,703)	(185,945)	-
Net loss	(376,336)	(5,907)	-
Other comprehensive income	-	-	-
Group's share in net loss	(₱188,167)	(₱2,953)	₱-
Additional information:			
Cash and cash equivalents	₱1,869,486	₱181,026	₱-
Noncurrent financial liabilities	14,019,562	4,489,160	-
Others**:			
Total current assets	₱1,116,846	₱580,170	₱297,940
Total noncurrent assets	3,395,270	3,395,270	2,600,411
Total current liabilities	(16,405)	(214,678)	(20,047)
Total noncurrent liabilities	(5,497)	(87,745)	(36,664)
Gross revenue	133,022	133,454	124,029
Net income (loss)	13,318	(103,315)	(54,196)

*Amounts are based on appraised values which are adjusted to historical amounts upon equity take-up of the Group. Using cost method in accounting for property, plant and equipment net income amounted to ₱745.1 million, ₱361.8 million and ₱335.7 million in 2017, 2016, and 2015, respectively, for SFELAPCO.

**The financial information of insignificant associates and joint ventures is indicated under "Others".



11. Joint Operation

Name of Joint Operation	Nature of Business	Percentage of Ownership		
		2016	2015	2014
PEC	Power generation	50.00	50.00	50.00

** PEC's principal place of business and country of incorporation is the Philippines;
No commercial operations as of December 31, 2017.*

On May 15, 2014, the Group entered into a shareholders' agreement with TPEC Holdings Corporation (TPEC) for the development, construction and operation of the 400 MW Pagbilao Unit III in Pagbilao, Quezon through PEC. TPI and TPEC both agreed to provide their respective capital contributions and subscribe to common shares such that each stockholder owns 50% of the issued and outstanding shares of stock of PEC.

The financial and operating activities of the operation are jointly controlled by the participating shareholders and are primarily designed for the provision of output to the shareholders.

The Group's share of assets, liabilities, revenue, expenses and cash flows of joint operations are included in the consolidated financial statements on a line-by-line basis.



12. Property, Plant and Equipment

December 31, 2017

Cost:	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 20)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Balances at beginning of year	₱1,436,461	₱21,361,116	₱137,570,972	₱16,005,968	₱1,359,708	₱826,632	₱2,735,378	₱3,516,283	₱1,345,439	₱1,152,427	₱42,900,110	₱230,210,494
Additions (see Notes 15 and 20)	160,327	81,195	2,225,275	1,293,991	137,176	102,026	8,275	90,235	187,709	95,680	13,786,197	18,168,086
Business combinations (see Note 9)	-	-	1,688,302	-	1,460	545	16,185	1,883,466	-	-	166,514	3,756,472
Disposals	-	(2,340)	(129,841)	(33,439)	(90,462)	(15,014)	(2,416)	(14,423)	-	(417)	-	(288,352)
Reclassifications and others	-	55,750	25,654	134,534	(1,959)	10,705	5,287	25,410	18,791	4,381	(590,418)	(311,865)
Balances at end of year	1,596,788	21,495,721	141,380,362	17,401,054	1,405,923	924,894	2,762,709	5,500,971	1,551,939	1,252,071	56,262,403	251,534,835
Accumulated Depreciation and Amortization:												
Balances at beginning of year	-	2,936,915	26,388,015	4,186,424	746,994	540,774	349,574	1,633,329	(86,361)	538,442	-	37,234,106
Business combinations (see Note 9)	-	-	359,311	-	365	154	4,586	398,818	-	-	-	763,234
Depreciation and amortization	-	723,940	5,104,284	514,047	155,606	151,163	115,369	194,420	76,844	78,129	-	7,113,802
Disposals	-	-	(69,617)	(33,439)	(68,893)	(14,162)	(1,945)	(977)	-	(1,560)	-	(190,593)
Reclassifications and others	-	(137)	(47,058)	(1,215)	2,633	963	581	-	(1)	(14,943)	-	(59,177)
Balances at end of year	-	3,660,718	31,734,935	4,665,817	836,705	678,892	468,165	2,225,590	(9,518)	600,068	-	44,861,372
Impairment	-	-	-	-	2,088	792	251	-	-	-	2,645,029	2,648,160
Net book values	₱1,596,788	₱17,835,003	₱109,645,427	₱12,735,237	₱567,130	₱245,210	₱2,294,293	₱3,275,381	₱1,561,457	₱652,003	₱53,617,374	₱204,025,303

December 31, 2016

Cost:	Land	Buildings, warehouses and improvements	Power plant equipment and steam field assets (Note 20)	Transmission, distribution and substation equipment	Transportation equipment	Office furniture, fixtures and equipment	Leasehold improvements	Electrical equipment	Meters and laboratory equipment	Tools and others	Construction in progress	Total
Balances at beginning of year	₱1,340,282	₱14,090,427	₱99,658,102	₱14,683,602	₱1,001,932	₱505,273	₱2,696,862	₱3,179,186	₱1,546,645	₱764,908	₱22,578,043	₱162,045,262
Additions (see Notes 15 and 20)	53,734	191,984	250,232	1,051,340	130,420	25,500	11,838	141,519	112,264	299,706	26,957,129	29,225,666
Business combinations (see Note 9, restated)	-	5,441,126	33,537,094	104,542	329,429	306,438	23,805	25,687	-	80,081	1,853,971	41,702,173
Disposals	-	-	(156,278)	(772,463)	(49,592)	(9,900)	-	(6,746)	(704,552)	(6,545)	-	(1,706,076)
Reclassifications and others	42,445	1,637,579	4,281,822	938,947	(52,481)	(679)	2,873	176,637	391,082	14,277	(8,489,033)	(1,056,531)
Balances at end of year	1,436,461	21,361,116	137,570,972	16,005,968	1,359,708	826,632	2,735,378	3,516,283	1,345,439	1,152,427	42,900,110	230,210,494
Accumulated Depreciation and Amortization:												
Balances at beginning of year	-	1,761,781	17,809,749	4,339,025	570,213	300,343	210,278	1,390,840	457,619	394,787	-	27,234,635
Business combinations (see Note 9)	-	556,377	4,096,568	95,758	140,154	149,122	20,743	20,857	-	62,126	-	5,141,705
Depreciation and amortization	-	633,069	4,027,931	438,720	109,589	77,751	118,048	169,010	66,344	83,228	-	5,723,690
Disposals	-	-	(26,583)	(778,294)	(42,574)	(9,598)	-	(1,707)	(702,817)	(6,504)	-	(1,568,077)
Reclassifications and others	-	(14,312)	480,350	91,215	(30,388)	23,156	505	(1,707)	(702,817)	(6,504)	-	702,153
Balances at end of year	-	2,936,915	26,388,015	4,186,424	746,994	540,774	349,574	1,633,329	(86,361)	538,442	-	37,234,106
Net book values	₱1,436,461	₱18,424,201	₱111,182,957	₱11,819,544	₱612,714	₱285,858	₱2,385,804	₱1,882,954	₱1,431,800	₱613,985	₱42,900,110	₱192,976,388



In 2017, additions to power plant equipment and steam field assets include asset retirement obligation amounting to ₱1.06 billion. In 2016, a reclassification was made that reduced power plant equipment and steam field assets by ₱1.63 billion due to the reversal in the provision for asset retirement obligation (see Note 19).

In 2017 and 2016, additions to “Construction in progress” include capitalized borrowing costs amounting to ₱2.62 billion and ₱1.76 billion, respectively (see Note 17).

Property, plant and equipment with carrying amounts of ₱125.41 billion and ₱116.98 billion as of December 31, 2017 and 2016, respectively, are used to secure the Group’s long-term debts (see Note 17).

Fully depreciated property and equipment with gross carrying amount of ₱4.76 billion and ₱4.64 billion as of December 31, 2017 and 2016, respectively, are still in use.

A significant portion of the Group’s property, plant and equipment relates to various projects under “Construction in progress” as of December 31, 2017 and 2016, as shown below:

Project Company	Estimated Cost to Complete (in millions)		% of Completion	
	2017	2016	2017	2016
TVI	₱10,375	₱17,813	73%	54%
Hedcor Bukidnon	2,858	6,229	75%	45%
TSI	–	–	100%	100%
PEC (see Note 11)	2,294	8,614	87%	61%

In November 2017, Aseagas temporarily ceased the operations of its biomass plant due to unavailability of the supply of organic effluent wastewater from source. In January 2018, after a full assessment of the plant’s issues, Aseagas decided to make the plant shutdown permanent. These circumstances indicate that the carrying amount of the Aseagas’ assets, which are mainly its property, plant and equipment, may not be recoverable; thus, Aseagas performed an impairment review.

As of December 31, 2017, the recoverable amount of Aseagas’ property, plant and equipment was determined based on their fair value less costs of disposal. The fair value of the property, plant and equipment was based on valuation performed by an accredited independent appraiser. The fair value is the prevailing prices in the market which the property, plant and equipment can be sold less costs to be incurred on demolition, clearing and handling fees, among others, and this resulted into an insignificant recoverable amount. This valuation is under Level 3 in the fair value hierarchy. Impairment loss on property, plant and equipment recognized in the consolidated statement of income amounted to ₱2.66 billion in 2017 (see Note 28).



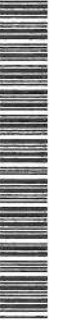
13. Intangible Assets

December 31, 2017

	Goodwill	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:							
Balances at beginning of year	₱40,270,344	₱5,199,074	₱3,078,431	₱273,725	₱60,068	₱234,710	₱49,116,352
Additions during the year	-	85,257	-	69,592	-	17,839	172,688
Business combination (see Note 9)	-	-	-	-	-	141	141
Impairment	-	-	-	(79,881)	-	-	(79,881)
Exchange differences	-	15,139	-	-	-	-	15,139
Balances at end of year	40,270,344	5,299,470	3,078,431	263,436	60,068	252,690	49,224,439
Accumulated amortization:							
Balances at beginning of year	-	1,976,951	275,777	-	28,604	116,963	2,398,295
Amortization	-	351,542	76,961	-	11,441	42,522	482,466
Reclassifications	-	(980)	-	-	-	-	(980)
Balances at end of year	-	2,327,513	352,738	-	40,045	159,485	2,879,781
Net book values	₱40,270,344	₱2,971,957	₱2,725,693	₱263,436	₱20,023	₱93,205	₱46,344,658

December 31, 2016

	Goodwill	Service concession rights	Franchise	Project development costs	Customer contracts	Software and licenses	Total
Cost:							
Balances at beginning of year	₱1,094,687	₱5,011,484	₱3,078,431	₱269,889	₱60,068	₱132,219	₱9,646,778
Additions during the year	-	45,875	-	93,693	-	56,705	196,273
Business combination (see Note 9, Restated)	39,345,126	-	-	-	-	45,786	39,390,912
Impairment	(169,469)	-	-	(80,380)	-	-	(249,849)
Transfers	-	-	-	(9,477)	-	-	(9,477)
Exchange differences	-	141,715	-	-	-	-	141,715
Balances at end of year	40,270,344	5,199,074	3,078,431	273,725	60,068	234,710	49,116,352
Accumulated amortization:							
Balances at beginning of year	-	1,784,948	198,816	-	17,162	53,132	2,054,058
Amortization	-	199,342	76,961	-	11,442	32,092	319,837
Business combination (see Note 9)	-	-	-	-	-	32,964	32,964
Reclassifications	-	(7,339)	-	-	-	(1,225)	(8,564)
Balances at end of year	-	1,976,951	275,777	-	28,604	116,963	2,398,295
Net book values	₱40,270,344	₱3,222,123	₱2,802,654	₱273,725	₱31,464	₱117,747	₱46,718,057



Impairment Testing of Goodwill

Goodwill acquired through business combinations have been attributed to individual CGUs.

The carrying amount of goodwill follows:

	2017	2016 (As restated; Note 9)
GMCP (see Note 9)	P39,345,126	P39,345,126
LEZ	467,586	467,586
BEZ	237,404	237,404
HI	220,228	220,228
	P40,270,344	P40,270,344

The recoverable amounts of the investments have been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Key assumptions used in value-in-use calculation for December 31, 2017 and 2016

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates and growth rates

The discount rates applied to cash flow projections are from 11.18% to 14.93% in 2017 and 11.80% to 13.46% in 2016, and cash flows beyond the five-year period are extrapolated using a zero percent growth rate.

Revenue assumptions

Revenue assumptions are based on the expected electricity to be sold. In 2017, revenue growth of -6% in year 1, 6% in year 2, 4% for the next two years and 3% in year 5 was applied for LEZ; -18% in year 1, 3% in the next two years, 1% in year 4 and 0% in year 5 was applied to BEZ; -1% in years 1, 2 and 4, -4% in year 3, and 7% in year 5 for GMCP; and 8% in year 1, 18% in year 2, 7% for the next two years, and -5% in year 5 was applied for HI.

In 2016, revenue growth of 12% in year 1, 6% in year 2, -11% in year 3, 5% in year 4 and 6% in year 5 for GMCP; 19% in year 1, 8% in year 2 and 6% for the next three years was applied for LEZ; -6% for year 1 and 3% for the next four years for MEZ; -69% in year 1, 9% in year 2, 7% in year 3, 3% in year 4 and -3% in year 5 was applied to BEZ; and 14% in year 1, 17% in year 2, 0% in year 3, and 2% in the next 2 years was applied for HI.



Materials price inflation

In 2017, the assumption used to determine the value assigned to the materials price inflation is 3.17% in 2018 and increases to 3.20% in 2019. It then settles at 3.00% for the next 3 years until 2022. The starting point of 2018 is consistent with external information sources.

In 2016, the assumption used to determine the value assigned to the materials price inflation is 3.14% in 2017 and increases by 15 and 25 basis points in 2018 and 2019, respectively. It then decreases by 9 basis points in 2019, then settles at 3.50% in 2021.

Based on the assumptions used in impairment testing, no impairment of goodwill is recognized in 2017. Impairment loss on goodwill amounting to ₱169.5 million on the investment in MEZ was recognized in 2016. No impairment on goodwill was recognized in 2015.

With regard to the assessment of value-in-use, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Service Concession Rights

Service concession arrangements entered into by the Group are as follows:

- a. On November 24, 1996, LHC entered into a PPA with NPC, its sole customer, for the construction and operation of a 70-megawatt hydroelectric power generating facility (the Power Station) in Bakun River in Benguet and Ilocos Sur Provinces on a build-operate-transfer scheme. Under the PPA, LHC shall deliver to NPC all electricity generated over a cooperation period of 25 years until February 5, 2026.

On the Transfer Date, as defined in the PPA, LHC shall transfer to NPC, free from any lien or encumbrance, all its rights, title and interest in and to the Power Station and all such data as operating manuals, operation summaries/transfer notes, design drawings and other information as may reasonably be required by NPC to enable it to operate the Power Station.

Since NPC controls the ownership of any significant residual interest of the Power Station at the end of the PPA, the PPA is accounted for under the intangible asset model as LHC has the right to charge users for the public service under the service concession arrangement.

The Power Station is treated as intangible asset and is amortized over a period of 25 years, which is the service concession period, in accordance with Philippine Interpretation IFRIC 12. The intangible asset with a carrying value of ₱2.13 billion and ₱2.39 billion as of December 31, 2017 and 2016, respectively, was used as collateral to secure LHC's long-term debt (see Note 17).



- b. On May 15, 2003, the SBMA, AEV and DLP entered into a DMSA for the privatization of the SBMA Power Distribution System (PDS) on a rehabilitate-operate-and-transfer arrangement; and to develop, construct, lease, lease out, operate and maintain property, structures and machineries in the Subic Bay Freeport Zone (SBFZ).

Under the terms of the DMSA, SEZ was created to undertake the rehabilitation, operation and maintenance of the PDS (the Project), including the provision of electric power service to the customers within the Subic Bay Freeport Secured Areas of the SBFZ as well as the collection of the relevant fees from them for its services and the payment by SBMA of the service fees throughout the service period pursuant to the terms of the DMSA. The DMSA shall be effective for 25-year period commencing on the turnover date.

For and in consideration of the services and expenditures of SEZ for it to undertake the rehabilitation, operation, management and maintenance of the Project, it shall be paid by the SBMA the service fees in such amount equivalent to all the earnings of the Project, provided, however, that SEZ shall remit the amount of ₱40.0 million to the SBMA at the start of every 12-month period throughout the service period regardless of the total amount of all earnings of the Project. The said remittances may be reduced by the outstanding power receivables from SBMA, including streetlights power consumption and maintenance, for the immediate preceding year.

Since SBMA controls ownership of the equipment at the end of the agreement, the PDS are treated as intangible assets and are amortized over a period of 25 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying value of the intangible asset arising from the service concession arrangement amounted to ₱736.4 million and ₱727.0 million as of December 31, 2017 and 2016, respectively.

- c. The transmission and distribution equipment of MEZ are located within Mactan Export Processing Zone (MEPZ) II. Since MCIAA controls ownership of the equipment at the end of the agreement, the equipment are treated as intangible assets and are amortized over a period of 21 years up to year 2028, in accordance with Philippine Interpretation IFRIC 12.

The carrying amount of the intangible asset arising from the service concession arrangement amounted to ₱105.3 million and ₱109.1 million as of December 31, 2017 and 2016, respectively.

Customer Contracts

Customer contracts pertain to agreements between LEZ and the locators within LiMa Technology Center relating to the provision of utility services to the locators. These contracts are treated as intangible assets and are amortized over a period of 5.25 years since 2014.

The amortization of intangible assets is included in "Depreciation and amortization" under "Operating Expenses" in the consolidated statements of income.



14. Other Noncurrent Assets

	2017	2016
Input VAT and tax credit receivable, net of impairment loss of ₱253.2 million in 2017 (see Note 28)	₱6,739,800	₱6,740,958
Advances to contractors and projects	2,135,907	447,676
Refundable deposits	378,043	241,597
Prepaid rent - net of current portion (see Note 35)	533,455	523,224
Notes receivable - net of current portion (see Note 32)	-	2,739,632
Prepaid taxes	306,948	-
Investment properties	3,300	3,300
Others	119,902	318,896
	₱10,217,355	₱11,015,283

In December 2016, SACASUN as the borrower, ARI as the buyer, and BDO Unibank, Inc. (BDO) as the seller, entered into a Memorandum of Understanding wherein buyer and seller agree to an absolute sale and purchase of SACASUN's notes payable to BDO (the "Loan"). The parties agree to the transfer of all of BDO's rights, title, interests, benefits, and obligations in and to the Loan to ARI. The consideration for the purchase of the Loan was ₱2.88 billion, which was the outstanding balance of the Loan. The Group acquired the notes payable in 2017 (see Note 9), which in effect offset the notes receivable held by the Group.

15. Trade and Other Payables

	2017	2016
Trade payables (see Notes 23 and 33)	₱7,813,066	₱7,591,617
Output VAT	2,917,565	2,517,704
Amounts due to contractors and other third parties	2,021,216	694,359
Accrued expenses:		
Taxes and fees	963,108	770,646
Materials and supplies cost	710,258	842,854
Interest	1,592,087	1,060,386
Energy fees and fuel purchase	264,063	155,243
Claims conversion costs	229,702	187,490
Insurance	1,114	1,914
Unearned revenues	32,952	33,829
Dividends payable	48,433	143,608
Customers' deposit	52,109	68,197
Provision for over-recovery	-	170,518
Nontrade	1,944,669	2,452,368
Others	1,262,041	707,485
	₱19,852,383	₱17,398,218



Trade payables are non-interest bearing and generally on 30-day terms.

Accrued taxes and fees represent accrual of real property tax, transfer tax and other fees.

Amounts due to contractors and other third parties include liabilities arising from the power plant construction (see Note 12).

Nontrade payables include amounts due to PSALM pertaining to Generation Rate Adjustment Mechanism (GRAM), Incremental Currency Exchange Rate Adjustment (ICERA), and Universal Charges.

Others include withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

16. Short-term Loans

	Interest Rate	2017	2016
Peso loans - financial institutions - unsecured	2.50% - 4.00% in 2017 2.50% in 2016	₱4,717,300	₱1,596,100
Temporary advances (see Note 32)	2.50%	–	2,559,500
		₱4,717,300	₱4,155,600

The bank loans are unsecured short-term notes payable obtained from local banks. These loans are covered by the respective borrower's existing credit lines with the banks and are not subject to any significant covenants and warranties.

Interest expense on short-term loans amounted to ₱131.2 million in 2017, ₱66.5 million in 2016 and ₱87.6 million in 2015 (see Note 33).



17. Long-term Debts

	Annual Interest Rate	2017	2016 (As Restated; Note 9)
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱6,600,000
Bonds due 2026	6.10%	3,400,000	3,400,000
Bonds due 2027	5.34%	3,000,000	—
Subsidiaries:			
GMCP			
Financial institutions - secured	LIBOR + 1.7% - 4.00% in 2017 LIBOR + 2.5% - 7.65% in 2016	31,946,661	—
		—	28,076,404
TVI			
Financial institutions - secured	5.50% - 6.91%	29,890,000	27,570,000
TSI			
Financial institutions - secured	4.51% - 5.15% in 2017 4.50% - 5.14% in 2016	22,660,043	23,970,380
TPI			
Financial institutions - unsecured	LIBOR + 1.10%	15,153,755	31,000,420
APRI			
Financial institutions - secured	4.53% - 6.00%	10,624,640	11,874,880
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 6.78% in 2017 4.75% - 6.58% in 2016	9,327,700	5,677,700
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.11% - 5.42%	4,097,000	4,100,000
Aseagas			
Financial institutions - secured	4.66% - 5.06%	—	2,434,209
VECO			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	1,176,000	1,379,000
LHC			
Financial institutions - secured	2.00% - 2.75%	1,105,950	1,369,631
DLP			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	882,000	1,034,250
HI			
Financial institution - secured	5.25%	540,000	630,000
AI			
AEV - unsecured (see note 32)		300,000	—
SEZ			
Financial institution - unsecured	5.00% in 2017 5.88% - 6.91% in 2016	226,000	282,500
CLP			
Financial institution - unsecured	4.49% - 4.81% in 2017 4.26% - 4.81% in 2016	176,400	206,850
Joint operation (see Note 11)			
Financial institutions - secured	5.50% - 7.38% in 2017 5.50% - 6.87% in 2016	14,066,500	11,723,500
		155,172,649	161,329,724
Add embedded derivatives		—	6,776
Less deferred financing costs		3,119,149	1,963,965
		152,053,500	159,372,535
Less current portion - net of deferred financing costs		20,692,751	7,458,363
		₱131,360,749	₱151,914,172

* London Interbank Offered Rate (LIBOR)

Interest expense and other financing costs on long-term debt amounted to ₱6.33 billion in 2017, ₱2.81 billion in 2016, and ₱1.12 billion in 2015 (see Note 33).



Company

In September 2014, the Company issued a total of ₱10.00 billion bonds, broken down into a ₱6.60 billion 7-year bond due 2021 at an annual fixed rate equivalent to 5.21% and a ₱3.40 billion 12-year bond due 2026 at an annual fixed rate equivalent to 6.10%. The bonds have been rated PRS Aaa by PhilRatings.

In July 2017, the Company issued a ₱3.00 billion 10-year bond due 2027 at an annual fixed rate equivalent to 5.34%. The bonds have been rated PRS Aaa by PhilRatings.

The principal amount of the 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.

TPI

In December 2016, TPI executed and availed a US\$623.5 million syndicated bridge loan facility to partially finance the GNPowder acquisition. The loan bears a floating interest rate based on a credit spread over applicable LIBOR, repriced every 30 days. The loan will mature on the second anniversary of the initial drawdown date, with an option for a one-year extension.

TVI

On June 18, 2015, TVI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱31.97 billion. As of December 31, 2017, ₱29.89 billion has been drawn from the loan facility.

The loan is available in two tranches, as follows:

- Tranche A, in the amount of ₱25.97 billion, with interest rate fixed for the first eight years and will be repriced and fixed for another seven years.
- Tranche B, in the amount of ₱6.00 billion, with a fixed interest rate for fifteen years.

70% of the principal amount of the loan is payable in 22 equal semi-annual installments, with the remaining 30% payable in full on the final maturity date. TVI may prepay the loan in part or in full beginning on the end of the fourth year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

The loan is secured by a mortgage of all its assets with carrying amount of ₱34.01 billion as of December 31, 2017, and a pledge of TVI's shares of stock held by its shareholders.

GMCP

On January 18, 2010, GMCP entered into offshore and onshore facility agreements with China Development Bank Corporation (Offshore Loan) as well as BDO, Bank of the Philippine Islands (BPI), China Banking Corporation, Security Bank Corporation, and Standard Chartered Bank - Singapore (collectively for the Onshore Loan) which was fully drawn in 2012. The proceeds of the loan were used solely for the payment of Project Costs.



On August 29, 2017, GMCP entered into a Notes Facility Agreement (NFA) with local banks with BDO Capital and Investment Corporation as Lead Arranger, with the maximum principal amount of \$800.0 million, the proceeds of which will be used to refinance GMCP's existing loan obligation and for other general corporate purposes.

On September 29, 2017, \$600.0 million was drawn from the NFA, out of which \$462.4 million was used to prepay the outstanding loans.

GMCP also has an existing facility agreement with BDO to finance the GMCP's working capital requirements.

Loans payable consist of the following dollar denominated loans as of December 31, 2017:

	Amount	Interest Rate Per Annum	Payment Schedule
<i>NFA</i>			
Fixed Rate Loan	\$300,000	(i) Fixed rate of 2.5514% plus 1.45% margin for the first seven-year period and (ii) Fixed Rate Loan Benchmark plus 1.45% margin for the subsequent five-year period	24 semi-annual payments starting from the first Interest Payment Date
LIBOR Loan	300,000	Six-month LIBOR plus 1.70% margin	24 semi-annual payments starting from the first Interest Payment Date
<i>Working Capital</i>			
BDO	15,000	LIBOR plus 1.7% applicable margin	Payable within three months
Total borrowings	615,000		
Less unamortized portion of deferred financing costs	(5,712)		
	609,288		
Less current portion	37,451		
Loans payable - net of current portion	\$571,837		

TSI

On October 14, 2013, TSI entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of ₱24.00 billion, which was fully drawn in 2014.

On October 28, 2015, TSI entered into an additional loan agreement with principal amount of ₱1.68 billion, which was fully drawn in 2016.

The loan is secured by a mortgage of all its assets with carrying amount of ₱36.14 billion as of December 31, 2017, and a pledge of TSI's shares of stock held by the Company and TPI.

Interest rate ranging from 4.50% - 5.15% is fixed for the first seven years and will be repriced and fixed for another five years. Fifty percent of the principal amount of the loan is payable at semi-annual installments within 12 years with a two-year grace period, with the remaining 50% payable in full on the final maturity date.



TSI may prepay the loan in part or in full beginning on the end of the third year from the initial advance or on the project completion date, whichever is earlier. Any prepayment shall be subject to a certain percentage of prepayment penalty on the principal to be prepaid.

APRI

On February 29, 2016, APRI entered into an omnibus agreement with BPI, Asian Development Bank (ADB) and Credit Guarantee and Investment Facility (CGIF). This has been certified to have met the requirements of the Climate Bond Standard. The loan proceeds were used for return of equity to shareholders and to fund necessary operating and capital expenditures.

The loan is available in two tranches, as follows:

- a. The Notes Facility Agreement, in the amount of ₱10.7 billion, with interest rate already fixed for ten years. 41.6% of the principal amount is payable in ten equal semi-annual installments and the balance payable in another ten semi-annual installments
- b. The ADB Facility Agreement, in the amount of ₱1.8 billion, with interest rate fixed for five years and principal repayments made in ten equal semi-annual installments.

The loan is secured by mortgage of its assets with carrying amount of ₱25.64 billion as of December 31, 2017, and pledge of APRI's shares of stock held by shareholders and assignment of Project Agreements and Project Accounts.

Hedcor Bukidnon

On September 22, 2015, Hedcor Bukidnon entered into an omnibus agreement with local banks for a project loan facility with an aggregate principal amount of up to ₱10.00 billion. As of December 31, 2017, ₱9.33 billion has been drawn from the loan facility based on the agreed schedule.

The term of the loan is 15 years, and the first principal repayment will take place 42 months after the financial close, or six months after project completion. Principal repayments shall be made in equal semi-annual installments, with a balloon payment not to exceed 30% of the loan amount. Interest rate on the loan is computed at the time of each drawdown, as designated under the agreement.

The loan is secured by an assignment of trade receivables, a pledge of all issued share capital of Hedcor Bukidnon, and corporate suretyship from AP to guarantee the debt service until (a) project completion and (b) receipt of Feed-In-Tariff payments or contracting power supply agreements equivalent to at least the break-even capacity.



Hedcor Sibulan

On November 17, 2016, Hedcor Sibulan entered into a NFA with various institutions with Metrobank - Trust Banking Group as the Notes Facility Agent, for a loan facility with an aggregate principal amount of up to ₱4.10 billion to return equity to shareholders, and for other general corporate purposes.

The unsecured notes were issued in ten tranches with interest payable semi-annually at annual fixed rates ranging from 4.05% - 5.42% with principal maturity as follows:

Tranche	Maturity Date	Principal Amount
1	Fifteen months from issue date	₱96.8 million
2	Two (2) years from issue date	₱96.8 million
3	Three (3) years from issue date	₱84.0 million
4	Four (4) years from issue date	₱84.0 million
5	Five (5) years from issue date	₱284.0 million
6 (Series A&B)	Six (6) years from issue date	₱388.4 million
7 (Series A&B)	Seven (7) years from issue date	₱445.8 million
8	Eight (8) years from issue date	₱451.4 million
9	Nine (9) years from issue date	₱508.1 million
10 (Series A&B)	Ten (10) years from issue date	₱1,660.7 million

Prior to maturity date, Hedcor Sibulan may redeem in whole or in part the relevant outstanding notes on any interest payment date plus a one percent prepayment penalty.

Aseagas

Within the period June 2014 to September 2015, Aseagas availed of ₱2.00 billion loan from the Notes Facility and Security Agreement (NFSA) it signed on June 5, 2014 with Development Bank of the Philippines (DBP). The NFSA provided for the issuance of 12-year corporate notes subject to a fixed interest rate ranging from 4.66% to 5.06% for the first seven years and to be repriced and fixed for the remaining five years. Principal repayments are due every six months.

On April 2016, Aseagas obtained an additional loan from DBP amounting to ₱500.0 million with the same terms as the first loan. Interest rate on the new loan is fixed at 4.75%.

The loan was prepaid in December 2017.

VECO

On December 20, 2013, VECO availed of a ₱2.00 billion loan from the NFA it signed on December 17, 2013 with Land Bank of the Philippines (LBP). The unsecured notes were issued in ten tranches of ₱200 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱200M balloon payment on maturity date
C	December 20, 2016	₱1M each on first 2 years; ₱198M on maturity date
D	December 20, 2017	₱1M each on first 3 years; ₱197M on maturity date
E	December 20, 2018	₱1M each on first 4 years; ₱196M on maturity date
F	December 20, 2019	₱1M each on first 5 years; ₱195M on maturity date
G	December 20, 2020	₱1M each on first 6 years; ₱194M on maturity date
H	December 20, 2021	₱1M each on first 7 years; ₱193M on maturity date
I	December 20, 2022	₱1M each on first 8 years; ₱192M on maturity date
J	December 20, 2023	₱1M each on first 9 years; ₱191M on maturity date



Prior to maturity date, VECO may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

LHC

On April 24, 2012, LHC entered into an omnibus agreement with Philippine National Bank and Banco De Oro to borrow US\$43.1 million with maturity on April 26, 2022 and payable in 20 semi-annual installments. Interest is repriced and paid semi-annually. Annual interest rate ranges from 2.00% to 2.75%.

Intangible asset arising from service concession arrangement with carrying value of ₱2.13 billion as of December 31, 2017, was used as collateral to secure LHC's long-term debt (see Note 13).

DLP

On December 20, 2013, DLP availed of a ₱1.50 billion loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱150 million with interest payable semi-annually at annual fixed rates ranging from 3.50% to 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱150M balloon payment on maturity date
C	December 20, 2016	₱0.75M each on first 2 years; ₱148.5M on maturity date
D	December 20, 2017	₱0.75M each on first 3 years; ₱147.8M on maturity date
E	December 20, 2018	₱0.75M each on first 4 years; ₱147M on maturity date
F	December 20, 2019	₱0.75M each on first 5 years; ₱146.2M on maturity date
G	December 20, 2020	₱0.75M each on first 6 years; ₱145.5M on maturity date
H	December 20, 2021	₱0.75M each on first 7 years; ₱144.8M on maturity date
I	December 20, 2022	₱0.75M each on first 8 years; ₱144M on maturity date
J	December 20, 2023	₱0.75M each on first 9 years; ₱143.2M on maturity date

Prior to maturity date, DLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

HI

On August 6, 2013, HI availed of a ten-year ₱900 million loan from a local bank. This loan is subject to a semi-annual principal payment with annual interest fixed at 5.25% for the first 5 years. For the remaining five years, interest rate will be repriced and fixed on the fifth anniversary from the drawdown date. The debt is secured by a pledge of HI's shares of stock held by ARI.

SEZ

On July 7, 2011, SEZ issued ₱565.0 million worth of fixed rate notes to Metropolitan Bank and Trust Company. Interest on the notes is subject to quarterly payment at 5% annual fixed interest rate. Principal is payable annually over 10 years at an equal amortization of ₱56.5 million.



CLP

On December 20, 2013, CLP availed of a ₱300 million loan from the NFA it signed on December 17, 2013 with LBP. The unsecured notes were issued in ten tranches of ₱30.0 million with interest payable semi-annually at annual fixed rates ranging from 3.50% - 4.81% and principal amortized as follows:

Tranche	Maturity Date	Principal Repayment Amount
A, B	December 20, 2014 and 2015	₱30M balloon payment on maturity date
C	December 20, 2016	₱0.15M each on first 2 years; ₱29.7M on maturity date
D	December 20, 2017	₱0.15M each on first 3 years; ₱29.6M on maturity date
E	December 20, 2018	₱0.15M each on first 4 years; ₱29.4M on maturity date
F	December 20, 2019	₱0.15M each on first 5 years; ₱29.2M on maturity date
G	December 20, 2020	₱0.15M each on first 6 years; ₱29.1M on maturity date
H	December 20, 2021	₱0.15M each on first 7 years; ₱29.0M on maturity date
I	December 20, 2022	₱0.15M each on first 8 years; ₱28.8M on maturity date
J	December 20, 2023	₱0.15M each on first 9 years; ₱28.62M on maturity date

Prior to maturity date, CLP may redeem in whole or in part the relevant outstanding notes on any interest payment date without premium or penalty. If it redeems the notes on a date other than an interest payment date, then a certain percentage of prepayment penalty on the principal amount to be prepaid shall be imposed.

Long-term debt of Joint Operation (see Note 11)

This pertains to TPI's share of the outstanding project debt of its joint operation.

In May 2014, PEC entered into an omnibus agreement with various local banks for a loan facility in the aggregate principal amount of up to ₱33.31 billion with maturity period of 15 years.

The loan facility is subject to a semi-annual interest payment with annual fixed interest ranging from 5.50% - 7.38%.

The loans may be voluntarily prepaid in full or in part commencing on and from the third year of the date of initial drawdown with a prepayment penalty.

The loans are secured by a mortgage of substantially all its assets with carrying amount of ₱30.62 billion as of December 31, 2017, and a pledge of the shares of stock held by the joint operators.

Loan covenants

The loan agreements on long-term debt of the Group provide for certain restrictions with respect to, among others, mergers or consolidations or other material changes in their ownership, corporate set-up or management, investment and guaranties, incurrence of additional debt, disposition of mortgage of assets, payment of dividends, and maintenance of financial ratios at certain levels.

These restrictions and requirements were complied with by the Group as of December 31, 2017 and 2016.



18. Customers' Deposits

	2017	2016
Transformers	₱1,315,127	₱2,915,591
Lines and poles	1,115,646	1,777,064
Bill and load	3,663,917	2,138,587
	₱6,094,690	₱6,831,242

Transformers and lines and poles deposits are obtained from certain customers principally as cash bond for their proper maintenance and care of the said facilities while under their exclusive use and responsibility. These deposits are non-interest bearing and are refundable only after their related contract is terminated and the assets are returned to the Group in their proper condition and all obligations and every account of the customer due to the Group shall have been paid.

Bill deposit serves to guarantee payment of bills by a customer which is estimated to equal one month's consumption or bill of the customer.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) also provide that residential and non-residential customers, respectively, must pay a bill deposit to guarantee payment of bills equivalent to their estimated monthly billing. The amount of deposit shall be adjusted after one year to approximate the actual average monthly bills. A customer who has paid his electric bills on or before due date for three consecutive years, may apply for the full refund of the bill deposit, together with the accrued interests, prior to the termination of his service; otherwise, bill deposits and accrued interests shall be refunded within one month from termination of service, provided all bills have been paid.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Interest expense on customers' deposits amounted to ₱3.2 million in 2017, ₱2.5 million in 2016 and ₱4.2 million in 2015 (see Note 33).

The Group classified customers' deposit under noncurrent liabilities due to the expected long-term nature of these deposits.

The portion of customers' deposit to be refunded amounted to ₱1.41 billion as of December 31, 2017, and is presented as part of "Trade and other payables" (see Note 15).



19. Asset Retirement Obligation

Asset retirement obligation includes the estimated costs to decommission, abandon and perform surface rehabilitation on the steam field assets at the end of their useful lives, and the best estimate of the expenditure required to settle the obligation to decommission power plant at the end of its lease term (see Note 12).

	2017	2016
Balances at beginning of year	P1,821,577	P3,016,528
Business combinations (see Note 9)	-	334,812
Change in accounting estimate	1,056,396	(1,627,192)
Accretion of decommissioning liability (see Note 33)	81,087	97,429
Balances at end of year	P2,959,060	P1,821,577

The actual dismantling and removal cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment or actual time required to complete all dismantling and removal activities. Adjustment, if any, to the estimated amount will be recognized prospectively as they become known and reliably estimable.

20. Equity

a. Paid-in Capital (number of shares in disclosed figures)

	2017	2016
Capital Stock		
Authorized - P1 par value		
Common shares - 16,000,000,000 shares		
Preferred shares - 1,000,000,000 shares		
Issued		
Common shares - 7,358,604,307 shares	P7,358,604	P7,358,604
Additional Paid-in Capital	12,588,894	12,588,894
	P19,947,498	P19,947,498

On May 25, 2007, the Company listed with the PSE its 7,187,664,000 common shares with a par value of P1.00 to cover the initial public offering (IPO) of 1,787,664,000 common shares at an issue price of P5.80 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 P5.80 per share. The total proceeds from the issuance of new shares amounted to P10.37 billion. The Company incurred transaction costs incidental to the initial public offering amounting to P412.4 million, which is charged against "Additional paid-in capital" in the consolidated 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 the appropriation of ₱13.16 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
300 MW Cebu Coal	1 st half of 2018	₱8.16
2x300 MW Coal-fired	End of 4 th quarter 2021	5.00
Total		₱13.16

On November 27, 2014, the BOD approved the appropriation of ₱20.90 billion retained earnings for the following projects:

Projects	Full commercial operations by	Appropriation (in billions)
68 MW Manolo Fortich Hydro	End of 4 th quarter 2016	₱2.60
300 MW Davao Coal	End of 1 st half 2015	9.50
14 MW Sabangan Hydro	End of 1 st half 2015	2.80
400 MW Coal Fired Pagbilao Unit 3	End of 4 th quarter 2017	6.00
Total		₱20.90

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. These 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. These 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.

- c. The balance of retained earnings includes the accumulated equity in net earnings of subsidiaries, associates and joint arrangements amounting to ₱40.11 billion and ₱28.91 billion as at December 31, 2017 and 2016, respectively. Such amounts are not available for distribution until such time that the Company receives the dividends from the respective subsidiaries, associates and joint arrangements (see Note 10).

21. Sale of Power

Sale from Distribution of Power

1. The Uniform Rate Filing Requirements on the rate unbundling released by the Energy Regulatory Commission (ERC) on October 30, 2001, specified that the billing for sale and distribution of power and electricity will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, the Currency Exchange Rate Adjustment and Interclass and Lifeline Subsidies. National and local franchise taxes, the Power Act Reduction (for residential customers) and the Universal Charge are also separately indicated in the customer's billing statements.
2. Pursuant to Section 43(f) of Republic Act (R.A.) No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001 (EPIRA), and Rule 15, section 5(a) of its Implementing Rules and Regulations (IRR), the ERC promulgated the Distribution Wheeling Rates Guidelines on December 10, 2004. These were subsequently updated and released on July 26, 2006 as the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Utilities entering Performance Based Regulation (PBR).

Details of the PBR regulatory period and the date of implementation of the approved rates are as follows:

	CLP	DLP	VECO	SEZ
Current regulatory period	April 1, 2009 to March 31, 2013	July 1, 2010 to June 30, 2014	July 1, 2010 to June 30, 2014	October 1, 2011 to September 30, 2015
Date of implementation of approved distribution supply and metering charges	May 1, 2009	August 1, 2010	August 1, 2010	November 26, 2011

A reset process should have been initiated 18 months prior to the start of the third regulatory period of April 1, 2013 to March 31, 2017 for CLP, July 1, 2014 to June 30, 2018 for DLP and VECO, and October 1, 2015 to September 30, 2019 for SEZ. The reset process, however, has been delayed due to the issuance by the ERC in 2013 of an Issues Paper on the Implementation of PBR for distribution utilities under the RDWR, which seeks to revisit various matters relating to the reset process. The ERC has solicited comments from industry participants and has been holding public consultations on the Issues Paper.

Through ERC Resolution No. 25 Series of 2016 dated July 12, 2016, the ERC adopted the Resolution Modifying the RDWR. The resolution also sets forth, the schedule for the Fourth Regulatory Period.



Total sale from distribution of power amounted to ₱43.53 billion, ₱44.59 billion and ₱41.38 billion in 2017, 2016 and 2015, respectively.

Sale from Generation of Power and Retail Electricity

a. Energy Trading through the Philippine Wholesale Electricity Spot Market (WESM)

Certain subsidiaries are trading participants and direct members under the generator sector of the WESM. These companies are allowed to access the WESM Market Management System through its Market Participant Interface (MPI). The MPI is the facility that allows the trading participants to submit and cancel bids and offers, and to view market results and reports. Under its price determination methodology as approved by the ERC, locational marginal price method is used in computing prices for energy bought and sold in the market on a per node, per hour basis. In the case of bilateral power supply contracts, however, the involved trading participants settle directly with their contracting parties.

Total sale of power to WESM amounted to ₱3.80 billion, ₱2.88 billion and ₱4.59 billion in 2017, 2016 and 2015, respectively.

b. Power Supply Agreements

i. *Power Supply Contracts assumed under Asset Purchase Agreement (APA) and IPP Administration Agreement*

Revenue recognition for customers under the power supply contracts assumed under the APA and IPP Administration Agreements are billed based on the contract price which is calculated based on the pricing structure approved by the ERC. Rates are calculated based on the time-of-use pricing schedule with corresponding adjustments using the GRAM and the ICERA.

ii. *Power Purchase/Supply Agreement and Energy Supply Agreement (PPA/PSA and ESA)*

Certain subsidiaries have negotiated contracts with NPC, Private Distribution Utilities, Electric Cooperatives and Commercial and Industrial Consumers referred to as PPA/PSA or ESA. These contracts provide a tariff that allows these companies to charge for capacity fees, fixed operating fees and energy fees.

iii. Feed-in-Tariff (FIT)

Certain subsidiaries were issued a FIT Certificate of Compliance from the ERC which entitles them to avail the FIT rate. These subsidiaries also signed agreements with the National Transmission Corporation (NTC), the FIT administrator. These agreements enumerate the rights and obligations under the FIT rules and FIT-All guidelines, in respect to the full payment of the actual energy generation of the generator, at a price equivalent to the applicable FIT rate, for the entire duration of its FIT eligibility period.

Total sale of power under power supply agreements amounted to ₱53.61 billion in 2017, ₱32.81 billion in 2016, and ₱28.78 billion in 2015.



c. Retail Electricity Supply Agreements (see Note 40i)

Certain subsidiaries have negotiated contracts with contestable customers. These contracts provide supply and delivery of electricity where capacity fees, fixed operating fees and energy fees are at fixed price/kwh or time of use.

Total sale of power under retail electricity supply agreements amounted to ₱18.07 billion, ₱8.48 billion and ₱10.23 billion in 2017, 2016 and 2015, respectively.

22. Purchased Power

Distribution

DLP, VECO, CLP and MEZ entered into contracts with NPC/PSALM for the purchase of electricity. The material terms of the contract are as follows:

	Term of Agreement with NPC/PSALM	Contract Energy (megawatt hours/year)
DLP	Ended in December 2015; extended	1,120,918
CLP	Ended in December 2015; extended	126,976

The Group's distribution utilities also entered into Transmission Service Agreements with NGCP for the transmission of electricity.

Total power purchases from the NPC/PSALM and NGCP, net of discounts, amounted to ₱9.08 billion in 2017, ₱7.52 billion in 2016, and ₱9.49 billion in 2015. The outstanding payable to the NPC/PSALM and NGCP on purchased power, presented as part of the "Trade and other payables" account in the consolidated balance sheets amounted to ₱755.7 million and ₱694.2 million as of December 31, 2017 and 2016, respectively (see Note 15).

Generation

Purchased power takes place during periods when power generated from power plants are not sufficient to meet customers' required power as stated in the power supply contracts. Insufficient supply of generated energy results from the shutdowns due to scheduled maintenance or an emergency situation. The Group purchases power from WESM to ensure uninterrupted supply of power and meet the requirements in the power supply contracts. Total purchases from WESM amounted to ₱6.26 billion in 2017, ₱1.42 billion in 2016, and ₱1.21 billion in 2015.

The Group entered into Replacement Power Contracts with certain related parties (see Note 32). Under these contracts, the Group supplies power to counterparties when additional power is needed. Correspondingly, when faced with energy shortfalls, the Group purchases power from counterparties.

Retail Electricity Supply

AESI pays PSALM monthly generation payments using the formula specified in the IPP Administration Agreement. Total generation payments to PSALM amounted to ₱1.82 billion, ₱1.90 billion and ₱1.86 billion in 2017, 2016 and 2015, respectively.



23. Cost of Generated Power

	2017	2016	2015
Fuel costs (see Note 7)	₱22,324,825	₱12,211,477	₱13,598,737
Steam supply costs (see Note 36)	4,981,187	4,108,576	3,956,979
Energy fees	668,558	627,751	684,279
Ancillary charges	547,291	340,869	262,536
Wheeling expenses	35,895	27,599	21,528
	₱28,557,756	₱17,316,272	₱18,524,059

24. General and Administrative

	2017	2016	2015
Personnel costs (see Note 26)	₱2,609,400	₱2,289,959	₱1,928,040
Outside services (see Note 32)	1,087,347	795,305	777,323
Taxes and licenses	1,033,227	1,078,810	726,398
Repairs and maintenance	377,788	308,133	290,159
Corporate social responsibility (CSR) (see Note 40k)	331,027	144,728	106,522
Professional fees (see Note 32)	256,779	249,802	116,484
Insurance	226,712	384,516	248,071
Transportation and travel (see Note 32)	195,016	191,348	166,799
Information technology and communication	106,213	86,520	75,112
Rent (see Notes 32 and 35)	95,974	96,634	97,232
Training	80,482	70,734	44,125
Provision for impairment of trade receivables (see Note 6)	77,708	145,786	418,029
Advertisements	53,583	31,564	24,370
Entertainment, amusement and recreation	23,862	29,833	24,699
Market service and administrative fees	23,075	28,324	164,311
Guard services	10,463	6,443	5,746
Freight and handling	5,245	679	2,994
Supervision and regulatory fees	2,413	1,308	1,264
Gasoline and oil	1,339	1,109	1,180
Others	624,615	672,341	599,232
	₱7,222,268	₱6,613,876	₱5,818,090

“Others” include host community-related expenses, provision for probable losses, claims conversion costs and utilities expenses.



25. Operations and Maintenance

	2017	2016	2015
Personnel costs (see Note 26)	₱1,482,775	₱1,032,249	₱978,106
Repairs and maintenance	1,262,634	596,379	407,260
Taxes and licenses	1,052,800	363,556	348,175
Outside services	808,436	506,741	437,881
Insurance	789,210	446,525	471,397
Materials and supplies (see Note 7)	339,734	261,536	483,880
Rent (see Note 35)	204,818	83,071	52,556
Fuel and lube oil (see Note 7)	72,412	310,935	426,649
Transportation and travel	69,795	57,471	37,259
Others	366,574	310,844	277,883
	₱6,449,188	₱3,969,307	₱3,921,046

“Others” include environmental, health and safety expenses, and transmission charges.

26. Personnel Costs

	2017	2016	2015
Salaries and wages	₱2,978,818	₱2,341,096	₱2,027,096
Employee benefits (see Note 27)	1,113,357	981,112	879,050
	₱4,092,175	₱3,322,208	₱2,906,146

27. Pension Benefit Plans

Under the existing regulatory framework, RA 7641, otherwise known as *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. It further states that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Company and its subsidiaries have funded, non-contributory, defined retirement benefit plans (“Plan”) covering all regular and full-time employees and requiring contributions to be made to separately administered funds. The retirement benefit fund (“Fund”) of each subsidiary 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 corporate officers, 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 consolidated statements of income and the funded status and amounts recognized in the consolidated balance sheets for the respective plans.

Net benefit expense (recognized as part of personnel costs under operations and maintenance and general and administrative expenses):

	2017	2016	2015
Current service cost	P193,346	P171,879	P185,701
Interest cost	10,730	23,880	7,534
Past service cost	15,319	3,665	422
	P219,395	P199,424	P193,657

Remeasurement effects to be recognized in other comprehensive income:

	2017	2016	2015
Actuarial gains (losses) due to:			
Changes in financial assumptions	(P4,455)	P12,799	P220,857
Changes in demographic assumptions	182,355	(170)	67,874
Return on assets excluding amount included in net interest cost	27,498	23,935	(59,439)
Experience adjustments	(252,957)	(32,107)	(361,869)
	(P47,559)	P4,457	(P132,577)

Net pension assets

	2017	2016
Fair value of plan assets	P885,860	P213,018
Present value of the defined benefit obligation	(829,460)	(167,351)
	P56,400	P45,667

Net pension liabilities

	2017	2016
Present value of the defined benefit obligation	P1,501,862	P1,895,830
Fair value of plan assets	(1,140,634)	(1,648,443)
	P361,228	P247,387



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

	2017	2016
At January 1	₱2,063,181	₱1,784,596
Net benefit expense:		
Current service cost	193,346	171,879
Net interest cost	106,180	91,075
Past service cost	15,319	3,665
	314,845	266,619
Benefits paid	(109,276)	(119,562)
Transfers and others	(1,745)	10,120
Remeasurements in other comprehensive income:		
Actuarial losses (gains) due to:		
Experience adjustments	₱252,957	₱32,107
Changes in demographic assumptions	(182,355)	170
Changes in financial assumptions	4,455	(12,799)
	75,057	19,478
Increase (decrease) from business combinations (see Note 9)	(10,740)	101,930
At December 31	₱2,331,322	₱2,063,181

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

	2017	2016
At January 1	₱1,861,461	₱1,326,525
Contribution by employer	179,487	477,876
Interest income included in net interest cost	95,450	67,195
Fund transfer from affiliates	(1,743)	10,120
Return on assets excluding amount included in net interest cost	27,498	23,935
Benefits paid	(135,659)	(118,602)
Increase from business combinations (see Note 9)	-	74,412
At December 31	₱2,026,494	₱1,861,461

Changes in net pension liability recognized in the consolidated balance sheets are as follows:

	2017	2016
At January 1	₱201,720	₱458,071
Retirement expense during the year	219,395	199,424
Actuarial loss (gain) recognized during the year	47,559	(4,457)
Increase (decrease) from business combinations (see Note 9)	(10,740)	27,518
Contribution to retirement fund	(179,487)	(477,876)
Transfers and others	26,381	(960)
At December 31	₱304,828	₱201,720



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

	2017	2016
Cash and fixed-income investments	₱914,608	₱1,385,645
Equity instruments:		
Financial Institution	4,661	185,439
Power	83,680	67,105
Holding	44	42
Others	1,023,501	223,230
	1,111,886	475,816
Fair value of plan assets	₱2,026,494	₱1,861,461

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 are diverse and do not have any concentration risk.

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 also reviews the solvency position of the different member companies on an annual basis and estimates, through the actuary, the expected contribution to the Retirement plan in the subsequent year.

The principal assumptions used as of December 31, 2017, 2016 and 2015 in determining pension benefit obligations for the Group's plans are shown below:

	2017	2016	2015
Discount rates	3.48%-5.21%	4.91%-5.64%	4.91%-5.26%
Salary increase rates	6.00%	5.00%-6.00%	6.00%

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

	Increase (decrease) in basis points	Effect on defined benefit obligation
Discount rates	100	(₱131,680)
	(100)	152,981
Future salary increases	100	161,167
	(100)	(141,518)

The Group's defined benefit pension plans are funded by the Company and its subsidiaries.

The Group expects to contribute ₱217.7 million to the defined benefit plans in 2018. The average durations of the defined benefit obligation as of December 31, 2017 and 2016 are 7.78 to 28.76 years and 11.84 to 28.76 years, respectively.



28. Other Income (Expense) - Net

	2017	2016	2015
Surcharges	P435,428	P403,730	P342,871
Gain in step acquisition (see Note 9)	310,198	350,939	-
Net foreign exchange gain (losses) (see Note 34)	203,083	(197,226)	(948,761)
Non-utility operating income	145,948	94,916	114,108
Rental income	39,704	39,415	24,586
Gain on redemption of shares	-	16,051	-
Impairment loss on property, plant and equipment, goodwill and other assets (see Notes 4, 12, 13 and 14)	(3,233,036)	(169,469)	-
Gain (loss) on disposal of property, plant and equipment	(86,193)	70,252	5,656
Write off of project costs and other assets	(79,881)	(249,176)	(69,137)
Others	560,749	1,309,780	194,038
	(P1,704,000)	P1,669,212	(P336,639)

Included in "Net foreign exchange gain (losses)" are the net gains and losses relating to currency forward transactions (see Note 34).

"Others" include non-recurring items like sale of scrap and sludge oil, and reversal of provisions. In 2016, "Others" also include income arising from the proceeds from claims of liquidating damages from contractor due to the delay of the completion of TSI's power plant amounting to P785.4 million.

29. Income Tax

The provision for income tax account consists of:

	2017	2016	2015
Current:			
Corporate income tax	P3,772,375	P3,841,051	P3,848,706
Final tax	119,833	201,545	160,608
	3,892,208	4,042,596	4,009,314
Deferred	(33,810)	(546,456)	(419,645)
	P3,858,398	P3,496,140	P3,589,669



Reconciliation between the statutory income tax rate and the Group's effective income tax rates follows:

	2017	2016	2015
Statutory income tax rate	30.00%	30.00%	30.00%
Tax effects of:			
Nondeductible interest expense	6.42	7.14	8.11
Nondeductible depreciation expense	1.22	1.31	1.46
Deductible lease payments	(9.89)	(10.33)	(10.82)
Income under income tax holiday (ITH)	(9.29)	(6.69)	(7.77)
Nontaxable share in net earnings of associates and joint ventures	(5.25)	(4.37)	(5.30)
Interest income subjected to final tax at lower rates - net	(0.78)	(1.28)	(1.10)
Others	1.94	(1.80)	1.34
	14.37%	13.98%	15.92%

Deferred income taxes of the companies in the Group that are in deferred income tax assets and liabilities position consist of the following at December 31:

	2017	2016 (As Restated; Note 9)
Net deferred income tax assets:		
Allowances for impairment and probable losses	P244,555	P237,604
Net income from commissioning	1,562,631	1,562,631
Difference between the carrying amount of nonmonetary assets and related tax base	(1,235,885)	(1,128,587)
Unrealized foreign exchange loss	580,384	920,094
Pension asset (liability):		
Unamortized contributions for past service	107,417	107,122
Recognized in other comprehensive income	194,421	22,704
Recognized in statements of income	(144,964)	553
Unamortized streetlight donations capitalized	(959)	-
Unamortized customs duties and taxes capitalized	(28,323)	(460)
Net provision for rehabilitation and restoration costs	120,409	110,263
Others	7,110	(29,354)
Net deferred income tax assets	P1,406,796	P1,802,570



	2017	2016 (As Restated; Note 9)
Net deferred income tax liabilities:		
Unamortized franchise	₱817,708	₱840,796
Fair value adjustments of property, plant and equipment	150,493	156,870
Unrealized foreign exchange gains	26,957	62,060
Capitalized interest	8,623	9,014
Unamortized customs duties and taxes capitalized	30,915	61,849
Pension asset (liability):		
Recognized in other comprehensive income	140,409	(4,548)
Recognized in statements of income	(191,948)	(31,349)
Unamortized past service cost	(13,330)	(9,849)
Allowances for impairment and probable losses	(47,376)	(55,564)
Others	(9,850)	14,717
Net deferred income tax liabilities	₱912,601	₱1,043,996

In computing for deferred income tax assets and liabilities, the rates used were 30% and 10%, which are the rates expected to apply to taxable income in the years in which the deferred income tax assets and liabilities are expected to be recovered or settled and considering the tax rate for renewable energy (RE) developers as allowed by the Renewable Energy Act of 2008 (see Note 40j).

No deferred income tax assets were recognized on the Company's NOLCO and MCIT amounting to ₱647.9 million and ₱39.1 million, respectively, as of December 31, 2017 and ₱228.1 million and ₱43.8 million, respectively, as of December 31, 2016, 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.

There are no income tax consequences to the Group attaching to the payment of dividends to its shareholders.

30. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	2017	2016	2015
a. Net income attributable to equity holders of the parent	₱20,416,442	₱20,002,582	₱17,603,797
b. Weighted average number of common shares issued and outstanding	7,358,604,307	7,358,604,307	7,358,604,307
Earnings per common share (a/b)	₱2.77	₱2.72	₱2.39

There are no dilutive potential common shares for the years ended December 31, 2017, 2016 and 2015.



31. Operating Segment Information

Operating segments are components of the Group that engage in business activities from which they may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's CODM to make decisions about how resources are to be allocated to the segment and assess their performances, and for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately according to services provided, with each segment representing a strategic business segment. The Group's identified operating segments, which are consistent with the segments reported to the BOD, which is the Group's CODM, are as follows:

- "Power Generation" segment, which is engaged in the generation and supply of power to various customers under power supply contracts, ancillary service procurement agreements and for trading in WESM;
- "Power Distribution" segment, which is engaged in the distribution and sale of electricity to the end-users; and
- "Parent Company and Others", which includes the operations of the Company, retail electricity sales to various off takers that are considered to be eligible contestable customers (see Note 40i) and electricity related services of the Group such as installation of electrical equipment.

The Group has only one geographical segment as all of its assets are located in the Philippines. The Group operates and derives principally all of its revenue from domestic operations. Thus, geographical business information is not required.

Management monitors the operating results of its segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment revenue and segment expenses are measured in accordance with PFRS. The presentation and classification of segment revenue and segment expenses are consistent with the consolidated statement of income. Interest expense and financing charges, depreciation and amortization expense and income taxes are managed on a per segment basis.

The Group has inter-segment revenues in the form of management fees as well as inter-segment sales of electricity which are eliminated in consolidation. The transfers are accounted for at competitive market prices on an arm's-length transaction basis.

Segment assets do not include deferred income tax assets, pension asset and other noncurrent assets. Segment liabilities do not include deferred income tax liabilities, income tax payable and pension liability. Capital expenditures consist of additions of property, plant and equipment and intangible asset - service concession rights. Adjustments as shown below include items not presented as part of segment assets and liabilities.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group, and that the revenue can be reliably measured. Sale of power to Manila Electric Company (MERALCO) accounted for 24%, 36%, and 38% of the power generation revenues of the Group in 2017, 2016, and 2015, respectively.



Financial information on the operations of the various business segments are summarized as follows:

2017

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱57,418,126	₱44,391,734	₱18,440,774	(₱859,331)	₱119,391,303
Inter-segment	20,833,785	–	2,937,047	(23,770,832)	–
Total Revenue	₱78,251,911	44,391,734	₱21,377,821	(₱24,630,163)	₱119,391,303
Segment Results	₱27,493,307	₱5,623,677	₱1,056,745	₱–	₱34,173,729
Unallocated corporate income - net	(2,808,401)	773,943	330,458	–	(1,704,000)
INCOME FROM OPERATIONS	24,684,906	6,397,620	1,387,203	–	32,469,729
Interest expense	(9,225,679)	(293,339)	(1,728,762)	–	(11,247,780)
Interest income	413,527	34,014	479,471	–	927,012
Share in net earnings of associates and joint ventures	4,362,804	323,674	20,540,260	(20,528,874)	4,697,864
Provision for income tax	(1,799,796)	(1,667,979)	(390,623)	–	(3,858,398)
NET INCOME	₱18,435,762	₱4,793,990	₱20,287,549	(₱20,528,874)	₱22,988,427
OTHER INFORMATION					
Investments	₱29,896,526	₱889,166	₱115,650,315	(₱115,212,028)	₱31,223,979
Capital Expenditures	₱13,549,936	₱2,565,221	₱39,052	₱–	₱16,154,209
Segment Assets	₱252,921,514	₱26,977,414	₱151,029,118	(₱69,451,047)	₱361,476,999
Segment Liabilities	₱173,675,992	₱19,266,696	₱52,829,898	(₱8,274,051)	₱237,498,535
Depreciation and Amortization	₱6,532,040	₱884,511	₱23,257	₱156,460	₱7,596,268

2016

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱35,692,441	₱44,666,133	₱8,884,996	(₱80,301)	₱89,163,269
Inter-segment	15,776,746	–	2,864,422	(18,641,168)	–
Total Revenue	₱51,469,187	44,666,133	₱11,749,418	(₱18,721,469)	₱89,163,269
Segment Results	₱20,676,138	₱5,069,839	₱564,323	₱–	₱26,310,300
Unallocated corporate income - net	755,235	647,448	266,529	–	1,669,212
INCOME FROM OPERATIONS	21,431,373	5,717,287	830,852	–	27,979,512
Interest expense	(6,861,084)	(215,531)	(627,396)	–	(7,704,011)
Interest income	720,107	23,395	340,033	–	1,083,535
Share in net earnings of associates and joint ventures	3,403,589	157,619	19,831,376	(19,751,374)	3,641,210
Provision for income tax	(1,773,580)	(1,506,918)	(215,642)	–	(3,496,140)
NET INCOME	₱16,920,405	₱4,175,852	₱20,159,223	(₱19,751,374)	₱21,504,106
OTHER INFORMATION					
Investments	₱29,291,667	₱834,689	₱111,280,064	(₱110,842,490)	₱30,563,930
Capital Expenditures	₱25,824,296	₱2,393,246	₱31,624	₱–	₱28,249,166
Segment Assets	₱272,490,917	₱24,741,202	₱118,496,136	(₱58,721,361)	₱357,006,894
Segment Liabilities	₱213,658,178	₱18,772,584	₱12,867,100	(₱500,188)	₱244,797,674
Depreciation and Amortization	₱5,095,592	₱790,751	₱22,118	₱135,066	₱6,043,527



2015

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
REVENUE					
External	₱33,368,797	₱41,379,270	₱10,425,885	₱-	₱85,173,952
Inter-segment	13,768,682	-	2,716,005	(16,484,687)	-
Total Revenue	₱47,137,479	41,379,270	₱13,141,890	(₱16,484,687)	₱85,173,952
Segment Results	₱18,791,994	₱5,342,572	₱552,011	₱-	₱24,686,577
Unallocated corporate income - net	(1,047,200)	589,638	120,923	-	(336,639)
INCOME FROM OPERATIONS					
Interest expense	17,744,794	5,932,210	672,934	-	24,349,938
Interest income	(5,804,674)	(220,049)	(609,135)	-	(6,633,858)
Share in net earnings of associates and joint ventures	475,506	28,154	342,633	-	846,293
Provision for income tax	3,834,900	146,977	17,768,476	(17,770,406)	3,979,947
NET INCOME	(1,786,022)	(1,581,894)	(221,753)	-	(3,589,669)
	₱14,464,504	4,305,398	₱17,953,155	(₱17,770,406)	₱18,952,651
OTHER INFORMATION					
Investments	₱21,309,005	₱891,788	₱104,877,388	(₱104,558,394)	₱22,519,787
Capital Expenditures	₱13,314,340	₱2,385,678	₱21,442	₱-	₱15,721,460
Segment Assets	₱204,616,971	₱22,939,942	₱122,536,523	(₱107,604,189)	₱242,489,247
Segment Liabilities	₱112,648,698	₱15,762,496	₱24,646,542	(₱12,182,057)	₱140,875,679
Depreciation and Amortization	₱3,924,624	₱258,505	₱33,757	₱105,114	₱4,322,000

32. 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 Group enters into transactions with its parent, associates, joint ventures and other related parties, principally consisting of the following:

- a. The Company provides services to certain associates and joint ventures such as technical and legal assistance for various projects and other services.
- b. Energy fees are billed by the Group to related parties and the Group also purchased power from associates and joint ventures, arising from the following:
 - PPA/PSA or ESA (Note 21)
 - Replacement power contracts (Note 22)



- c. AEV provides human resources, internal audit, legal, treasury and corporate finance services, among others, to the Group 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. Service level agreements are in place to ensure quality of service. This arrangement enables the Group to maximize efficiencies and realize cost synergies. These transactions result to professional and technical fees paid by the Group to AEV (see Note 24).
- d. Aviation services are rendered by AAI, an associate, to the Group.
- e. Lease of commercial office units by the Group from Cebu Praedia Development Corporation (CPDC) and Aboitizland, Inc. and subsidiaries. CPDC and Aboitizland, Inc. are subsidiaries of AEV.
- f. Aboitiz Construction, Inc. (ACI), a wholly owned subsidiary of ACO, rendered its services to the Group for various construction projects.
- g. Interest-bearing advances from AEV availed by the Group. The annual interest rates are determined on arm's length basis.
- h. Cash deposits with Union Bank of the Philippines (UBP) earn interest at prevailing market rates (see Note 5). UBP is an associate of AEV.
- i. The Company obtained Standby Letter of Credit (SBLC) and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, and SNAP B in the amount of ₱1.04 billion in 2017, ₱1.15 billion in 2016 and ₱1.49 billion in 2015.

The above transactions are settled in cash.

The consolidated balance sheets and consolidated statements of income include the following significant account balances resulting from the above transactions with related parties:

a. Revenue - Technical, management and other fees

	Revenue			Receivable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Associates</i>							
CEDC	₱101,367	₱103,945	₱110,157	₱7,978	₱13,972	30-day; interest-free	Unsecured; no impairment
SFELAPCO	72,158	58,119	66,274	41,266	21,827	30-day; interest-free	Unsecured; no impairment
GNPD	40,556	-	-	40,556	-	30-day; interest-free	Unsecured; no impairment
RPEI	-	5,882	-	-	-	30-day; interest-free	Unsecured; no impairment
EAUC	-	-	4,790	-	-	30-day; interest-free	Unsecured; no impairment
	₱214,081	₱167,946	₱181,221	₱89,800	₱35,799		



b. Revenue - Sale of power

	Revenue			Receivable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>AEV and subsidiaries</i>							
Pilmico Foods Corporation	₱216,330	₱156,227	₱101,800	₱22,503	₱17,010	30-day; interest-free	Unsecured; no Impairment
Aboitizland, Inc. and subsidiaries	18,060	11,192	11,299	12,477	1,333	30-day; interest-free	Unsecured; no Impairment
Lima Water Corporation	17,141	12,944	14,207	1,667	1,151	30-day; interest-free	Unsecured; no Impairment
Lima Land, Inc.	3,031	2,835	2,978	405	63	30-day; interest-free	Unsecured; no Impairment
Cebu Industrial Park Developers, Inc.	2,650	-	-	204	-	30-day; interest-free	Unsecured; no Impairment
<i>Associates and Joint Ventures</i>							
SFELAPCO	2,487,557	2,669,036	2,654,128	150,888	196,912	30-day; interest-free	Unsecured; no Impairment
SNAP RES	14,209	-	-	-	-	30-day; interest-free	Unsecured; no Impairment
SNAP B	-	18,291	-	-	-	30-day; interest-free	Unsecured; no Impairment
SNAP M	-	13,868	-	-	-	30-day; interest-free	Unsecured; no Impairment
<i>Other related parties</i>							
Tsuneishi Heavy Industries Cebu, Inc. (a joint venture of ACO and Tsuneishi Group)	406,366	545,344	589,082	41,200	45,266	30-day; interest-free	Unsecured; no impairment
Republic Cement & Building Materials, Inc. (an associate of AEV)	101,092	-	-	20,114	-	30-day; interest-free	Unsecured; no impairment
Metaphil International, Inc. (a subsidiary of ACO)	2,410	10,868	6,722	261	429	30-day; interest-free	Unsecured; no impairment
	₱3,268,846	₱3,440,605	₱3,380,216	₱249,719	₱262,164		

c. Cost of purchased power

	Purchases			Payable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Associates and Joint Ventures</i>							
CEDC	₱4,540,798	₱4,552,650	₱4,593,202	₱383,308	₱395,904	30-day; interest-free	Unsecured
SPPC	158,015	219,272	216,525	-	21,702	30-day; interest-free	Unsecured
SNAP M	126,731	-	84,744	8,252	-	30-day; interest-free	Unsecured
SFELAPCO	23,592	-	-	5,237	-	30-day; interest-free	Unsecured
WMPC	-	328,000	-	-	32,900	30-day; interest-free	Unsecured
SNAP B	-	136,500	-	-	-	30-day; interest-free	Unsecured
EAUC	-	-	87,411	-	-	30-day; interest-free	Unsecured
	₱4,849,136	₱5,236,422	₱4,981,882	₱396,797	₱450,506		



d. Expenses

Nature	Purchases/Expenses			Payable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Ultimate Parent</i>							
ACO	Professional and Technical fees	₱18,296	₱8,313	₱17,809	₱2,675	₱727	30-day; interest-free Unsecured
<i>AEV and subsidiaries</i>							
AEV	Professional and Technical fees	766,866	550,290	451,935	132,518	169,170	30-day; interest-free Unsecured
AAI	Aviation Services	61,189	30,009	45,326	3,319	2,167	30-day; interest-free Unsecured
Lima Land, Inc.	Concession fees	59,151	49,622	44,861	4,919	4,008	30-day; interest-free Unsecured
Aboitiz Construction, Inc.	Professional and Technical fees	16,789	-	-	9	-	30-day; interest-free Unsecured
CPDC	Rental	34,711	20,364	17,202	2	7,258	30-day; interest-free Unsecured
CPDC	Professional and Technical fees	7	10,426	6,554	-	121	30-day; interest-free Unsecured
Aboitizland, Inc. and subsidiaries	Rental	1,163	2,253	1,070	-	-	30-day; interest-free Unsecured
<i>Associate</i>							
EAUC	Professional and Technical fees	-	-	3,924	-	-	30-day; interest-free Unsecured
		₱958,172	₱671,277	₱588,681	₱143,442	₱183,451	

e. Capitalized construction and rehabilitation costs

	Purchases			Payable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Other related parties</i>							
ACI	₱727,378	₱388,172	₱-	₱1,735	₱2,583	30-day; interest-free	Unsecured

f. Temporary advances

	Interest Expense			Payable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Parent</i>							
AEV	₱44,299	₱16,290	₱-	₱300,000	₱2,559,500	Promissory note; interest-bearing	Unsecured

g. Notes receivable

	Interest Income			Receivable		Terms	Conditions
	2017	2016	2015	2017	2016		
<i>Joint venture</i>							
SACASUN	₱151,040	₱847	₱-	₱-	₱2,882,456	Loan agreement; interest-bearing	Unsecured



h. Cash deposits and placements with UBP

	Interest Income			Outstanding Balance		Terms	Conditions
	2017	2016	2015	2017	2016		
Company	₱54,450	₱78,251	₱34,910	₱1,676,753	₱712,619	90 days or less; interest-bearing	No impairment
TPI and subsidiaries	57,888	102,242	29,557	3,822,627	2,820,245	90 days or less; interest-bearing	No impairment
ARI and subsidiaries	47,101	43,955	26,874	4,381,506	3,941,308	90 days or less; interest-bearing	No impairment
AESI	14,084	5,615	1,854	586,981	251,570	90 days or less; interest-bearing	No impairment
EAUC	4,629	2,157	51	985,878	197,607	90 days or less; interest-bearing	No impairment
VECO	3,525	3,755	1,289	175,182	301,062	90 days or less; interest-bearing	No impairment
DLP	3,505	4,509	825	207,506	229,069	90 days or less; interest-bearing	No impairment
AI	3,501	1,202	1,674	97,068	82,520	90 days or less; interest-bearing	No impairment
CPPC	2,396	3,221	1,073	166,881	356,444	90 days or less; interest-bearing	No impairment
LEZ	2,034	1,821	948	155,443	98,052	90 days or less; interest-bearing	No impairment
SEZ	1,575	2,992	228	11,353	442,712	90 days or less; interest-bearing	No impairment
CLP	306	405	302	5,337	2,545	90 days or less; interest-bearing	No impairment
MEZ	213	839	212	2,848	79,862	90 days or less; interest-bearing	No impairment
BEZ	174	679	114	87,241	81,372	90 days or less; interest-bearing	No impairment
PEI	76	51	51	4,006	4,965	90 days or less; interest-bearing	No impairment
	₱195,457	₱251,694	₱99,962	₱12,366,610	₱9,601,952		

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

Compensation of BOD and key management personnel of the Group follows:

	2017	2016	2015
Short-term benefits	₱461,779	₱791,708	₱456,844
Post-employment benefits	28,518	24,795	30,616
	₱490,297	₱816,503	₱487,460

33. Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise cash and cash equivalents and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial instruments such as trade and other receivables, AFS investments, short-term loans, trade and other payables, finance lease obligation, long-term obligation on power distribution system and customers' deposits, which generally arise directly from its operations.



The Group 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 34).

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 Group.

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 Group'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 Group's risks in line with the policies and limits.

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments 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 and borrowings.

Liquidity risk

Liquidity risk is the risk of not meeting obligations as they become due because of the inability to liquidate assets or obtain adequate funding. The Group 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 any dividend declarations.

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 11.58% and 4.77% of the Group's debt will mature in less than one year as of December 31, 2017 and 2016, respectively. For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables that have contractual undiscounted cash flows amounting to ₱35.70 billion and ₱17.36 billion, respectively, as of December 31, 2017 and ₱47.09 billion and ₱15.47 billion, respectively, as of December 31, 2016 (see Notes 5 and 6). Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.



The following tables summarize the maturity profile of the Group's financial liabilities as of December 31, 2017 and 2016 based on contractual undiscounted payments:

December 31, 2017

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	P4,717,300	P4,727,469	P-	P4,727,469	P-	P-
Trade and other payables	15,938,758	15,938,758	1,312,697	14,626,061	-	-
Long-term debts	152,053,500	195,811,675	-	25,546,983	81,201,309	89,063,383
Customers' deposits	6,094,690	6,094,690	-	600	72,304	6,021,786
Finance lease obligation	49,225,254	73,496,465	-	8,813,700	38,927,175	25,755,590
Long-term obligation on power distribution system	226,071	400,000	-	40,000	200,000	160,000
Derivative liabilities	47,577	47,577	-	47,577	-	-
	P228,303,150	P296,516,634	P1,312,697	P53,802,390	P120,400,788	P121,000,759

December 31, 2016

	Total carrying value	Contractual undiscounted payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	P4,155,600	P4,163,726	P2,559,500	P1,604,226	P-	P-
Trade and other payables	14,076,039	14,076,039	1,532	14,074,507	-	-
Long-term debts	159,372,535	173,620,862	-	10,519,193	72,529,068	90,572,601
Customers' deposits	6,831,242	6,831,242	-	-	11,383	6,819,859
Finance lease obligation	52,340,204	82,133,660	-	8,061,900	36,938,160	37,133,600
Long-term obligation on power distribution system	237,248	440,000	-	40,000	200,000	200,000
Derivative liabilities	360,877	360,877	-	127,442	233,435	-
	P237,373,745	P281,626,406	P2,561,032	P34,427,268	P109,912,046	P134,726,060

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 Group'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.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of December 31, 2017, 21% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 79% have annual fixed interest rates ranging from 4.00% to 7.38%. As of December 31, 2016, 25% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 75% have annual fixed interest rates ranging from 4.11% to 7.65%.



The following tables set out the carrying amounts, by maturity, of the Group's financial instruments that are exposed to cash flow interest rate risk:

As of December 31, 2017

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱15,376,379	₱4,836,681	₱10,993,807	₱31,206,867

As of December 31, 2016

	<1 year	1-5 years	>5 years	Total
Floating rate - long-term debt	₱1,608,637	₱38,308,317	₱-	₱39,916,954

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk. The Group's derivative assets and liabilities are subject to fair value interest rate risk (see Note 34).

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's income before tax (through the impact on floating rate borrowings):

	Increase (decrease) in basis points	Effect on income before tax
December 2017	200	(₱624,137)
	(100)	312,069
December 2016	200	(₱798,339)
	(100)	399,170

There is no other impact on the Group's equity other than those already affecting the consolidated statements of income.

The interest expense and other finance charges recognized according to source are as follows:

	2017	2016	2015
Finance lease obligation (see Note 35)	₱4,757,379	₱4,794,801	₱5,287,369
Short-term loans and long-term debt (see Notes 16 and 17)	6,458,347	2,876,652	1,208,555
Customers' deposits (see Note 18)	3,230	2,493	4,241
Other long-term obligations (see Notes 13 and 19)	28,824	30,065	133,693
	₱11,247,780	₱7,704,011	₱6,633,858



Foreign exchange risk

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 35% and 40% of total consolidated borrowings as of December 31, 2017 and 2016, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of December 31, 2017 and 2016, translated to Philippine Peso:

	December 31, 2017		December 31, 2016	
	US Dollar	Philippine Peso equivalent ¹	US Dollar	Philippine Peso equivalent ²
Loans and receivables:				
Cash and cash equivalents	\$106,561	₱5,320,591	\$14,990	₱745,303
Trade and other receivables	34,880	1,741,562	266	13,231
Derivative assets	-	-	1,098	54,595
Total financial assets	141,441	7,062,153	16,354	813,129
Other financial liabilities:				
Trade and other payables	41,457	2,069,939	26,578	1,321,455
Long-term debt	303,500	15,153,755	623,500	31,000,420
Finance lease obligation	519,370	25,932,144	555,448	27,616,875
Total financial liabilities	864,327	43,155,838	1,205,526	59,938,750
Total net financial liabilities	(\$722,886)	(₱36,093,685)	(\$1,189,172)	(₱59,125,621)

¹US\$1 = ₱49.93

²US\$1 = ₱49.72

The following table demonstrates the sensitivity to a reasonable possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of December 31:

	Increase (decrease) in US Dollar	Effect on income before tax
2017		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱1,804,684)
US Dollar denominated accounts	US Dollar weakens by 5%	1,804,684
2016		
US Dollar denominated accounts	US Dollar strengthens by 5%	(₱2,959,011)
US Dollar denominated accounts	US Dollar weakens by 5%	2,959,011

The increase in US Dollar rate represents the depreciation of the Philippine Peso while the decrease in US Dollar rate represents appreciation of the Philippine Peso.



The following table presents LHC's and GMCP's foreign currency denominated assets and liabilities:

	2017		2016	
	Philippine Peso	US Dollar Equivalent ¹	Philippine Peso	US Dollar Equivalent ¹
Loans and receivables:				
Cash and cash equivalents	₱784,566	\$15,713	₱1,513,927	\$30,449
Trade and other receivables	383,606	7,683	583,160	11,729
	1,168,172	23,396	2,097,087	42,178
Other financial liabilities:				
Trade and other payables	487,004	9,754	893,586	17,973
Net foreign currency denominated assets	₱681,168	\$13,642	₱1,203,501	\$24,205

¹US\$1 = ₱49.93

²US\$1 = ₱49.72

The following tables demonstrate the sensitivity to a reasonable possible change in the US dollar exchange rate in relation to Philippine peso, with all variables held constant, of the Group's income before tax as of December 31:

	Effect on income before tax
2017	
U.S. dollar appreciates against Philippine peso by 5.0%	(\$682)
U.S. dollar depreciates against Philippine peso by 5.0%	682
2016	
U.S. dollar appreciates against Philippine peso by 5.0%	(\$1,216)
U.S. dollar depreciates against Philippine peso by 5.0%	1,204

There is no other impact on the Group's equity other than those already affecting the consolidated statements of comprehensive income.

Credit risk

For its cash investments (including restricted portion), AFS investments and receivables, the Group's credit risk pertains to possible default by the counterparty, with a maximum exposure equal to the carrying amount of these investments. With respect to cash investments and AFS investments, the risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions and entities of high credit standing. With respect to receivables, credit risk is controlled by the application of credit approval, limit and monitoring procedures. It is the Group's policy to only enter into transactions with credit-worthy parties to mitigate any significant concentration of credit risk. The Group ensures that sales are made to customers with appropriate credit history and it has internal mechanisms to monitor the granting of credit and management of credit exposures.



Concentration risk

Credit risk concentration of the Group's receivables according to the customer category as of December 31, 2017 and 2016 is summarized in the following table:

	2017	2016
Power distribution:		
Industrial	₱4,573,703	₱3,589,973
Residential	1,083,524	1,324,289
Commercial	1,198,568	545,173
City street lighting	31,680	31,196
Power generation:		
Power supply contracts	7,815,795	6,945,891
Spot market	1,676,552	1,480,162
	₱16,379,822	₱13,916,684

The above receivables were provided with allowance for doubtful accounts amounting to ₱1.77 billion in 2017 and ₱1.76 billion in 2016 (see Note 6).

Maximum exposure to credit risk after collateral and other credit enhancements

The maximum exposure of the Group's financial instruments is equivalent to the carrying values as reflected in the consolidated balance sheets and related notes, except that the credit risk associated with the receivables from customers is mitigated because some of these receivables have collaterals.

Maximum exposure to credit risk for collateralized loans is shown below:

	2017			2016		
	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk	Carrying Value	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Trade receivables:						
Power distribution	₱6,887,475	₱6,887,475	P-	₱5,490,631	₱5,490,631	P-

Financial effect of collateral in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Credit quality

The credit quality per class of financial assets is as follows:

December 31, 2017

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	₱10,219,777	P-	P-	P-	₱10,219,777
Short-term deposits	25,479,854	-	-	-	25,479,854
	35,699,631	-	-	-	35,699,631

(Forward)



	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Trade receivables:					
Power supply contracts	P6,666,860	P-	P-	P1,148,935	P7,815,795
Spot market	298,523	-	-	1,378,029	1,676,552
Industrial	3,702,771	41,813	-	829,119	4,573,703
Residential	402,230	-	-	681,294	1,083,524
Commercial	957,258	2,810	-	238,500	1,198,568
City street lighting	5,041	-	-	26,639	31,680
	12,032,683	44,623	-	4,302,516	16,379,822
Other receivables	2,727,027	-	-	27,817	2,754,844
AFS investments	102,999	-	-	-	102,999
Restricted cash	2,642,327	-	-	-	2,642,327
Derivative assets	341,941	-	-	-	341,941
Total	P53,546,608	P44,623	P-	P4,330,333	P57,921,564

December 31, 2016

	Neither past due nor impaired			Past due or individually impaired	Total
	High Grade	Standard	Sub-standard		
Cash and cash equivalents:					
Cash on hand and in banks	P11,133,591	P-	P-	P-	P11,133,591
Short-term deposits	35,961,150	-	-	-	35,961,150
	47,094,741	-	-	-	47,094,741
Trade receivables:					
Power supply contracts	4,884,832	-	-	2,061,059	6,945,891
Spot market	215,275	-	-	1,264,887	1,480,162
Industrial	3,214,356	150,694	-	224,923	3,589,973
Residential	735,750	-	-	588,539	1,324,289
Commercial	344,342	4,685	-	196,146	545,173
City street lighting	8,442	-	-	22,754	31,196
	9,402,997	155,379	-	4,358,308	13,916,684
Other receivables	3,134,207	-	-	175,866	3,310,073
AFS investments	100,309	-	-	-	100,309
Notes receivable	2,882,456	-	-	-	2,882,456
Restricted cash	2,100,611	-	-	-	2,100,611
Derivative assets	291,861	-	-	-	291,861
Total	P65,007,182	P155,379	P-	P4,534,174	P69,696,735

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.

Trade and other receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments and accounts under dispute and legal proceedings.



The Group evaluated its cash and cash equivalents and restricted cash as high quality financial assets since these are placed in financial institutions of high credit standing.

With respect to other receivables, AFS investment and derivative assets, the Group evaluates the counterparty's external credit rating in establishing credit quality.

The tables below show the Group's aging analysis of financial assets:

December 31, 2017

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	₱10,219,777	₱10,219,777	₱-	₱-	₱-	₱-
Short-term deposits	25,479,854	25,479,854	-	-	-	-
	35,699,631	35,699,631	-	-	-	-
Trade receivables:						
Power supply contracts	7,815,795	6,666,860	152,545	68,246	626,667	301,477
Spot market	1,676,552	298,523	538	5,229	113,698	1,258,564
Industrial	4,573,703	3,744,584	349,993	46,434	309,474	123,218
Residential	1,083,524	402,230	383,897	68,367	152,460	76,570
Commercial	1,198,568	960,068	141,852	43,107	45,789	7,752
City street lighting	31,680	5,041	9,634	1,902	7,846	7,257
	16,379,822	12,077,306	1,038,459	233,285	1,255,934	1,774,838
Other receivables	2,754,844	2,727,027	-	10,214	17,603	-
AFS investments	102,999	102,999	-	-	-	-
Restricted cash	2,642,327	2,642,327	-	-	-	-
Derivative assets	341,941	341,941	-	-	-	-
Total	₱57,921,564	₱53,591,231	₱1,038,459	₱243,499	₱1,273,537	₱1,774,838

December 31, 2016

	Total	Neither past due nor impaired	Past due but not impaired			Individually impaired
			Less than 30 days	31 days to 60 days	Over 60 days	
Cash and cash equivalents:						
Cash on hand and in banks	₱11,133,591	₱11,133,591	₱-	₱-	₱-	₱-
Short-term deposits	35,961,150	35,961,150	-	-	-	-
	47,094,741	47,094,741	-	-	-	-
Trade receivables:						
Power supply contracts	6,945,891	4,884,832	1,163,502	192,832	382,805	321,920
Spot market	1,480,162	215,275	2,541	3,593	33,137	1,225,616
Industrial	3,589,973	3,365,050	64,900	13,190	136,116	10,717
Residential	1,324,289	735,750	174,831	26,930	225,513	161,265
Commercial	545,173	349,027	56,577	12,061	92,805	34,703
City street lighting	31,196	8,442	1,646	355	13,338	7,415
	13,916,684	9,558,376	1,463,997	248,961	883,714	1,761,636
Other receivables	3,310,073	3,134,207	8,875	43,599	123,392	-
AFS investments	100,309	100,309	-	-	-	-
Notes receivable	2,882,456	2,882,456	-	-	-	-
Restricted cash	2,100,611	2,100,611	-	-	-	-
Derivative assets	291,861	291,861	-	-	-	-
Total	₱69,696,735	₱65,162,561	₱1,472,872	₱292,560	₱1,007,106	₱1,761,636



Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group'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 Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. The Group's policy is to keep the gearing ratio at 70% or below. The Group determines net debt as the sum of interest-bearing short-term and long-term loans (comprising long-term debt and finance lease obligation) less cash and short-term deposits (including restricted cash).

Gearing ratios of the Group as of December 31, 2017 and 2016 are as follows:

	2017	2016 (As Restated; Note 9)
Short-term loans	₱4,717,300	₱4,155,600
Long-term debt	201,278,754	211,712,739
Cash and cash equivalents	(35,699,631)	(47,094,741)
Restricted cash	(2,642,327)	(2,100,611)
Net debt (a)	167,654,096	166,672,987
Equity	123,978,465	112,209,220
Equity and net debt (b)	₱291,632,561	₱278,882,207
Gearing ratio (a/b)	57.49%	59.76%

Part of the Group'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 Group is in compliance with the financial covenants attached to its long-term debt as of December 31, 2017 and 2016 (see Note 17).

Certain entities within the Group that are registered with the BOI are required to raise a minimum amount of capital in order to avail of their registration incentives. As of December 31, 2017 and 2016, these entities have complied with the requirement as applicable (see Note 37).

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



34. 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.

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

	2017		2016	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Liabilities				
Finance lease obligation	₱49,225,254	₱43,462,850	₱52,340,204	₱49,699,074
Long-term debt - fixed rate	120,846,633	115,027,567	117,804,710	117,710,942
Long-term obligation on power distribution system	226,071	326,655	237,248	414,135
	₱170,297,958	₱158,817,072	₱170,382,162	₱167,824,151

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

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

Fixed-rate borrowings. The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans. Interest-bearing loans were discounted using credit-adjusted interest rates ranging from 3.10% to 6.17% in 2017 and 2.47% to 7.2% in 2016.

Floating-rate borrowings. Since repricing of the variable-rate interest bearing loan is done on a quarterly basis, the carrying value approximates the fair value.



Finance lease obligation. The fair value of the finance lease obligation was calculated by discounting future cash flows using interest rates of 5.86% to 10.05% in 2017 and 5.83% to 8.43% in 2016 for dollar payments and 1.79% to 5.99% in 2017 and 1.78% to 6.57% in 2016 for peso payments.

Long-term obligation on PDS. The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates. Discount rates used in discounting the obligation ranges from 2.70% to 4.66% in 2017 and 3.83% to 4.47% in 2016.

Customers' deposits. The fair value of bill deposits approximates the carrying values as these deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines. The timing and related amounts of future cash flows relating to transformer and lines and poles deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

AFS investments. These are carried at cost less impairment because fair value cannot be determined reliably due to the unpredictable nature of cash flows and lack of suitable methods of arriving at reliable fair value.

Derivative financial instruments. The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the interest rate swap and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

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

The Group also entered into an interest rate swap agreement to fully hedge its floating rate exposure on its foreign currency-denominated loan and par forward contracts to hedge the floating rate exposure on foreign-currency denominated payments.

Interest rate swaps

In August 2012, LHC entered into an interest rate swap (IRS) agreement effective October 31, 2012 to fully hedge its floating rate exposure on its US Dollar-denominated loan. Under the interest rate swap agreement, LHC, on a semi-annual basis, pays a fixed rate of 1.505% per annum and receives variable interest at 6-month LIBOR plus margin. The interest payments and receipts are based on the outstanding USD notional amount simultaneous with the interest payments on the hedged loan. Similar with the hedged loan, the IRS has amortizing notional amounts which cover a period up to final maturity. LHC designated the swap as a cash flow hedge.



As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US\$22.2 million and ₱15.8 million, respectively. As of December 31, 2016, the outstanding notional amount and derivative asset as a result of the swap amounted to US\$27.7 million and ₱15.2 million, respectively.

GMCP (see Note 9), has an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its Onshore - Tranche B loans. Under the swap agreement, GMCP pays a fixed rate of 4.37% and receives 6-month LIBOR rate, semi-annually from January 29, 2010 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRS agreement was terminated following the prepayment of the loan (see Note 11). As a result of the termination, the outstanding value of the derivative liability amounting to US\$4.5 million was derecognized in cumulative translation adjustments.

On September 29, 2017, GMCP entered into an IRS agreement to hedge the variability in the interest cash flows on the entire amount of its LIBOR Loan (see Note 11), which bears interest based on six-month US LIBOR. Under the swap agreement, GMCP pays a fixed rate of 2.18% and receives six-month US LIBOR rate, semi-annually from March 29, 2018 until September 27, 2024. The interest rate swap settlement dates coincide with the semi-annual interest payment dates of the NFA. GMCP designated the swap as a cash flow hedge.

As of December 31, 2017, the outstanding notional amount and derivative asset as a result of the swap amounted to US\$300.0 million and ₱49.9 million, respectively. As of December 31, 2016, the outstanding notional amount and derivative asset as a result of the swap amounted to US\$105.1 million and ₱331.0 million, respectively.

Interest rate cap (IRC)

GMCP (see Note 9), has an IRC to hedge the variability in the interest cash flows above a certain maximum interest rate on the outstanding amount of its Onshore - Tranche A loans (see Note 11). The IRC has an outstanding notional amount of US\$34.4 million, and a derivative liability amount of ₱19.5 million, as of December 31, 2016. Under the IRC agreement, GMCP will receive an amount based upon the outstanding notional amount and the excess of the 6-month LIBOR over the 2.00% cap rate and pays a fixed interest of 0.69% as a premium for the IRC on each settlement date. If the 6-month LIBOR is below 2.00%, no payment will be received by GMCP. The settlement dates shall be on semi-annual basis from March 29, 2015 until March 29, 2021. GMCP designated the swap as a cash flow hedge. On September 29, 2017, the IRC agreement was terminated following the prepayment of the loan (see Note 11). As a result of the termination, the outstanding value of the derivative asset was derecognized in cumulative translation adjustments.

Foreign currency forward contracts

On November 26, 2015, Hedcor Bukidnon entered into a deliverable forward contract to manage its foreign currency risks associated with its Euro denominated purchases. As of December 31, 2017 and 2016, the outstanding sell U.S. Dollar buy Euro forward contract has an aggregate notional of €2.5 million and €6.4 million, respectively. The maturity of the derivatives begins on December 21, 2015 until April 25, 2018.



On November 26, 2015, Hedcor Bukidnon also entered into a non-deliverable forward contract to manage its exposure to exchange rate fluctuations associated with US dollar denominated purchases. As of December 31, 2017 and 2016, the contract has an aggregate notional amount of US\$2.6 and US\$6.9 million, respectively that will be fully settled in 2018.

Hedcor Bukidnon designated these foreign currency hedging transactions as cash flow hedges.

Par forward contracts

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 2015, TVI entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the Engineering Procurement Construction (EPC) contract related to the construction of a power plant. As of December 31, 2017 and 2016, the aggregate notional amount of the par forward contracts is US\$23.7 million and US\$47.6 million, respectively.

In 2014, the Group's Joint Operation entered into par forward contracts to hedge the foreign currency risk arising from the forecasted US Dollar denominated payments under the EPC contract related to the construction of a power plant. The par forward contracts were designated as cash flow hedges. As of December 31, 2017 and 2016, the aggregate notional amount of the par forward contracts is ₱254.3 million and ₱700.0 million, respectively.

The movements in fair value changes of all derivative instruments for the year ended December 31, 2017 and 2016 are as follows:

	2017	2016 (As Restated; Note 9)
At beginning of year	(₱69,016)	₱563,366
Additions due to business combination (see Note 9)	-	(350,574)
Net changes in fair value of derivatives designated as cash flow hedges	105,483	36,859
Net changes in fair value of derivatives not designated as accounting hedges	5,339	(127,039)
Derecognition recognized in cumulative translation adjustments	240,960	-
Fair value of settled instruments	11,598	(191,628)
At end of year	₱294,364	(₱69,016)

The net gains and losses from the net fair value changes of derivatives not designated as accounting hedges are included under "Net foreign exchange gain (losses)" in Note 28.

The changes in the fair value of derivatives designated as cash flow hedges were deferred in equity under "Cumulative translation adjustments."



The net movement of changes to Cumulative translation adjustment is as follows:

	2017	2016
Balance at beginning of year (net of tax)	(P176,936)	P147,337
Changes in fair value recorded in equity	75,935	62,586
	(101,001)	209,923
Additions due to business combination (see Note 9)	-	(257,500)
Derecognition	147,881	-
Transfers to construction in progress	(57,959)	(178,646)
Changes in fair value transferred to profit or loss	127,328	10,191
Balance at end of year before deferred tax effect	116,249	(216,032)
Deferred tax effect	23,630	39,096
Balance at end of year (net of tax)	P139,879	(P176,936)

Fair Value Hierarchy

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

As of December 31, 2017 and 2016, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2017

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	P341,941	P-	P341,941	P-
Derivative liabilities	47,577	-	47,577	-
Disclosed at fair value:				
Finance lease obligation	43,462,850	-	-	43,462,850
Long-term debt - fixed rate	115,027,567	-	-	115,027,567
Long-term obligation on PDS	326,655	-	-	326,655



December 31, 2016

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative assets	₱291,861	₱-	₱291,861	₱-
Derivative liabilities	360,877	-	360,877	-
Disclosed at fair value:				
Finance lease obligation	49,699,074	-	-	49,699,074
Long-term debt - fixed rate	117,710,942	-	-	117,710,942
Long-term obligation on PDS	414,135	-	-	414,135

During the years ended December 31, 2017 and 2016, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

35. Lease Agreements

TLI

TLI was appointed by PSALM as Administrator under the IPP Administration Agreement, giving TLI the right to receive, manage and control the capacity of the power plant for its own account and at its own cost and risk; and the right to receive the transfer of the power plant at the end of the IPP Administration Agreement for no consideration.

In view of the nature of the IPP Administration Agreement, the arrangement has been considered as a finance lease. Accordingly, TLI recognized the capitalized asset and related liability of ₱44.79 billion (equivalent to the present value of the minimum lease payments using TLI's incremental borrowing rates of 10% and 12% for dollar and peso payments, respectively) in the consolidated financial statements as "Power plant" and "Finance lease obligation" accounts, respectively. The discount determined at inception of the IPP Administration Agreement is amortized over the period of the IPP Administration Agreement and is recognized as interest expense in the consolidated statements of income. Interest expense in 2017, 2016 and 2015 amounted to ₱4.76 billion, ₱4.80 billion, and ₱5.29 billion, respectively (see Note 33).

Future minimum monthly dollar and peso payments under the IPP Administration Agreement and their present values as of December 31, 2017 and 2016 are as follows:

	Dollar payments	Peso equivalent of dollar payments ¹	Peso payments	2017 Total
Within one year	\$90,000	₱4,493,700	₱4,320,000	₱8,813,700
After one year but not more than five years	397,500	19,847,175	19,080,000	38,927,175
More than five years	263,000	13,131,590	12,624,000	25,755,590
Total contractual payments	750,500	37,472,465	36,024,000	73,496,465
Unamortized discount	231,130	11,540,344	12,730,867	24,271,211
Present value	519,370	25,932,121	23,293,133	49,225,254
Less current portion				3,316,165
Noncurrent portion of finance lease obligation				₱45,909,089



	Dollar payments	Peso equivalent of dollar payments ¹	Peso payments	2016 Total
Within one year	\$82,500	₱4,101,900	₱3,960,000	₱8,061,900
After one year but not more than five years	378,000	18,794,160	18,144,000	36,938,160
More than five years	380,000	18,893,600	18,240,000	37,133,600
Total contractual payments	840,500	41,789,660	40,344,000	82,133,660
Unamortized discount	285,051	14,172,757	15,620,699	29,793,456
Present value	555,449	27,616,903	24,723,301	52,340,204
Less current portion				2,968,491
Noncurrent portion of finance lease obligation				₱49,371,713

¹US\$1 = ₱49.93 in 2017; ₱49.72 in 2016

APRI

On May 25, 2009, APRI entered into a lease agreement with PSALM for a parcel of land owned by the latter on which a portion of the assets purchased under the APA is situated. The lease term is for a period of 25 years commencing from the Closing Date as defined in the APA which falls on May 25, 2009. The rental fees for the whole term of 25 years amounting to ₱492.0 million were paid in full after the receipt by APRI of the Certificate of Effectivity on the lease (see Notes 8 and 15). Total lease charged to operations amounted to ₱19.7 million in 2017, 2016 and 2015 (see Note 25).

GMCP

In August 2007, a 25-year lease agreement with Authority of the Freeport Area of Bataan for land at Bataan Economic Zone, used as an access road and right of way for electric power transmission lines.

In January 2010, a 50-year land lease agreement with PMR Group Retirement Plan, Inc. (PGRPI), used for its power plant facilities. GMCP, upon mutual agreement of PGRPI, has the right and option to extend the lease for a period of twenty-five years. In August 2016, GMCP entered into another lease agreement with PGRPI for land to be used for staff house.

HI, HTI and HSI

HI, HTI and HSI entered into contracts with various lot owners for lease of land where their power plants are located. Terms of contract are for a period of 1 to 50 years renewable upon mutual agreement by the parties.

Sacasun

Sacasun entered into a contract for lease of land where the power plant is located. The contract pertains to rent for 25 years renewable upon mutual agreement by the parties. Prepaid rent amounts to ₱50.8 million and ₱10.0 million as of December 31, 2017 and 2016, respectively (see Note 8).

Therma Mobile

On April 26, 2014, a 10-year lease for portions of the breakwater area of the Navotas Fishport Complex (NFPC), including the mooring facility, marine and land transmission lines.



EAUC

Lease agreement with PEZA for a piece of land located inside Mactan Economic Zone for its power plant facilities.

Future minimum lease payments under the non-cancellable operating leases of GMCP, Sacasun, HI, HTI, HSI, Therma Mobile and EAUC are as follows (amounts in millions):

	2017	2016
Not later than 1 year	P252.3	P166.9
Later than 1 year but not later than 5 years	736.7	503.6
Later than 5 years	5,619.7	4,036.5

Total lease charged to operations related to these contracts amounted to P163.7 million in 2017, P38.5 million in 2016, and P33.1 million in 2015 (see Note 25).

36. Agreements

Pagbilao IPP Administration Agreement

TLI and PSALM executed the IPP Administration Agreement wherein PSALM appointed TLI to manage the 700MW contracted capacity (the "Capacity") of NPC in the coal-fired power plant in Pagbilao, Quezon.

The IPP Administration Agreement includes the following obligations TLI would have to perform until the transfer date of the power plant (or the earlier termination of the IPP Administration Agreement):

- a. Supply and deliver all fuel for the power plant in accordance with the specifications of the original Energy Conservation Agreement (ECA); and
- b. Pay to PSALM the monthly payments (based on the bid) and energy fees (equivalent to the amount paid by NPC to the IPP).

TLI has the following rights, among others, under the IPP Administration Agreement:

- a. The right to receive, manage and control the Capacity of the power plant for its own account and at its own cost and risk;
- b. The right to trade, sell or otherwise deal with the Capacity (whether pursuant to the spot market, bilateral contracts with third parties or otherwise) and contract for or offer related ancillary services, in all cases for its own account and its own risk and cost. Such rights shall carry the rights to receive revenues arising from such activities without obligation to account therefore to PSALM or any third party;
- c. The right to receive the transfer of the power plant at the end of the IPP Administration Agreement (which is technically the end of the ECA) for no consideration; and
- d. The right to receive an assignment of NPC's interest to existing short-term bilateral Power Supply Contract from the effective date of the IPP Administration Agreement the last of which were scheduled to end in November 2011.



In view of the nature of the IPP Administration Agreement, the arrangement has been accounted for as a finance lease (see Note 35).

Agreements with Contractors and Suppliers

- a. APRI total steam supply cost reported as part of "Cost of generated power" amounted to ₱4.98 billion in 2017, ₱4.11 billion in 2016, and ₱3.96 billion in 2015 (see Note 23).

On May 26, 2013, APRI's steam supply contract with Chevron Geothermal Philippines Holdings, Inc. (CGPHI) shifted to a GRSC. The change is due to an existing provision under the government's existing contract with CGPHI when the Tiwi-Makban facilities were bidded out under the former's privatization program. Under the GRSC, the effective steam price of APRI payable to PGPC will be a premium to coal.

To ensure that APRI will continue to remain competitive in the market, a two-month interim agreement supplementing the GRSC was implemented on August 14, 2013 and extended until June 28, 2018.

- b. Construction of civil and electromechanical works, procurement and installation of solar panels and project management related to the construction of the San Carlos Solar Plant. Total purchase commitments entered into by Sacasun from its contracts amounted to ₱526.7 million as of December 31, 2017.
- c. TLI enters into short-term coal supply agreements. Outstanding coal supply agreements as of December 31, 2017 have aggregate supply amounts of 2,240,000 MT (equivalent dollar value is estimated to be at \$190 million), which are due for delivery from January 2017 to December 2018. Terms of payment are by letter of credit where payment is due at sight against presentation of documents, and by telegraphic transfer where payment is due within 7 days from receipt of original invoice.
- d. GMCP has a current Coal Supply Agreement (CSA) with PT Arutmin Indonesia (Seller) for the delivery of coal, which is effective until November 2, 2019. In addition a supply backstop deed was included in the coal supply agreement wherein PT Kaltim Prima Coal (Obligor) irrevocably and unconditionally undertakes for the benefit of GMCP the due and punctual performance of the Seller each and all of their obligations, duties and undertakings pursuant to the CSA, when and such obligations, duties and undertakings shall become due and performable according to the terms of the CSA; provided that the undertaking of the Obligor hereunder shall be limited to 1,000,000 tonnes of substitute coal per delivery year.
- e. PEC enters into Engineering, Procurement and Construction (EPC) contracts with suppliers relating to the construction of the 400MW coal fired power plant. Total EPC contract price for the complete performance of these contracts amount to US\$398.0 million and ₱7.00 billion. As of December 31, 2017 and 2016, the joint operation has a retention payable amounting to ₱400.0 million and ₱334.4 million, respectively, which is presented as "Other noncurrent liability" in the balance sheets.



37. Registration with the Board of Investments (BOI)

Certain power generation subsidiaries in the Group have been registered with the BOI. The following are the incentives granted by the BOI:

- a. ITH for a period of four (4) to seven (7) years, as follows:

Subsidiary	BOI Approval Date	Start of ITH Period	ITH Period
Hedcor Sibulan ³	December 27, 2005	March 1, 2010	7 years
APRI ²	June 19, 2009	June 1, 2009	7 years
GMCP	January 29, 2010	July 1, 2013	6 years
TSI	July 15, 2011	February 1, 2016 ¹	4 years
TVI	August 28, 2012	January 1, 2017 ¹	4 years
Hedcor Tudaya	January 31, 2013	August 1, 2014 ¹	7 years
Hedcor, Inc. ⁵	February 20, 2013	February 1, 2013	7 years
Hedcor Sibulan ⁴	April 23, 2013	September 1, 2014 ¹	7 years
Hedcor Sabangan	October 23, 2013	February 1, 2015 ¹	7 years
Hedcor Bukidnon	January 7, 2015	Start of commercial operations	7 years
SACASUN	October 26, 2015	Start of commercial operations	7 years

¹ Or actual start of commercial operations, whichever is earlier.

² Expired ITH: APRI - June 2016

³ For Sibulan hydroelectric plants with 1 year extension.

⁴ For Tudaya-1 hydroelectric plant.

⁵ For Irisan-1 hydroelectric plant.

The ITH shall be limited only to sales/revenue generated from the sales of electricity of the power plant and revenues generated from the sales of carbon emission reduction credits.

- b. For the first five (5) years from date of registration, the registrant shall be allowed an additional deduction from taxable income of fifty percent (50) of the wages corresponding to the increment in the number of direct labor for skilled and unskilled workers in the year of availment as against the previous year if the project meets the prescribed ratio of capital equipment to the number of workers set by BOI of US\$10,000 to one worker and provided that this incentive shall not be availed of simultaneously with the ITH.
- c. Employment of foreign nationals may be allowed in supervisory, technical or advisory positions for five (5) years from date of registration.
- d. Importation of consigned equipment for a period of ten (10) years from the date of registration, subject to the posting of re-export bond.
- e. Special realty tax rates on equipment and machinery and tax credit on domestic capital equipment and services



- f. For APRI, it may qualify to import capital requirement, spare parts and accessories at zero (0%) duty rate from the date of registration to June 16, 2011 pursuant to Executive Order No. 528 and its Implementing Rules and Regulations.

As a requirement for availment of the incentives, the registrant is required to maintain a minimum equity requirement.

As of December 31, 2017 and 2016, the power generation subsidiaries referred to above, which are currently availing the incentives, have complied with the requirements.

38. Notes to Consolidated Statement of Cash Flows

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

	January 1, 2017	Net cash flows	Non-cash Changes				December 31, 2017	
			Amortized deferred financing costs	Foreign exchange movement	Changes in fair values	Accreted interest Others		
Current interest-bearing loans and borrowings, excluding obligations under finance leases	P11,613,963	(P7,015,311)	P38,913	P79,735	P-	P-	P20,692,751	P25,410,051
Current obligations under finance leases	2,968,491	(7,877,292)	-	-	-	-	8,224,966	3,316,165
Non-current interest-bearing loans and borrowings, excluding obligations under finance leases	151,914,172	566,963	457,403	729,963	(6,776)	-	(22,300,976)	131,360,749
Non-current obligations under finance leases	49,371,713	-	-	97,139	-	4,665,203	(8,224,966)	45,909,089
Dividends payable	-	(10,007,702)	-	-	-	-	10,007,702	-
Derivatives	360,877	-	-	-	(313,300)	-	-	47,577
Total liabilities from financing activities	P216,229,216	(P24,333,342)	P496,316	P906,837	(P320,076)	P4,665,203	P8,399,477	P206,043,631

Others includes the effect of reclassification of noncurrent portion of interest-bearing loans and borrowings

39. Contingencies

The Group is a party to certain proceedings and legal cases with other parties in the normal course of business. The ultimate outcome of these proceedings and legal cases cannot be presently determined. Management, in consultation with its legal counsels, believes that it has substantial legal and factual bases for its positions and is currently of the opinion that the likely outcome of these proceedings and legal cases will not have a material adverse effect on the Group's financial position and operating results. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these proceedings and legal cases.



The Company obtained SBLC and is acting as surety for the benefit of certain associates and joint ventures in connection with loans and credit accommodations. The Company provided SBLC for STEAG, CEDC, SNAP M and SNAP B in the amount of ₱1.04 billion in 2017, ₱1.15 billion in 2016 and ₱1.49 billion in 2015 (see Note 32).

40. Other Matters

a. Temporary Restraining Order (TRO) affecting power generation companies trading in WESM

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and MERALCO with the Supreme Court (SC). On December 20, 2013, National Association of Electricity Consumers for Reforms filed a Petition for Certiorari and/or Prohibition against MERALCO, ERC and Department of Energy (DOE). These cases raised and questioned, among others, the alleged substantial increase in MERALCO's power rates for the billing period of November 2013, the failure of the ERC to protect consumers from high energy prices and perceived market collusion of the generation companies.

These cases were consolidated by the SC which issued a TRO for a period of 60 days from December 23, 2013 to February 21, 2014, preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended for another 60 days ending April 22, 2014 by the SC. Thereafter, the TRO was extended indefinitely.

MERALCO, in turn, filed a counter-petition impleading generation companies supplying power to the WESM. The SC also ordered all the parties in the consolidated cases to file their respective pleadings in response to MERALCO's counter-petition. The SC set the consolidated cases for oral arguments last January 21, 2014, February 4 and 11, 2014. After hearing, all parties were directed to file their comments and/or memorandum. The case is now submitted for resolution.

As a result of the TRO, MERALCO has not been able to fully bill its consumers for the generation costs for the supply month of November 2013; and in turn, it has not been able to fully pay its suppliers of generation costs. As of this December 31, 2017, the SC has not lifted the TRO.

b. Imposition of financial penalties on Therma Mobile by PEMC

This case involves an investigation of Therma Mobile in the dispatch of its power barges during the November and December 2013 supply periods. As a result of the MERALCO price hike case brought before the SC, the SC ordered the ERC to investigate anti-competitive behavior and abuse of market power allegedly committed by some WESM participants.

PEMC conducted the investigation under the "Must-Offer" rules of the WESM Rules.

PEMC initially found that Therma Mobile violated the "Must-Offer Rule" during the period under investigation. In its letter dated January 30, 2015, the PEM Board imposed financial penalties amounting to ₱234.9 million on Therma Mobile. According to the PEM Board, the penalties will be collected from Therma Mobile through the WESM settlement process.



Therma Mobile maintains that there is no basis for the PEMC decision. It did not violate the Must-Offer Rule for the period covered, as it was physically impossible for Therma Mobile to transmit more than 100MW to MERALCO. Although Therma Mobile's rated capacity is 234 MW (Net), it could only safely, reliably and consistently deliver 100MW during the November and December 2013 supply period because of transmission constraints. Therma Mobile's engines and transmission lines were still undergoing major repairs to address issues on post rehabilitation.

On February 13, 2015, Therma Mobile filed a notice of dispute with the PEMC to refer the matter to dispute resolution under the WEM Rules and the WESM Dispute Resolution Market Manual.

Therma Mobile also filed a Petition for the Issuance of Interim Measures of Protection with the Regional Trial Court (RTC) of Pasig to hold off enforcement of the payment of the penalties during the pendency of the Therma Mobile and PEMC dispute resolution proceedings. On February 24, 2015, the RTC issued in favor of Therma Mobile an ex parte 20-day Temporary Order of Protection directing PEMC to refrain from (a) demanding and collecting from Therma Mobile the ₱234.9 million financial penalty; (b) charging and accruing interest on the financial penalty; and (c) transmitting the PEMC-ECO investigation report to the ERC.

On April 1, 2015, the RTC granted the prayer for the issuance of Writ of Preliminary Injunction, which ruling was assailed by the PEMC and elevated to the Court of Appeals (CA) via Petition for Review. On December 15, 2015, the CA issued a Decision confirming the RTC's findings. PEMC filed a Motion for Reconsideration, and in compliance with a Resolution of the CA, has filed a comment on the said motion.

On June 6, 2016, PEMC filed a petition before the SC questioning the CA's Decision. TMO also filed its Comment on the Petition on November 14, 2016. On June 1, 2017, TMO received the SC Notice dated March 29, 2017. In the Resolution, the SC noted TMO's Comment and PEMC's Reply.

c. Therma Marine Case

In 2013, ERC issued Final Approval of various ESAs of Therma Marine with some modifications on ERC's provisionally approved rates which directed both parties to devise a scheme for the refund of the difference between the final and the provisionally approved rates.

On November 25, 2013, ERC issued its order for Therma Marine to refund the amount of ₱180.0 million to its customers for a period of 6 months with equal installments per month.

On August 27, 2014, ERC issued an order directing NGCP to refund its customers the amount of ₱12.7 million and the corresponding VAT for a period of twelve months. As such, Therma Marine will refund the said amount to NGCP and the latter will refund the same to its customers.



In 2015, ERC issued Provisional Approvals (PA) on ESA contracts extensions with capacity fees lower than the previously approved rates. Therma Marine filed MRs on these PAs. During the last quarter of 2015, ERC issued Final Approvals on some of these ESA's sustaining the decision in the PA's, thus Therma Marine filed MRs on the final decisions. As of December 31, 2017, there is no resolution yet on the MRs on the Final Approvals.

d. ERC Case No. 2013-077 MC

On August 29, 2013, MERALCO filed a petition for dispute resolution against TLI/APRI, among other Successor Generating Companies ("SGCs") under ERC Case No. 2013-077 MC. The case arose from a claim of refund of the alleged over charging of transmission line losses pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC.

On September 20, 2013, TLI, together with the other SGCs, filed a Joint Motion to Dismiss arguing that MERALCO's petition should be dismissed for failure to state a cause of action and ERC's lack of jurisdiction over the subject matter of the case. The Joint Motion to Dismiss has since then been submitted for resolution with the ERC. To date, the ERC has yet to render its decision on the Joint Motion to Dismiss.

e. Sergio Osmena III vs. PSALM, Emmanuel R. Ledesma, Jr., SPC Power Corporation (SPC) & Therma Power Visayas, Inc. (TPVI)

In 2009, SPC acquired through a negotiated bid the 153.1MW Naga Land-Based Gas Turbine Power Plant ("Naga Plant") in Naga, Cebu. In the same year, it entered into a Land Lease Agreement (LLA) with PSALM, which includes SPC's right to top (RTT) the price of a winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the Naga Plant located in the leased premises. On April 30, 2014 and after two failed biddings, PSALM issued a Notice of Award to TPVI for submitting the highest bid for the Naga Plant. SPC wrote PSALM of its intent to exercise its RTT the winning bid, on the condition that the LLA would be for a term of 25 years from closing date.

Senator Sergio Osmeña III filed with the Supreme Court (SC) a Petition for Certiorari and Prohibition with prayer for issuance of a Temporary Restraining Order and/or Writ of Preliminary Injunction dated June 16, 2014 (the "Case") with PSALM, Emmanuel R. Ledesma, SPC and TPVI as respondents to enjoin PSALM from making the award of the Naga Plant to SPC. In his petition, Sen. Osmeña argued that the RTT should be held invalid as it defeats the purpose of a fair and transparent bidding for a government asset and it discourages interested bidders considering the unfair advantage given to SPC.

On July 25, 2014, PSALM awarded the contract to SPC, despite TPVI's objection on the ground that SPC did not validly exercise its right to top because of its qualified offer. Thereafter, an Asset Purchase Agreement (APA) for the Naga Plant was executed between PSALM and SPC.



On September 28, 2015, the SC declared in the Case that the RTT and the APA executed in favor of SPC are null and void. The parties thereafter filed various motions for reconsideration which the SC subsequently denied.

On March 16, 2016, TPVI filed its Manifestation/Motion praying that the Notice of Award dated April 30, 2014 be reinstated and that respondent PSALM be ordered to execute the Asset Purchase Agreement ("NPPC-APA"), Land Lease Agreement ("NPPC-LLA") and other documents to implement TPVI's acquisition of the Naga Plant.

On April 6, 2016, the SC issued a Resolution that required PSALM and SPC to comment on TPVI's Manifestation/Motion. In the same Resolution, the SC denied the motion for leave to file and admit SPC's second motion for reconsideration and referral to the SC en banc.

On July 19, 2016, TPVI filed its Manifestation with Omnibus Motion to clarify the motion dated March 16, 2016 and for early resolution. TPVI prayed that the SC Decision dated September 28, 2015 be clarified, and if necessary, be amended to include in its "fallo" that the Notice of Award in favor of TPVI be reinstated.

In response to various motions, the SC issued a Notice of Judgment and Resolution dated October 5, 2016 clarifying that the nullification of SPC's right to top did not invalidate the entire bidding process. Thus, the SC ordered the reinstatement of the Notice of Award dated April 30, 2014 in favor of TPVI. Further, the SC annulled and set aside the APA and the LLA executed between SPC and PSALM and directed PSALM to execute with dispatch the NPPC-APA and the NPPC-LLA in favor of TPVI.

On October 26, 2016, SPC filed an Urgent Motion for Reconsideration with Alternative Motion to Refer to the En Banc of the SC. SPC reiterated its prayer for the reversal of the October 5, 2016 Resolution, denial of TPVI's Manifestation/Motion and for the conduct of a new round of bidding for the Naga Plant. PSALM also filed its Motion for Reconsideration with Leave and prayed that the SC's October 5, 2016 Resolution be re-examined and/or reconsidered.

In its Resolution dated November 28, 2016, the SC denied SPC's and PSALM's motions for reconsideration (of the October 5, 2016 Resolution) with finality. The SC ordered that no further pleadings, motions, letters, or other communications shall be entertained in the Case, and it ordered the issuance of Entry of Judgment.

Notwithstanding the above SC Resolution, SPC filed its Motion for Leave to File and Admit (Motion for Reconsideration dated 9 December 2016) with attached Motion for Reconsideration dated December 9, 2016. Thereafter, SPC filed its Supplemental Motion/Petition for Referral to the Banc dated January 16, 2017.

On February 14, 2017, TPVI received a copy of the Entry of Judgment which states that the October 5, 2016 Resolution of the SC has become final and executory on November 28, 2016.



f. DLP Case

On December 7, 1990, certain customers of DLP filed before the then Energy Regulatory Board (ERB) a letter-petition for recovery claiming that with the SC's decision reducing the sound appraisal value of DLP's properties, DLP exceeded the 12% Return on Rate Base (RORB). The ERB's order dated June 4, 1998, limited the computation coverage of the refund from January 19, 1984 to December 14, 1984. No amount was indicated in the ERB order as this has yet to be recomputed.

The CA, in Court of Appeals General Register Special Proceeding (CA-GR SP) No. 50771, promulgated a decision dated February 23, 2001 which reversed the order of the then ERB, and expanded the computation coverage period from January 19, 1984 to September 18, 1989.

The SC in its decision dated November 30, 2006 per GR150253 reversed the CA's decision CA-GR SP No. 50771 by limiting the period covered for the refund from January 19, 1984 to December 14, 1984, approximately 11 months. The respondent/customers filed a Motion for Reconsideration with the SC, which was denied with finality by the SC in its Order dated July 4, 2007.

The SC, following its decision dated November 30, 2006, ordered the ERC to proceed with the refund proceedings instituted by the respondents with reasonable dispatch.

On March 17, 2010, the ERC directed DLP to submit its proposed scheme in implementing the refund to its customers. In compliance with the order, the DLP filed its compliance stating that DLP cannot propose a scheme for implementing a refund as its computation resulted to no refund.

A clarificatory meeting was held where DLP was ordered to submit its memoranda.

On October 4, 2010, in compliance with the ERC directive, DLP submitted its memoranda reiterating that no refund can be made. After which, no resolution has been received by DLP from the ERC as of December 31, 2017.

g. LHC Franchise Tax Assessment

In 2007, the Provincial Treasurer of Benguet issued a franchise tax assessment against LHC, requiring LHC to pay franchise tax amounting to approximately ₱40.4 million, inclusive of surcharges and penalties covering the years 2002 to 2007. In 2008, LHC has filed for a petition for the annulment of the franchise tax assessment, based primarily on the fact that LHC is not liable for franchise tax because it does not have a franchise to operate the business. Section 6 of R.A. No. 9136 provides that power generation shall not be considered a public utility operation. As such, an entity engaged or which shall engage in power generation and supply of electricity shall not be required to secure a national franchise. Accordingly, no provision has been made in the consolidated financial statements. The case remains pending as of December 31, 2017.



h. EPIRA of 2001

R.A. No. 9136 was signed into law on June 8, 2001 and took effect on June 26, 2001. The law provides for the privatization of NPC and the restructuring of the electric power industry. The 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. 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 IPPs and electricity rates;
- ii. Creation of a WESM; 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.

i. Open Access and Retail Competition

Per EPIRA, the conditions for the commencement of the Open Access and Retail Competition are as follows:

- (a) Establishment of the WESM;
- (b) Approval of unbundled transmission and distribution wheeling charges;
- (c) Initial implementation of the cross subsidy removal scheme;
- (d) Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- (e) Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPP administrators.

Under the Open Access and Retail Competition, an eligible contestable customer, which is defined as an end-user with a monthly average peak demand of at least 1 MW for the preceding 12 months, will have the option to source their electricity from eligible suppliers that have secured a Retail Electricity Supplier (RES) license from the ERC.



In June 2011, ERC declared December 26, 2011 as the Open Access Date to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. However, after careful deliberation, the ERC acknowledged that not all the necessary rules, systems and infrastructures required for the implementation of the Open Access and Retail Competition have been put in place to meet the contemplated timetable for implementation. In October 2011, the ERC announced the deferment of the Open Access Date. In September 2012, the ERC declared the start of Open Access on December 26, 2012. Open Access commercial operations under an interim development system have been implemented starting June 26, 2013.

The implementation of Open Access enabled the Group to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. The Group has two wholly owned subsidiaries that are licensed RES. Open Access allowed the Group's RES subsidiaries to enter into contracts with the eligible contestable customers.

On December 19, 2013, the ERC issued Resolution 22 Series of 2013, which amended the rules for the issuance of licenses to retail electricity suppliers. Items amended include the following:

- Restriction for Generator, IPPA and DU affiliates in securing license as a RES company;
- Transfer of live Retail Supply Contracts (RSCs) for RES with expired license to another licensed RES;
- Determination of full retail competition to be made by ERC not later than June 25, 2015;
- Contracted capacities of RES affiliates to be included in the grid limitations imposed on Generation Companies;
- End-user affiliate RES limited to supplying up to 50% of its total contestable customer affiliates;
- RES companies are limited to procuring up to 50% of its generation requirements from affiliate Generation Companies;
- Annual submission of 5-year Business Plan; and
- Submission of live RSCs for review by the ERC.

Due to the restrictions placed to qualify for a RES license under Resolution 22, the Retail Electricity Suppliers Association (RESA) has filed a TRO and injunction with the Pasig RTC. Hearings are being conducted to challenge the legality and constitutionality of the resolution. Currently, ERC is working on revising certain provisions of Resolution 22.

j. Renewable Energy Act of 2008

On January 30, 2009, R.A. No. 9513, An Act Promoting the Development, Utilization and Commercialization of Renewable Energy Resources and for Other Purposes, which shall be known as the "Renewable Energy Act of 2008" (the Act), became effective. The Act aims to (a) accelerate the exploration and development of renewable energy resources such as, but not limited to, biomass, solar, wind, hydro, geothermal and ocean energy sources, including hybrid systems, to achieve energy self-reliance, through the adoption of sustainable energy development strategies to reduce the country's dependence on fossil fuels and thereby minimize the country's exposure to price fluctuations in the international markets, the effects of which spiral down to almost all sectors of the economy; (b) increase the utilization of renewable energy by institutionalizing the development of national and local capabilities in the use of renewable energy systems, and promoting its efficient and cost-effective commercial application



by providing fiscal and non-fiscal incentives; (c) encourage the development and utilization of renewable energy resources as tools to effectively prevent or reduce harmful emissions and thereby balance the goals of economic growth and development with the protection of health and environment; and (d) establish the necessary infrastructure and mechanism to carry out mandates specified in the Act and other laws.

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

k. CSR Projects

The Group has several CSR projects in 2017, 2016 and 2015 which are presented as part of "General and administrative expenses" (see Note 24).

l. RA No. 10963

RA No. 10963 or the Tax Reform for Acceleration and Inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 1, 2018, making the new tax law enacted as of the 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 balances as of the balance sheet date.



**INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Aboitiz Power Corporation and Subsidiaries included in this Form 17-A and have issued our report thereon dated March 8, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68, as amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Maria Veronica Andresa R. Pore
Maria Veronica Andresa 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
and Subsidiaries**

**Supplementary Schedules
to the Financial Statements
Required by the Securities and Exchange Commission
For the Year Ended December 31, 2017**

and

Independent Auditors' Report

**Philippine
Pesos**

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

Supplementary Schedules Required By the Securities and Exchange Commission As of and for the Year Ended December 31, 2017

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NA: NOT APPLICABLE

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

AS OF DECEMBER 31, 2017

(Amounts in Thousands except number of shares)

Name of issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Income received and accrued
CASH IN BANK			
ANZ		P25	P-
Banco de Oro		2,914,768	68,904
Bank of Commerce		817	4
Bank of the Philippine Islands		899,879	9,497
Bank of Tokyo - Mitsubishi UFJ		10,275	-
Citibank		9,488	-
Development Bank of the Philippines		171	3
Eastwest Banking Corporation		-	36
ING Bank N.V.		364,836	7,576
Land Bank of the Philippines		7,289	11
Metropolitan Bank and Trust Company		209,052	1,117
One Network Bank		5,446	-
Philippine National Bank		70,138	63
Rizal Commercial Banking Corporation		14,284	134
Security Bank Corporation		176,503	3,087
Standard Chartered Bank		221,548	4,717
Union Bank of the Philippines		5,120,961	37,084
Cash on Hand, Cash in Vault and Revolving Fund		194,297	32
TOTAL		P10,219,777	P132,265
MONEY MARKET PLACEMENT			
Banco de Oro		P975,415	P3,506
Bank of the Philippine Islands		1,338,530	97,871
China Trust Banking Corporation		1,073,576	516
City Savings Bank		7,052,018	265,285
Deutsche Bank		-	768
First Metro Investment Corporation		44,000	165,235
Metropolitan Bank and Trust Company		2,596,430	56,676
Mizuho Corporate Bank, Ltd.		653,978	15,490
Philippine National Bank		6,660	59
Rizal Commercial Banking Corporation		9,160	100
Security Bank Corporation		4,326,370	6,598
Standard Chartered Bank		147,856	4,840
Union Bank of the Philippines		7,245,649	158,374
United Coconut Planters Bank		10,212	-
TOTAL		P25,479,854	P775,318
TRADE AND OTHER RECEIVABLES			
Trade Receivables (net of allowance):			
Residential		P1,006,954	P-
Commercial		1,190,816	-
Industrial		4,450,485	-
City street Lighting		24,423	-
Spot market		417,988	-
Power supply contracts		7,514,318	-
Dividends Receivable		792,000	-
Advances to contractors		105,690	-
Accrued Revenues		614,363	-
Non-trade Receivables		453,885	-
Interest receivable		29,534	-
Other Receivables		759,372	-
TOTAL		P17,359,828	P-
AFS INVESTMENTS			
Apo Golf & Country Club	3	P2	P-
Banco De Oro	8,050	793	-
Philippine Long Distance Telephone Co.	36,463	458	-
PICOP Resources, Inc.	164	8	-
Alta Vista Golf & Country Club	1	2,265	-
UBP - Trust fund	1,000,000	99,375	-
Philex Mining Corp	2,168	5	-
Others	938	93	-
TOTAL		P102,999	P-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017
(Amounts in Thousands)**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Deductions		Current	Non-Current	Ending Balance
			Amounts Collected	Amounts Written-Off			
Davao Light & Power Co., Inc.	P511,267	P6,972,308	(P6,795,446)	P-	P688,129	P-	P688,129
Therma Power, Inc. and Subsidiaries	64,345	273,530	(286,919)	-	50,956	-	50,956
Cotabato Light & Power Company	3,987	266,880	(240,907)	-	29,960	-	29,960
Aboitiz Renewables, Inc. and Subsidiaries	135	24,035	(14,204)	-	9,966	-	9,966
Subic Enerzone Corporation	208,184	615,714	(630,566)	-	193,332	-	193,332
Visayan Electric Co., Inc.	325,959	3,550,353	(3,292,091)	-	584,221	-	584,221
Aboitiz Energy Solutions, Inc.	501,817	6,156,879	(5,980,045)	-	678,651	-	678,651
Mactan Enerzone Corporation	781	3,986	(4,558)	-	209	-	209
Balamban Enerzone Corporation	10,998	4,513	(15,302)	-	209	-	209
Cebu Private Power Corporation	18,019	20,813	(20,509)	-	18,323	-	18,323
Lima Enerzone Corporation	78,868	436,298	(487,715)	-	27,451	-	27,451
East Asia Utilities Corporation	-	2,321	(2,126)	-	195	-	195
Prism Energy, Inc.	-	176,610	(151,286)	-	25,324	-	25,324
Adventenergy, Inc.	307,872	6,125,923	(5,812,632)	-	621,163	-	621,163
TOTAL	P2,032,232	P24,630,163	(P23,734,306)	P-	P2,928,089	P-	P2,928,089

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - INTANGIBLE ASSETS - OTHER ASSETS

AS OF DECEMBER 31, 2017
(Amount in Thousands)

Description	Beginning Balance	Additions At Cost	DEDUCTIONS		Other Changes Additions (Deductions)	Ending Balance
			Charged to Costs and Expenses	Charged to Other Accounts		
A. Intangibles						
Goodwill	P40,270,344	P-		P-	P-	P40,270,344
Service concession rights	3,222,123	85,257	(351,542)	-	16,119	2,971,957
Project development costs	273,725	69,592	(79,881)	-	-	263,436
Franchise	2,802,654	-	(76,961)	-	-	2,725,693
Customer contracts	31,464	-	(11,441)	-	-	20,023
Software and licenses	117,747	17,839	(42,522)	-	141	93,205
Total	P46,718,057	P172,688	(P562,347)	P-	P16,260	P46,344,658
B. Other Noncurrent Assets						
Restricted cash	P-	P-	P-	P-	P-	P-
Prepaid rent	523,224	-	-	-	10,231	533,455
Prepaid taxes			-	-	306,948	306,948
Input vat and tax credit	6,740,958		-	-	(1,158)	6,739,800
Notes Receivable	2,739,632				(2,739,632)	-
Advances to contractors and projects	447,676	-	-	-	1,688,231	2,135,907
Receivable from NGCP	146,714	-	-	-	(146,714)	-
Refundable deposits	241,597	-	-	-	136,446	378,043
Investment properties	3,300	-	-	-	-	3,300
Others	172,182	-	-	-	(52,280)	119,902
Total	P11,015,283	P-	P-	P-	(P797,928)	P10,217,355
Total	P57,733,340	P172,688	(P562,347)	P-	(P781,668)	P56,562,013

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - LONG-TERM DEBT

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Name of Issuer and Type of Obligation	Amount Authorized by Indentures	Amount Shown as Current	Amount Shown as Long-Term	Remarks
Parent:				
Aboitiz Power Corporation	P12,901,982	P-	P12,901,982	
Subsidiaries:				
Hedcor, Inc.	537,468	89,258	448,210	
Subic Enerzone Corporation	226,000	56,500	169,500	
Luzon Hydro Corporation	1,102,602	273,200	829,402	
Davao Light & Power Co., Inc.	882,000	150,750	731,250	
Cotabato Light & Power Company	176,400	30,150	146,250	
Therma South, Inc.	22,456,980	1,281,262	21,175,718	
Pagbilao Energy Corp. (Joint Operation)	13,781,091	440,995	13,340,096	
Visayan Electric Co., Inc.	1,173,170	200,125	973,045	
GNPower Mariveles Coal Plant Ltd. Co.	30,421,764	1,869,922	28,551,842	
Therma Visayas, Inc.	29,532,592	-	29,532,592	
Therma Power, Inc.	14,893,383	14,893,383	-	
AP Renewables, Inc.	10,410,513	1,212,708	9,197,805	
Hedcor Sibulan, Inc.	4,053,196	194,498	3,858,698	
Hedcor Bukidnon, Inc.	9,204,359	-	9,204,359	
Total	P151,753,500	P20,692,751	P131,060,749	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE F - INDEBTEDNESS TO AFFILIATES
(LONG-TERM LOANS FROM AFFILIATED COMPANIES)**

**AS OF DECEMBER 31, 2017
(Amounts in Thousands)**

Name of Affiliate	Beginning Balance	Ending Balance
Aboitiz Equity Ventures, Inc.	P-	P300,000
	-	-
	-	-
Total	P-	P300,000

ABOITIZ POWER CORPORATION

SCHEDULE H - CAPITAL STOCK

AS OF DECEMBER 31, 2017
(Amounts in Thousands)

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding	Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights	Number of Shares Held By		
				Affiliates	Directors, Officers and Employees	Others
COMMON SHARES	16,000,000	7,358,604	-	5,811,935	161,109	1,385,560
PREFERRED SHARES	1,000,000	-	-	-	-	-

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE I - TRADE AND OTHER RECEIVABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2017
(Amounts in Thousands)**

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Davao Light & Power Co., Inc.	P613,053	P75,076	P688,129	P6,972,308	P-	P-	30 days
Therma Power, Inc. and Subsidiaries	1,007	49,949	50,956	273,530	-	-	30 days
Cotabato Light & Power Company	22,215	7,745	29,960	266,880	-	-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	-	9,966	9,966	24,035	-	-	30 days
Subic Enerzone Corporation	191,965	1,367	193,332	615,714	-	-	30 days
Visayan Electric Co., Inc.	517,097	67,124	584,221	3,550,353	-	-	30 days
Aboitiz Energy Solutions, Inc.	678,651	-	678,651	6,156,879	-	-	30 days
Mactan Enerzone Corporation	-	209	209	3,986	-	-	30 days
Balamban Enerzone Corporation	-	209	209	4,513	-	-	30 days
Cebu Private Power Corporation	-	18,323	18,323	20,813	-	-	30 days
Lima Enerzone Corporation	27,359	92	27,451	436,298	-	-	30 days
East Asia Utilities Corporation	-	195	195	2,321	-	-	30 days
Prism Energy, Inc.	25,114	210	25,324	176,610	-	-	30 days
Adventenergy, Inc.	621,163	-	621,163	6,125,923	-	-	30 days
TOTAL	P2,697,624	P230,465	P2,928,089	P24,630,163	P-	P-	

ABOITIZ POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE J - TRADE AND OTHER PAYABLES FROM RELATED PARTIES
WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS**

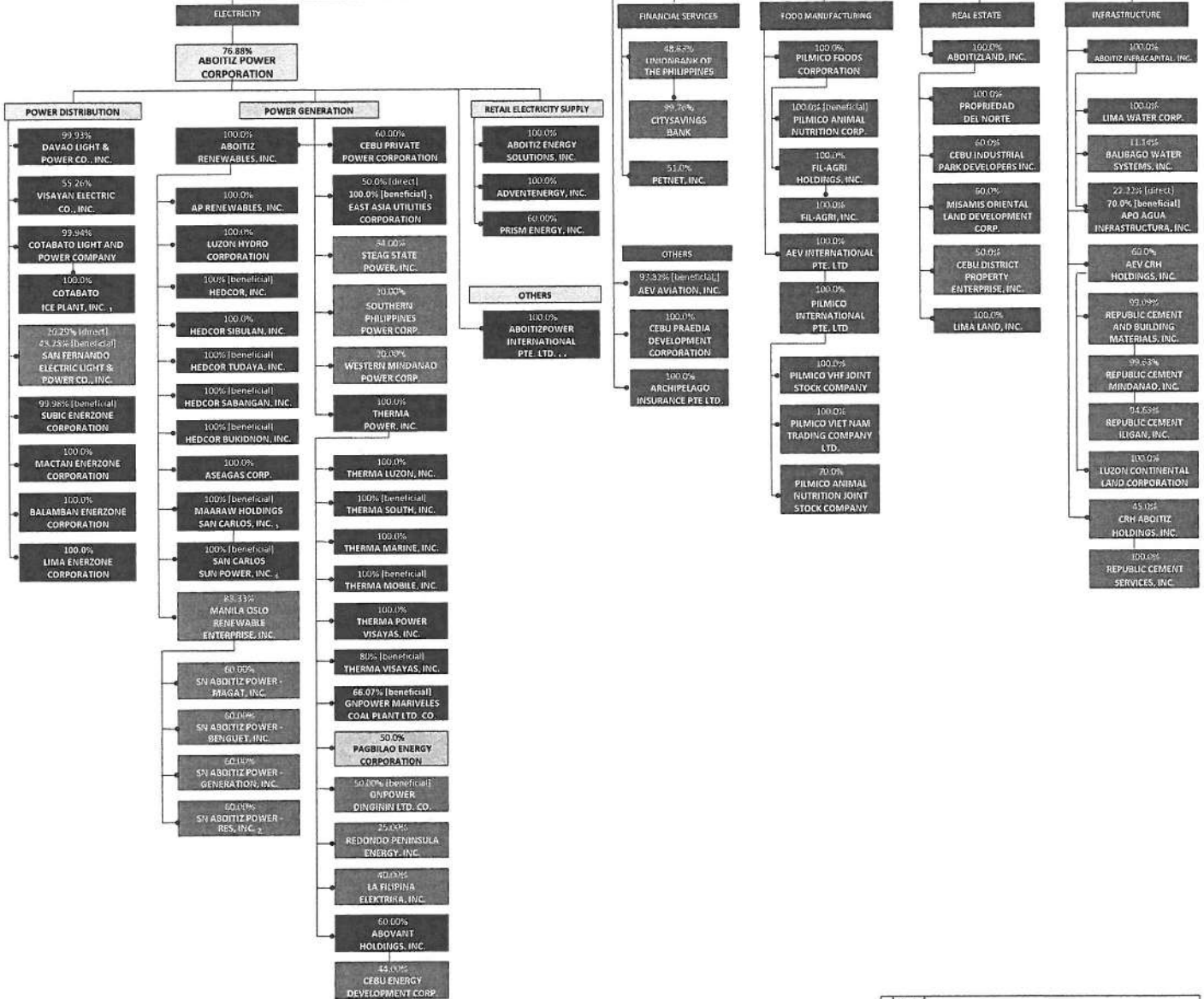
**AS OF DECEMBER 31, 2017
(Amounts in Thousands)**

Related Party	Balances			Volume			Terms
	Trade	Non-trade	Total	Sales	Rental	Advances	
Parent Company	P-	P230,465	P230,465	P1,032,093	P-	P-	30 days
Aboitiz Renewables, Inc. and Subsidiaries	711,329	-	711,329	7,277,213	-	-	30 days
Cebu Private Power Corporation	134,878	-	134,878	1,376,786	-	-	30 days
Therma Power, Inc. and Subsidiaries	1,354,086	-	1,354,086	11,819,890	-	-	30 days
Aboitiz Energy Solutions, Inc.	382,220	-	382,220	1,904,952	-	-	30 days
East Asia Utilities Corporation	23,691	-	23,691	359,898	-	-	30 days
Subic Enerzone Corporation	21,847	-	21,847	215,705	-	-	30 days
Balamban Enerzone Corporation	12,284	-	12,284	127,182	-	-	30 days
Mactan Enerzone Corporation	6,271	-	6,271	60,575	-	-	30 days
Lima Enerzone Corporation	31,347	-	31,347	316,499	-	-	30 days
Visayan Electric Co., Inc.	19,671	-	19,671	139,370	-	-	30 days
TOTAL	P2,697,624	P230,465	P2,928,089	P24,630,163	P-	P-	

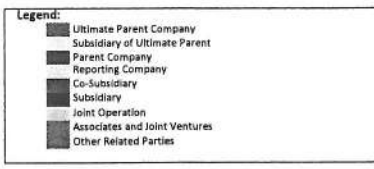
Aboitiz Power Corporation
Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2017
(Amount in Philippine Currency)

Unappropriated Retained Earnings, <i>beginning</i>		P23,687,643,006
Less:		-
Appropriation for the year 2017		-
		23,687,643,006
Net income based on face of audited financial statements	P9,212,913,447	
Less: Non-actual/unrealized income (net of tax)	-	
Add: Non-actual loss (net of tax)	-	
Net income actual/realized for the period	-	9,212,913,447
Less:		
Dividend declaration during the period		(10,007,701,858)
UNAPPROPRIATED RETAINED EARNINGS, AS ADJUSTED, ENDING		P22,892,854,595

ABOITIZ POWER CORPORATION AND SUBSIDIARIES
CONGLOMERATE MAPPING
 As of December 31, 2017



1 Other services
 2 retail electricity supply
 3 Therma Power, Inc. has a 30% ownership in East Asia Utilities Corporation
 4 AP has a 26.69% direct ownership in AEV Aviation, Inc.
 5 Aboitiz Renewables, Inc. (ARI) has a 60% direct ownership in Maaraw Holdings San Carlos, Inc. (MHSC); AboitizPower International (API) has a 40% indirect ownership in MHSC
 6 ARI has a 35% direct ownership (50% indirect ownership) in San Carlos Sun Power, Inc. (Sacasan); API has a 50% indirect ownership in Sacasan.



ABOITIZ POWER CORPORATION AND SUBSIDIARIES
SCHEDULE OF RELEVANT FINANCIAL RATIOS

	FORMULA	2017	2016
LIQUIDITY RATIOS			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.38	2.25
Acid test ratio	$\frac{\text{Cash + Marketable securities} + \text{Accounts receivable} + \text{Other liquid assets}}{\text{Current liabilities}}$	1.08	1.91
SOLVENCY RATIOS			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	1.92	2.18
Asset to equity ratio	$\frac{\text{Total assets}}{\text{Total equity}}$	2.92	3.18
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity}}$	1.35	1.49
Gearing ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total equity} + (\text{Debt - Cash \& cash equivalents})}$	57.49%	59.76%
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest expense}}$	3.60	4.78
PROFITABILITY RATIOS			
Operating margin	$\frac{\text{Operating profit}}{\text{Total revenues}}$	29%	30%
Return on equity	$\frac{\text{Net income after tax}}{\text{Total equity adjusted for cash dividends}}$	21%	23%

Aboitiz Power Corporation and Subsidiaries

**Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017**

Standards and Interpretations		Remarks
Philippine Financial Reporting Standards (PFRS)		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	Adopted
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	Not Applicable
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time	Not Applicable
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time	Not Applicable
	Amendments to PFRS 1: Government Loans	Not Applicable
PFRS 2	Share-based Payment	Not Applicable
	Amendments to PFRS 2: Vesting Conditions and Cancellations	Not Applicable
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	Not Applicable
	Amendments to PFRS 2: Definition of Vesting Condition	Not Applicable
PFRS 3 (Revised)	Business Combinations	Adopted
	Amendments to PFRS 3: Accounting for Contingent Consideration in a Business Combination	Adopted
	Amendments to PFRS 3: Scope Exceptions for Joint Ventures	Adopted
PFRS 4	Insurance Contracts	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts	Adopted
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted
	Amendment to PFRS 5: Changes in Methods of Disposal	Not Applicable
PFRS 6	Exploration for and Evaluation of Mineral Resources	Adopted
PFRS 7	Financial Instruments: Disclosures	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	Adopted
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	Adopted
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	Adopted
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	Adopted
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote1
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9	See footnote1
	Amendments to PFRS 7: Servicing Contracts	Adopted
	Amendments to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements	Adopted
PFRS 8	Operating Segments	Adopted
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	Adopted
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	Not Early Adopted
	Financial Instruments: Classification and Measurement of Financial Liabilities	Not Early Adopted
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	See footnote1
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)	See footnote1
	PFRS 9, Financial Instruments (2014)	See footnote1
	Amendments to PFRS 9: Prepayment Features with Negative Compensation	See footnote1
PFRS 10	Consolidated Financial Statements	Adopted
	Amendments to PFRS 10: Transition Guidance	Adopted
	Amendments to PFRS 10: Investment Entities	Adopted
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture	See footnote ¹
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception	Not Applicable
PFRS 11	Joint Arrangements	Adopted
	Amendments to PFRS 11: Transition Guidance	Adopted
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations	Adopted
PFRS 12	Disclosure of Interests in Other Entities	Adopted
	Amendments to PFRS 12: Transition Guidance	Adopted
	Amendments to PFRS 12: Investment Entities	Adopted
	Amendment to PFRS 12, Clarification of the Scope of the Standard	Adopted
PFRS 13	Fair Value Measurement	Adopted
	Amendments to PFRS 13: Short-term Receivables and Payables	Adopted
	Amendments to PFRS 13: Portfolio Exception	Adopted
PFRS 14	Regulatory Deferral Accounts	Not Applicable
PFRS 15	Revenue from Contracts with Customers	See footnote1
PFRS 16	Leases	See footnote1

Aboitiz Power Corporation and Subsidiaries

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017

Standards and Interpretations		Remarks
<i>Philippine Accounting Standards (PAS)</i>		
PAS 1 (Revised)	Presentation of Financial Statements	Adopted
	Amendment to PAS 1: Capital Disclosures	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	Adopted
	Amendment to PAS 1: Disclosure Initiative	Adopted
PAS 2	Inventories	Adopted
PAS 7	Statement of Cash Flows	Adopted
	Amendment to PAS 7: Disclosure Initiative	Adopted
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted
PAS 10	Events after the Reporting Period	Adopted
PAS 11	Construction Contracts	Not Applicable
PAS 12	Income Taxes	Adopted
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	Adopted
	Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses	Adopted
PAS 16	Property, Plant and Equipment	Adopted
	Amendments to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	Adopted
	Amendments to PAS 16: Bearer Plants	Not Applicable
PAS 17	Leases	Adopted
PAS 18	Revenue	Adopted
PAS 19 (Revised)	Employee Benefits	Adopted
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions	Adopted
	Amendment to PAS 19: Discount Rate: Regional Market Issue	Adopted
PAS 20	Accounting for Government Grants and Disclosure of	Not Applicable
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted
	Amendment: Net Investment in a Foreign Operation	Adopted
PAS 23 (Revised)	Borrowing Costs	Adopted
PAS 24 (Revised)	Related Party Disclosures	Adopted
	Amendments to PAS 24: Key Management Personnel Services	Adopted
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Adopted
PAS 27 (Amended)	Separate Financial Statements	Adopted
	Amendments to PAS 27 (Amended): Investment Entities	Adopted
	Amendments to PAS 27: Equity Method in Separate Financial Statements	Adopted
PAS 28 (Amended)	Investments in Associates and Joint Ventures	Adopted
	Amendments to PAS 28, Investment Entities: Applying the Consolidation Exception	See footnote1
	Amendments to PAS 28: Measuring an Associate or Joint Venture at Fair Value	See footnote1
	Amendments to PAS 28: Long-term interests in Associates and Joint Ventures	See footnote1
	Amendments to PFRS 10 and PAS 28: Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	See footnote1
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	Adopted
	Financial Instruments: Presentation	Adopted
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	Adopted
	Amendment to PAS 32: Classification of Rights Issues	Adopted
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	Adopted
PAS 33	Earnings per Share	Adopted
PAS 34	Interim Financial Reporting	Adopted
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	Adopted
PAS 36	Impairment of Assets	Adopted
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	Adopted
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted
PAS 38	Intangible Assets	Adopted
	Amendments to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization	Adopted
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	See footnote ¹
PAS 39	Financial Instruments: Recognition and Measurement	Adopted
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial	Adopted

Aboitiz Power Corporation and Subsidiaries

**Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2017**

Standards and Interpretations		Remarks
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	Adopted
	Amendments to PAS 39: The Fair Value Option	Adopted
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	Adopted
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	Adopted
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	Adopted
	Amendment to PAS 39: Eligible Hedged Items	Adopted
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting	Adopted
PAS 40	Investment Property	
	Amendments to PAS 40: Clarifying the Interrelationship Between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	Adopted
	Amendments to PAS 40: Investment Property, Transfers of Investment Property	See footnote1
PAS 41	Agriculture	Not Applicable
	Amendments to PAS 41: Bearer Plants	Not Applicable

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Adopted
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable
IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable
IFRIC 8	Scope of PFRS 2	Not Applicable
IFRIC 9	Reassessment of Embedded Derivatives	Adopted
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	Adopted
IFRIC 10	Interim Financial Reporting and Impairment	Adopted
IFRIC 11	Scope of PFRS 2	Not Applicable
IFRIC 12	Service Concession Arrangements	Adopted
IFRIC 13	Customer Loyalty Programmes	Not Applicable
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding	Adopted
IFRIC 15	Agreements for the Construction of Real Estate	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable
IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted
IFRIC 18	Transfers of Assets from Customers	Adopted
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Not Applicable
IFRIC 21	Levies	Adopted
IFRIC 22	Foreign Currency Transactions and Advance Consideration	See footnote1
IFRIC 23	Uncertainty over Income Tax Treatments	See footnote1

Philippine Interpretations - Standing Interpretations Committee (SIC)

SIC 7	Introduction of the Euro	Not Applicable
SIC 10	Government Assistance - No Specific Relation to Operating	Not Applicable
SIC 12	Consolidation - Special Purpose Entities	Adopted
	Amendment to SIC - 12: Scope of SIC 12	Adopted
SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Adopted
SIC 15	Operating Leases - Incentives	Adopted
SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Adopted
SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Adopted
SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Adopted
SIC 29	Service Concession Arrangements: Disclosures	Adopted
SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable
SIC 32	Intangible Assets - Web Site Costs	Adopted

¹ Effective subsequent to December 31, 2017