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Hector M. De Leon, Jr.  
MANAGING PARTNER

Emmanuel M. Lombos  
Rolando V. Medalla, Jr.  
Luisito V. Liban  
Marievic G. Ramos-Afonuevo  
Simeon Ken R. Ferrer  
Rocky Alejandro L. Reyes  
Dante T. Pamintuan  
Imelda A. Manguiat  
Rose Marie M. King-Dominguez  
Ricardo Ma. P.G. Ongkiko  
Enrique T. Manuel  
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Carlos Roberto Z. Lopez  
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Francisco Aristotle G. Larcina  
Celine C. Abaño-Ranada  
John Paul V. de Leon  
PARTNERS

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Joan Mae S. To-Conejos

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Ma. Patricia B. Paz  
Rosevee R. Paylip-Guiang  
Edmarc R. Castillo

Anthony Raphael V. Jacoba  
ASSOCIATES

October 11, 2018

**SECURITIES AND EXCHANGE COMMISSION**  
Secretariat Building, PICC Complex  
Roxas Boulevard  
Pasay City

Attention: **Director Vicente Graciano P. Felizmenio, Jr.**  
Markets and Securities Regulation Department

Re: **Aboitiz Power Corporation**  
**Offer of up to Php 15,000,000,000 Fixed Rate Bonds**

Gentlemen:

We write in connection with the application of Aboitiz Power Corporation (the "Company" or "Issuer") to conduct the offering of up to Php 15,000,000,000 fixed rate bonds consisting of the firm offer of up to Php 10,000,000,000, with an oversubscription option of up to Php 5,000,000,000, to be taken out of the Company's Php 30,000,000,000 shelf registration.

In support of our application, we submit the following documents:

1. Final Prospectus dated October 10, 2018;
2. The following Annexes to the Prospectus:
  - a. **Annex A**- Audited Financial Statements for the Fiscal Year Ended 31 December 2017;
  - b. **Annex B**- Unaudited Interim Condensed Consolidated Financial Statements as of June 30, 2018;
  - c. **Annex C**- Audited Financial Statements for the Fiscal Year Ended 31 December 2017 of Davao Light and Power Company, Inc.;
3. Trust Agreement dated October 10, 2018;
4. Issue Management and Underwriting Agreement dated October 10, 2018; and
5. Registry and Paying Agency Agreement dated October 10, 2018.

OCT 11 2018  
9:30 AM

We trust that you will find everything in order.

Very truly yours,

  
MARY ANTONETTE A. ESTOPERES

  
LYAN DAVID M. JUANICO



**Aboitiz Power Corporation**  
**₱30,000,000,000**  
**Debt Securities Program**

**Second Tranche:**  
**₱10,000,000,000**  
**with an Oversubscription Option**  
**of up to ₱5,000,000,000**

**Series B: 7.5095% p.a. Fixed Rate Bonds Due 2024**  
**Series C: 8.5091% p.a. Fixed Rate Bonds Due 2028**

**Offer Price: 100% of Face Value**

Sole Issue Manager, for the Second Tranche:



Joint Lead Underwriters for the Second Tranche:



**BPI Capital**  
**Corporation**



**Selling Agents**

SB Capital Investment Corporation  
First Metro Investment Corporation

The date of this Prospectus is October 10, 2018.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**



(A corporation duly organized and existing under Philippine laws)

ABOITIZ POWER CORPORATION  
32<sup>nd</sup> STREET, BONIFACIO GLOBAL CITY  
1634 TAGUIG CITY, METRO MANILA, PHILIPPINES  
TELEPHONE NUMBER: (632) 886-2800

This Prospectus relates to the takedown of the second tranche of the Philippine peso-denominated fixed-rate bonds (the “Second Tranche Bonds”) and the public offer for sale, distribution, and issuance by Aboitiz Power Corporation (“AboitizPower”, the “Issuer”, or the “Company”) of the Second Tranche Bonds (the “Offer”) under the Company’s ₱30,000,000,000 Debt Securities Program (the “Debt Securities Program”). The Debt Securities Program was authorized by a resolution of the Board of Directors of the Company dated 23 March 2017. A registration statement was filed by the Company covering bonds with an aggregate principal amount of ₱30,000,000,000 applied for shelf registration (the “Bonds”) and was rendered effective by the Securities and Exchange Commission (“SEC”) by its order dated 19 June 2017 (the “Shelf Registration”). A permit to offer the first tranche of the Bonds with an aggregate principal amount of ₱3,000,000,000 (the “Series A Bonds”) was issued on 19 June 2017 by the SEC (the “Initial Offer”). The Series A Bonds issued on 3 July 2017 and the Initial Offer were covered by a Prospectus and Offer Supplement dated 16 June 2017.

The Offer will consist of the primary offer of an aggregate principal amount of ₱10,000,000,000 with an oversubscription option of up to ₱5,000,000,000 (the “Oversubscription Option”). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period (as defined below), the Second Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within three years from the date of the effectivity of the registration statement (the “Shelf Period”).

The Second Tranche Bonds will be issued on October 25, 2018 (the “Issue Date”) and will be comprised of Series B and Series C Bonds. Series B Bonds shall have a term ending five (5) years and one (1) quarter from the Issue Date, or on January 25, 2024, with a fixed interest rate of 7.5095% per annum and an optional redemption on the fourth (4<sup>th</sup>) anniversary of the Issue Date, and if such date is not a Banking Day, on the immediately succeeding Banking Day if such date is not a Banking Day (the “Series B Bonds”). Series C Bonds shall have a term ending ten (10) years from the Issue Date, or on October 25, 2028, with a fixed interest rate of 8.5091% per annum and an optional redemption on the seventh (7<sup>th</sup>), eight (8<sup>th</sup>), and ninth (9<sup>th</sup>) anniversary of the Issue Date, and in each case, the immediately succeeding Banking Day if such date is not a Banking Day (the “Series C Bonds”). Interest on the Second Tranche Bonds shall be payable quarterly in arrears on January 25, April 25, July 25, and October 25 of each year while the Second Tranche Bonds are outstanding, or the subsequent Banking Day without adjustment if such Interest Payment Date is not a Banking Day. The last Interest Payment Date shall fall on the relevant Maturity Date while the Second Tranche Bonds are outstanding (see “Description of the Offer” – “Interest” on page 58 of this Prospectus).

The Second Tranche Bonds shall be redeemed at par (or 100% of the face value) on their respective Maturity Dates, unless the Company exercises its early redemption option (see “Description of the Offer” – “Redemption and Purchase” on page 59 of this Prospectus).

Upon issuance, the Second Tranche Bonds shall when issued, constitute direct, unconditional, unsecured and unsubordinated Philippine Peso denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.02 (a) of the Trust

Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness (as defined herein) or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Second Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Second Tranche Bonds. (see "Description of the Offer" – "Ranking" on page 58 of this Prospectus).

The Second Tranche Bonds have been rated PRS Aaa, with a stable outlook by PhilRatings on August 29, 2018. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The Company's capacity to meet its financial commitment on the Second Tranche Bonds is extremely strong. PRS Aaa is the highest rating assigned by PhilRatings. The rating and outlook were assigned given the following key considerations: (1) significant levels of cash flows and financial flexibility in relation to debt service requirements; (2) adequate capital structure supported by healthy growth in retained earnings; (3) diversified portfolio, with good growth prospects and; (4) experienced management team.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

The Second Tranche Bonds are offered to the public at face value through the Joint Lead Underwriters named in this Prospectus with the Philippine Depository & Trust Corp. ("PDTC") as the Registrar of the Second Tranche Bonds. The Second Tranche Bonds shall be issued in scripless form in minimum denominations of ₱50,000 each, and in integral multiples of ₱10,000 thereafter. The Second Tranche Bonds shall be traded in denominations of ₱10,000 in the secondary market.

AboitizPower intends to cause the listing of the Second Tranche Bonds on a securities exchange licensed with the SEC and has initiated discussions with the Philippine Dealing & Exchange Corporation (PDEX) for this purpose. However, there can be no assurance that such a listing will actually be achieved either before or after the Issue Date or whether such a listing will materially affect the liquidity of the Second Tranche Bonds on the secondary market. Such listing would be subject to the Company's execution of a listing agreement with PDEX that may require the Company to make certain disclosures, undertakings and payments on an ongoing basis.

AboitizPower expects to raise gross proceeds of ₱10,000,000,000 from the primary offer, and up to ₱15,000,000,000 if the Oversubscription Option is fully exercised. The net proceeds from the Offer is estimated to be ₱9,881,132,143 from the primary offer ₱14,825,066,964 if the Oversubscription Option is fully exercised, after fees, commissions, and expenses. Proceeds of the Offer shall be used for (i) refinancing of the medium-term loan of Therma Power, Inc., (ii) repayment of its short-term loan obligations; and (iii) general corporate purposes, which are discussed further in the section entitled "Use of Proceeds" on page 46 of this Prospectus. The Sole Issue Manager and Joint Lead Underwriters shall receive an aggregate fee of 0.315% inclusive of GRT on the final aggregate nominal principal amount of the Second Tranche Bonds issued, which is inclusive of underwriting fees and selling commissions to be paid.

However, there can be no assurance in respect of: (i) whether AboitizPower would issue the remaining amount of the Bonds at all; (ii) the size or timing of any individual issuance or the total issuance of such Bonds; or (iii) the specific terms and conditions of any such issuance. Any decision by AboitizPower to offer such Bonds will depend on a number of factors at the relevant time, many of which are not within AboitizPower's control, including but not limited to: prevailing interest rates, the financing requirements of AboitizPower's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

AboitizPower confirms that this Prospectus contains all material information relating to the Company, its affiliates and subsidiaries, as well as all material information on the issue and offering of and the Second Tranche Bonds as may be required by the applicable laws of the Republic of the Philippines. No facts have been omitted that would make any statement in this Prospectus misleading in any material respect. AboitizPower confirms that it has made all reasonable inquiries with respect to any information, data and analysis provided to it by its advisors and consultants or which is otherwise publicly available for inclusion into

this Prospectus. AboitizPower, however, has not independently verified any or all such publicly available information, data or analysis.

The prices of securities can and do fluctuate. Any individual security may experience upward or downward movements, and may lose all or part of its value over time. The future performance of a security may defy the trends of its past performance, and there may be a significant difference between the buying price and the selling price of any security. As such, there is an inherent risk that losses may be incurred, rather than profit made, as a result of buying and selling securities. Thus, an investment in the Second Tranche Bonds described in this Prospectus involves a certain degree of risk.

No representation or warranty, express or implied, is made or given by the Sole Issue Manager, the Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers as to the accuracy, completeness or sufficiency of the information contained in this Prospectus, and nothing contained in this Prospectus is, or shall be relied upon as, a promise, representation or warranty by the Sole Issue Manager, the Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers. This Prospectus is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Issuer, the Sole Issue Manager, the Joint Lead Underwriters, the Trustee or the Registry and Paying Agent or their respective affiliates or legal advisers that any recipient of this Prospectus should purchase the Bonds.

In deciding whether to invest in the Second Tranche Bonds, a prospective purchaser of the Second Tranche Bonds ("Prospective Bondholder") should, therefore, carefully consider all the information contained in this Prospectus, including but not limited to, several factors inherent to the Company, which includes significant competition, exposure to risks relating to the performance of the economies of other countries, and other risks relating to customer default (detailed in "*Risk Factors and Other Considerations*" section on page 39 of this Prospectus), and those risks relevant to the Philippines vis-à-vis risks inherent to the Second Tranche Bonds.

Neither the delivery of this Prospectus nor any sale made pursuant to the Offering shall, under any circumstances, constitute a representation or create any implication that the information contained or referred to in this Prospectus is accurate, complete or correct as of any time subsequent to the date hereof or that there has been no change in the affairs of AboitizPower since the date of this Prospectus.

The contents of this Prospectus are not to be considered as definitive legal, business or tax advice. Each Prospective Bondholder receiving a copy of this Prospectus acknowledges that he has not relied on the Sole Issue Manager, the Joint Lead Underwriters, or any person affiliated with the Sole Issue Manager and Joint Lead Underwriters, in his investigation of the accuracy of any information found in this Prospectus or in his investment decision. Prospective Bondholders should consult their own counsel, accountants, or other advisors as to legal, tax, business, financial, and related aspects of the purchase of the Second Tranche Bonds, among others. It bears emphasis that investing in the Second Tranche Bonds involves certain risks. It is best to refer again to the section on "*Risk Factors and Other Considerations*" on page 39 of this Prospectus for a discussion of certain considerations with respect to an investment in the Second Tranche Bonds.

No person nor group of persons has been authorized by AboitizPower, the Sole Issue Manager, and the Joint Lead Underwriters, to give any information or to make any representation concerning AboitizPower or the Second Tranche Bonds other than as contained in this Prospectus and, if given or made, any such other information or representation should not be relied upon as having been authorized by AboitizPower or the Sole Issue Manager and the Joint Lead Underwriters.

Each investor in the Bonds must comply with all laws applicable to it and must obtain the necessary consent, approvals or permission for its purchase, offer or sale under the laws and regulations in force in any jurisdiction to which it is subject, and neither the Company nor any of the Joint Lead Underwriters shall have any responsibility therefore. The Bonds will be registered and offered exclusively in the Philippines. The distribution of this Prospectus and the offer and sale of the Bonds may, in certain jurisdictions, be restricted by law. The Company and the Joint Lead Underwriters require persons into whose possession this Prospectus comes, to inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control

laws and regulations affecting them personally. This Prospectus does not constitute an offer of any securities, or any offer to sell, or a solicitation of any offer to buy any of the securities of the Company in any jurisdiction, to or from any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

AboitizPower is organized under the laws of the Philippines. Its principal office is at 32<sup>nd</sup> Street, Bonifacio Global City, 1634 Taguig City, Metro Manila, Philippines with telephone number (632) 886-2800.

**ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED ARE TRUE AND CURRENT.**

ABOITIZ POWER CORPORATION

By:



ERRAMON J. ABOITIZ   
President & Chief Executive Officer



**SUBSCRIBED AND SWORN TO** before me this October 10, 2018 at Taguig City, Philippines. Affiant, who is personally known to me, exhibited to me his Community Tax Certificate No. 26936151 issued at Cebu City on January 15, 2018 and his Philippine Passport No. P2251997A issued at Cebu City on March 11, 2017 bearing the affiant's photograph and signature.

Doc. No. 140;  
Page No. 29;  
Book No. II;  
Series of 2018.



Atty. Francis Alvin V. Asilo  
Notary Public for Taguig City  
Notarial Commission No. 49 (2018-2019)  
Until December 31, 2019  
NAC Tower, 32<sup>nd</sup> Street, Bonifacio Global City, Taguig City  
PTR No. A-3747885; Taguig City; January 08, 2018  
IBP No. 023443; January 07, 2018  
Roll No. 61419  
MCI.E No. V-00014039

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## FORWARD LOOKING STATEMENTS

This Prospectus contains certain “forward-looking statements”. These forward-looking statements can generally be identified by use of statements that include words or phrases such as AboitizPower or its management “believes”, “expects”, “anticipates”, “intends”, “plans”, “foresees”, or other words or phrases of similar import. Similarly, statements that describe AboitizPower’s objectives, plans or goals are also forward-looking statements. All such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. Important factors that could cause actual results to differ materially from the expectations of AboitizPower include, among others:

- General economic and business conditions in the Philippines;
- The Company’s management’s expectations and estimates concerning its future financial performance;
- The Company’s capital expenditure program and other liquidity and capital resources requirements;
- The Company’s level of indebtedness;
- Increasing competition in the industry in which the Company, its Subsidiaries and its affiliates operate;
- Industry risk in the areas in which the Company, its Subsidiaries, and its affiliates operate;
- Changes in laws and regulations that apply to the segments or industry in which the Company, its Subsidiaries, and its affiliates operate;
- Changes in political conditions in the Philippines;
- Inflation in the Philippines and any devaluation of the Philippine Peso;
- The risk factors discussed in this Prospectus as well as other factors beyond the Company’s control.

For further discussion of such risks, uncertainties and assumptions, see “*Risk Factors and Other Considerations*” on page 39 of this Prospectus. Prospective purchasers of the Second Tranche Bonds are urged to consider these factors carefully in evaluating the forward-looking statements. The forward-looking statements included herein are made only as of the date of this Prospectus, and AboitizPower undertakes no obligation to update such forward-looking statements publicly to reflect subsequent events or circumstances.

None of the Sole Issue Manager, nor the Joint Lead Underwriters take any responsibility for, or gives any representation, warranty or undertaking in relation to, any such forward-looking statement.

## DEFINITION OF TERMS

Aboitiz Group	ACO and the companies or entities in which ACO has a beneficial interest and, directly or indirectly, exercises management control, including, without limitation, Aboitiz Equity Ventures Inc., Aboitiz Power Corporation, and their respective Subsidiaries and Affiliates
AboitizLand	Aboitiz Land, Inc.
Aboitiz InfraCapital	Aboitiz InfraCapital, Inc.
AboitizPower	Aboitiz Power Corporation also referred to as “AP”, the “Company”, the “Parent Company” or the “Issuer”
AboitizPower Group or the Group	AboitizPower and its Subsidiaries
Abovant	Abovant Holdings, Inc.
ACEHI	AC Energy Holdings, Inc.
ACI	Aboitiz Construction, Inc. (Formerly: Aboitiz Construction Group, Inc.)
ACO	Aboitiz & Company, Inc.
AdventEnergy	Adventenergy, Inc.
AESI	Aboitiz Energy Solutions, Inc.
AEV	Aboitiz Equity Ventures, Inc.
AEV Group	AEV and its Subsidiaries
AboitizPower Group	AP and its Subsidiaries
Affiliate	With respect to any Person, any other Person directly or indirectly Controlled, or is under common Control by such Person
Aggregator	Refers to a person or entity, engaged in consolidating electric power demand of end-users in the contestable market, for the purpose of purchasing and reselling electricity on a group basis.
AFS	Available-for-Sale
Ambuklao-Binga Hydroelectric Power Plant Complex or the Ambuklao Plant	Refers to SN Aboitiz Power-Benguet’s 105-MW Ambuklao Hydroelectric Power Plant located in Bokod, Benguet and 140-MW Binga Hydroelectric Power Plant in Itogon, Benguet.
AP	AboitizPower
APA	Asset Purchase Agreement
APX	Aboitiz Power Distributed Energy, Inc.
APX2	Aboitiz Power Distributed Renewables Inc.

APRI	AP Renewables, Inc.
ARI	Aboitiz Renewables, Inc.
ARR	Annual Revenue Requirement
Articles of Incorporation and By-Laws	Document filed with the Securities and Exchange Commission (SEC) by all corporations organized under the laws of the Philippines which contains the name of the Corporation, its specific purpose, its principal place of business, its corporate term, details of incorporators and directors and the amounts of its authorized capital stock, amount of subscribed capital and paid-up capital stock.
AS	Ancillary Services
ASEAN	Association of Southeast Asian Nations
ASPA	Ancillary Services Purchase Agreement
Associate	Refers to 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 does not have control or joint control over those policies.
Bakun Plant	The 70 MW Bakun run-of-river Hydroelectric Plant of LHC located in Ilocos Sur
Banking Day	Any day other than Saturday, Sunday and public holidays, on which commercial banks and the Philippine Clearing House Corporation are generally open for the transaction of business in Taguig City, Makati City, and the City of Manila; provided, that all other days otherwise specified herein shall mean calendar days which shall be construed as successive periods of twenty-four (24) hours each
BCQ	Bilateral Contract Quantity
BDO	BDO Unibank, Inc.
BDO Capital	BDO Capital & Investment Corporation
BEZ	Balamban Enerzone Corporation
Binga Plant	The 140 MW Binga Hydroelectric Power Plant of SNAP-Benguet located in Itogon, Benguet
BIR	Bureau of Internal Revenue
Board	The Board of Directors of AboitizPower, unless context clearly provides otherwise
Bondholder	A Person whose name appears, at any time, as a holder of the Second Tranche Bonds in the Register of Bondholders
Bonds	The unsecured fixed-rate peso retail bonds in the aggregate principal amount of up to Thirty Billion Pesos (₱30,000,000,000) in several tranches
BPI Capital	BPI Capital Corporation
Brownfield	Power generation projects undertaken to expand, rehabilitate, and/or maintain existing assets

BSP	Bangko Sentral ng Pilipinas
Bunker C	A term used to designate the thickest of the residual fuels that is produced by blending oil remaining at the end of the oil-refining process with lighter oil
Business Continuity Plans	Refers to plans formulated in order to address newly identified scenarios triggered by changing risks and issues that the Company faces
Business Unit	A Subsidiary or an Affiliate of AboitizPower
CA	Court of Appeals
CBA	Collective Bargaining Agreement
CBAA	Central Board of Assessment Appeals
CEDC or Cebu Energy	Cebu Energy Development Corporation
CFB	Circulating-Fluidized-Bed
CG Report	Refers to the Company's Corporate Governance Report
CIPDI	Cebu Industrial Park Developers, Inc.
COC	Certificate of Compliance
Consolidated Equity	The total stockholders' equity of the Issuer as recognized and measured in its in its fiscal year-end audited consolidated financial statements and quarter-end unaudited consolidated financial statements, as may be applicable and available in accordance with Applicable Law, both in conformity with PFRS
Contestable Customer	An electricity end-user who has a choice of a supplier of electricity, as may be determined by the ERC in accordance with Republic Act No. 9136 or the EPIRA
Control	The possession, directly, or indirectly, by a Person of the power to direct or cause the direction of the management and policies of another Person whether through the ownership of voting securities or otherwise; provided, however, that the direct or indirect ownership of over fifty percent (50.0%) of the voting capital stock, registered capital or other equity interest of a Person is deemed to constitute control of that Person, and "Controlling" and "Controlled" have corresponding meanings
Corporation	As defined in the Corporation Code, an artificial being created by operation of law, having the right of succession and the powers, attributes and properties expressly authorized by law or incident to its existence
Corporation Code	Batas Pambansa Blg. 68, otherwise known as the Corporation Code of the Philippines, as may be amended from time to time, and including the rules and regulations issued thereunder
Cotabato Light	Cotabato Light and Power Company
CPCN	Certificate of Public Convenience and Necessity
CPPC	Cebu Private Power Corporation
CREM	Refers to an electricity market wherein contestable customers exercise ability to

	choose suppliers of electricity by virtue of open access in the distribution system
CSEE	Contract for the Supply of Electric Energy
CSP	Competitive Selection Process
CSR	Corporate Social Responsibility
Current Ratio	The ratio of total current assets over total current liabilities of the Issuer
CVC	Constraint Violation Coefficients
Davao Light or DLPC	Davao Light and Power Company, Inc.
DAU	Declaration of Actual Use
DENR	Department of Environment and Natural Resources
Distribution Companies or Distribution Utilities	BEZ, Cotabato Light, Davao Light, MEZ, SEZ, SFELAPCO, and VECO
DOE	Department of Energy
DSOAR	Distribution Services and Open Access Rules
DST	Documentary Stamp Tax
DTI	Department of Trade and Industry
DTL	Deferred Income Tax Liabilities
EAUC	East Asia Utilities Corporation
EBITDA	Represents net income after adding provisions for income tax, depreciation, amortization, and net financial expense, and netting out extra-ordinary items such as foreign exchange differential and one-off gains or losses on disposal of major assets
ECA	Energy Conversion Agreement
ECC	Environmental Compliance Certificate
El Paso Philippines	El Paso Philippines Energy Company, Inc.
EMB	Environmental Management Bureau
Enerzone Companies	A term collectively referring to BEZ, MEZ and SEZ – AboitizPower’s distribution utilities operating within special economic zones.
EPC	Engineering, Procurement, and Construction
EPIRA	Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, as may be amended from time to time, and including the rules and regulations issued thereunder
EPPA	Energy Power Purchase Agreement

ERB	Energy Resolution Board
ERC	Energy Regulatory Commission
ERC-IU or IU	Refers to the Investigation Unit of the Energy Regulatory Commission
ESA	Energy Supply Agreement
Events of Default	Those events defined as such under the Trust Agreement
Evonik Steag	Evonik Steag GmbH
FAQ	Frequently Asked Questions
FIT	Feed-in-Tariff
FIT-All	FIT-Allowance
Formosa Heavy Industries	Formosa Heavy Industries Corporation
FOSA	Fuel Oil Sales Agreements
FPIC	Free and Prior Informed Consent
Garcia Group	Refers to Vivant Energy Corporation (VEC) and Vivant Integrated Generation Corporation (VIGC)
GCGI	Green Core Geothermal Incorporated
GDP	Gross Domestic Product
Generation Companies or Generation Group	APRI, CEDC, CPPC, EAUC, Hedcor, Hedcor Sibulan, Hedcor Tamugan, LHC, RP Energy, SNAP-Benguet, SNAP-Magat, SPPC, STEAG Power, and WMPC.
Global Formosa	Global Formosa Power Holdings, Inc.
Global Power	Global Business Power Corporation of the Metrobank Group
GMCP	GN Power Mariveles Coal Plant Ltd. Co.
GNPD or GN Power Dingnin	GNPower Dinginin Ltd. Co.
GNI	Gross National Income
GOMP	Grid Operating and Maintenance Program
Government	The Government of the Republic of the Philippines
Government Authority	The Republic of the Philippines, or any political subdivision or agency thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to the said government, and any national agency or body vested with jurisdiction or authority over any Person
GRAM	Generation Rate Adjustment Mechanism



Greenfield	Power generation projects that are developed from inception on previously undeveloped sites
GRSC	Geothermal Resources Sales Contract
GSED	Government Securities Eligible Dealer
GWh	Gigawatt-hour, or one mn kilowatt-hours
HEDC	Hydro Electric Development Corporation
HAD	Hour-Ahead Dispatch
HEC	Hyundai Engineering Co. Ltd.
Hedcor	Hedcor, Inc.
Hedcor Benguet	Hedcor Benguet, Inc.
Hedcor Bukidnon or H-Bukidnon or HBI	Hedcor Bukidnon, Inc.
Hedcor Consortium	The consortium comprised of PHC, Hedcor, Hedcor Sibulan and Hedcor Tamugan
Hedcor Sabangan or H-Sabangan	Hedcor Sabangan, Inc.
Hedcor Sibulan or H-Sibulan	Hedcor Sibulan, Inc.
Hedcor Tamugan	Hedcor Tamugan, Inc.
Hedcor Tudaya or H-Tudaya	Hedcor Tudaya, Inc.
HEPP	Hydroelectric Power Plant
ICERA	Incremental Currency Exchange Rate Adjustment
ILP	Interruptible Load Program
Hijos	Hijos De F. Escaño, Inc.
HVDC	High Voltage Direct Current link
IAR	Industrial All Risks insurance
ICD	Institute of Corporate Directors
ICTSI	International Container Terminal Services, Inc.
IFC	International Finance Corporation
IFELCO	Ifugao Electric Cooperative
IMEM	Interim Mindanao Electricity Market

Indebtedness	<p>(1) All indebtedness or other obligations of the Issuer for borrowed money or for the deferred purchase price of property or services and similar arrangements;</p> <p>(2) All indebtedness or other obligations of any other Person, the payment or collection of which is guaranteed by the Issuer (except by reason of endorsement for collection in the ordinary course of business) or in respect of which the Issuer is liable, contingently or otherwise, including without limitation, any agreement to purchase, to provide funds for payment, to supply funds to or otherwise invest in such Person; and</p> <p>(3) Capitalized lease obligations of the Issuer</p>
IP Office	Philippine Intellectual Property Office
IPO	Initial Public Offering
IPP	Independent Power Producer
IPAA	Independent Power Producer Administrator
IPRA	Indigenous Peoples' Rights Act of 1997
IRR	Implementing Rules and Regulations
ISELCO II	Isabela II Electric Cooperative
Issue Price	At par, which is equal to the face value of the Second Tranche Bonds
ITH	Income tax holiday
Joint Lead Underwriters	BDO Capital & Investment Corporation, BPI Capital Corporation, and United Coconut Planters Bank
Joint Venture	Refers to a type of joint agreement 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 exist only when decisions about the relevant activities require unanimous consent of the parties sharing control.
kV	Kilovolt, or one thousand volts
kW	Kilowatt, or one thousand watts
kWh	Kilowatt-hour, the standard unit of energy used in the electric power industry. One kilowatt-hour is the amount of energy that would be produced by a generator producing one thousand watts for one hour
LASA	Load Allocation and Settlement Agreement
LBAA	Local Board of Assessment Appeals
LBM	Liquid Bio Methane
LEZ	Lima Enerzone Corporation
LGC	Republic Act No. 7160, otherwise known as the Local Government Code, as may be amended from time to time, and including the rules and regulations issued

	thereunder
LGU	Local Government Unit
LHC	Luzon Hydro Corporation
LTC	Lima Technology Center
Lien	With respect to any Person, any lien, pledge, mortgage, charge, hypothecation, encumbrance or other security or preferential arrangement on or with respect to any asset or revenue of such Person
Lima Land	Lima Land, Inc.
LMP	Locational Marginal Price
LTC	Lima Technology Center
LMP	Locational Marginal Price
Maaraw San Carlos	Maaraw Holdings San Carlos, Inc.
Magat Plant	The Magat Hydroelectric Power Plant of SNAP-Magat located at the border of Isabela and Ifugao provinces
Majority Bondholders	At any time, the Bondholders who hold, represent or account for at least fifty percent (50%) plus one peso (₱1.00) of the aggregate outstanding principal amount of the Second Tranche Bonds, provided that, in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Series B Bonds, holders of Series B Bonds, exclusively, will be considered for quorum and approval purposes; and in respect of any matter presented for resolution at any meeting of Bondholders that affect the rights and interests of only the holders of the Series C Bonds, holders of Series C Bonds, exclusively, will be considered for quorum and approval purposes.
Material Adverse Effect	A material adverse effect on the ability of the Issuer to perform or comply with any of its material obligations, or to exercise any of its material rights, under the Trust Agreement, the Underwriting Agreement or the Second Tranche Bonds
MAP	Maximum Average Price
Master Certificates of Indebtedness	Refers to the certificates representing the Second Tranche Bonds sold in the Offer issued to and registered in the name of the Trustee, on behalf of the Bondholders
MEPZ I	Mactan Export Processing Zone I
MEPZ II	Mactan Export Processing Zone II
MEZ	Mactan Enerzone Corporation
MCIAA	Mactan Cebu International Airport Authority
MERALCO	Manila Electric Company
MOA	Memorandum of Agreement
MORE	Manila-Oslo Renewable Enterprise, Inc.

MPGC	Meralco PowerGen Corporation
MSK	Matuwid na Singil sa Kuryente Consumer Alliance, Inc.
MW	Megawatt, or one mn watts
MWh or MW-h	Megawatt-hour
MWp	Megawatt-peak
MVA	Megavolt Ampere
NEA	National Electrification Administration
Net Debt	the interest-bearing debt less cash, cash equivalents, and short term investments of the Issuer
Net Debt to Consolidated Equity Ratio	the ratio of Net Debt to Consolidated Equity
NGCP	National Grid Corporation of the Philippines
NIA	National Irrigation Administration
NLRC	National Labor Relations Commission
NORMIN or Cleanergy	Northern Mini Hydro Corporation, now known as Cleanergy, Inc.
NPC	National Power Corporation
NPPC	Naga Power Plant Complex
NREB	National Renewable Energy Board
NWRB	National Water Resources Board
O&M	Operations and Maintenance
Offer Period	October 12 to October 18, 2018
Okeelanta	Okeelanta Corporation
Open Access or RCOA	Retail Competition and Open Access and as defined in EPIRA, refers to the provision of allowing any qualified user the use of transmission, and/or distribution system and associated facilities subject to the payment of transmission and/or distribution retail wheeling rates duly approved by the ERC;
Oversubscription Option	Means the Oversubscription option exercisable by the Sole Issue Manager and the Joint Lead Underwriters in consultation with the Issuer of up to PHILIPPINE PESOS: FIVE BILLION (₱5,000,000,000.00). In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Second Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within the Shelf Period.

PA	Provisional Authority
Pacific Hydro	Pacific Hydro Pty. Ltd.
Pagbilao Plant or Pag1 and Pag2	Refers to the 700-MW (2x350 MW) coal-fired thermal power plant located in Pagbilao, Quezon.
Pag 3	Refers to a third generating unit with a net capacity of 400 MW within the Pagbilao Plant facilities.
PANC	Pilmico Animal Nutrition Corporation
PASUDECO	Pampanga Sugar Development Corporation
PB 117	Power Barge Mobile 2 owned and operated by Therma Marine, Inc., which have a total generating capacity of 200 MW.
PB 118	Power Barge Mobile 1 owned and operated by Therma Marine, Inc., which have a total generating capacity of 200 MW.
PBR	Performance-based rate-setting regulation
PBS	Philippine Banking System
PCC or PHCC	Philippine Competition Commission
PCRM	Pricing and Cost Recovery Mechanism
PDEX	Philippine Dealing & Exchange Corp.
PDS	Power Distribution System
PDTC	Philippine Depository & Trust Corp.
PEC	Pagbilao Energy Corporation
PEMC	Philippine Electricity Market Corporation
PEMC Board	PEMC Board of Directors
PEMC-ECO or ECO	Enforcement and Compliance Office of the Philippines Electricity Market Corporation
PERA	Personal Equity and Retirement Account
Person	An Individual, corporation, partnership, association, joint stock Company, trust, any unincorporated organization, or a government or political subdivision thereof
PETNET	PETNET, Inc.
PEZA	Philippine Economic Zone Authority
PFRS	Philippine Financial Reporting Standards
PGPC	Philippine Geothermal Production Company

PHC	Philippine Hydropower Corporation												
Philippine Environmental Impact Statement System	Presidential Decree No. 1586 which establishes and institutionalizes a system whereby the exigencies of socio-economic undertakings can be reconciled with the requirements of environmental quality.												
Philippine Grid Code or The Grid Code	Promulgated by the ERC under the EPIRA, it establishes basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the high-voltage backbone Transmission System in the Philippines.												
Philippine Pesos or ₱	The lawful currency of the Philippines												
Phil Ratings	Philippine Ratings Services Corporation												
Pilmico or PFC	Pilmico Foods Corporation												
PIPPA	Philippine Independent Power Producers Association, Inc.												
PIS	Performance Incentive Scheme												
PNB	Philippine National Bank												
Power Partners	Power Partners Ltd. Co.												
PPA	Power Purchase Agreement												
PPE	Property, Plant, Equipment												
Prepayment Penalty	<p>The additional amount the Issuer will pay if it prepays the Second Tranche Bonds and computed as the following amount multiplied by the outstanding amount of the relevant series of the Second Tranche Bonds being redeemed:</p> <p>Series B Bonds:</p> <table border="1"> <thead> <tr> <th>Optional Redemption Dates</th> <th>Prepayment Penalty</th> </tr> </thead> <tbody> <tr> <td>4.00 years from Issue Date</td> <td>0.25%</td> </tr> </tbody> </table> <p>Series C Bonds:</p> <table border="1"> <thead> <tr> <th>Optional Redemption Dates</th> <th>Prepayment Penalty</th> </tr> </thead> <tbody> <tr> <td>7.00 years from Issue Date</td> <td>2.00%</td> </tr> <tr> <td>8.00 years from Issue Date</td> <td>1.00%</td> </tr> <tr> <td>9.00 years from Issue Date</td> <td>0.25%</td> </tr> </tbody> </table>	Optional Redemption Dates	Prepayment Penalty	4.00 years from Issue Date	0.25%	Optional Redemption Dates	Prepayment Penalty	7.00 years from Issue Date	2.00%	8.00 years from Issue Date	1.00%	9.00 years from Issue Date	0.25%
Optional Redemption Dates	Prepayment Penalty												
4.00 years from Issue Date	0.25%												
Optional Redemption Dates	Prepayment Penalty												
7.00 years from Issue Date	2.00%												
8.00 years from Issue Date	1.00%												
9.00 years from Issue Date	0.25%												
PRISM	Prism Energy, Inc.												
PSA	Power Supply Agreement												
PSALM	Power Sector Assets and Liabilities Management Corporation												
PSC	Power Supply Contract												
PSE	The Philippine Stock Exchange, Inc.												
PSPC	Pilipinas Shell Petroleum Corporation												

Public Offering	Refers to the random or indiscriminate offering of securities in general to anyone who will buy, whether solicited or unsolicited as per the SRC IRR.
RA	Republic Act
RAB	Regulatory Asset Base
RAFI	Ramon Aboitiz Foundation, Inc.
RDWR	Rules for Setting Distribution Wheeling Rates
Record Date	The cut-off date in determining Bondholders entitled to receive interest or principal amount due, as used with respect to any Payment Date shall mean the day which is two (2) Banking Days prior to the relevant Interest Payment Date; provided that if such day falls on a non-Banking Day, the Record Date shall be the next Banking Day immediately preceding said date;
Register of Bondholders	The electronic register which shows the legal title to the Second Tranche Bonds, maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
Registrar and Paying Agent	Phillipine Depository & Trust Corp.
Registration Statement	The application for the registration of securities filed with the SEC as required under the Securities Regulation Code.
Registry and Paying Agency Agreement	Agreement dated October 10, 2018 entered into between the Company and the Registrar and Paying Agent in relation to the Second Tranche Bonds
Registry Book	The electronic record of the issuances, sales and transfers of the Second Tranche Bonds to be maintained by the Registrar, pursuant to and under the terms of the Registry and Paying Agency Agreement
RE	Renewable Energy
Renewable Energy Act or RE Law	Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008
REPA	Renewable Energy Payment Agreement
RES	Retail Electricity Supplier
RESA	Retail Electricity Suppliers Association of the Philippines, Inc.
RESC	Renewable Energy Service Contract
RORB	Rate on Return Base
RP Energy	Redondo Peninsula Energy, Inc.
RPS	Renewable Portfolio Standard
RPT	Real Property Tax
RSC	Retail Supply Contract

RTC	Regional Trial Court
RTT	Right-to-Top
Run-of-river hydroelectric plant	Hydroelectric power plant that generates electricity from the natural flow and elevation drop of a river
Sacasun	San Carlos Power, Inc.
SBFZ	Subic Bay Freeport Zone
SBMA	Subic Bay Metropolitan Authority
SAIFI	System Average Interruption Duration Index
SAIDI	System Average Interruption Frequency Index
SC	Supreme Court
SEC	The Securities and Exchange Commission of the Philippines
Second Tranche Bonds	Consists of Series B Bonds and Series C Bonds, in the aggregate principal amount of ₱10,000,000,000.00, with an Oversubscription Option in the aggregate principal amount of up to ₱5,000,000,000.00.
Series B Bonds	The Second Tranche Bonds with an aggregate principal amount of ₱7,500,000,000.00, as may be increased subject to the exercise of the Oversubscription Option during the Offer Period, having a term ending five (5) years and one (1) quarter from the Issue Date, or on January 25, 2024.
Series C Bonds	The Second Tranche Bonds with an aggregate principal amount of ₱2,500,000,000.00, as may be increased subject to the exercise of the Oversubscription Option during the Offer Period, having a term ending ten (10) years from the Issue Date, or on October 25, 2028.
SEZ	Subic Enerzone Corporation
SFELAPCO	San Fernando Electric Light and Power Co., Inc.
SGC	Successor Generating Company
SHAPES	Safety and Health Association of the Philippines Energy Sector Inc.
Shelf Period	a period of three years from the effectivity of the registration statement within which securities under shelf registration may be offered.
Sibulan Project	Two run-of-river hydropower generating facilities tapping the Sibulan and Baroring rivers in Sibulan, Santa Cruz, Davao del Sur
Significant Subsidiary	A subsidiary which qualifies under SRC Rule 68, as amended, Part I, Section 1.B (x)
SLA	Service Level Agreements
SLPGC	South Luzon Power Generation Company
SN Power	Statkraft Norfund Power Invest AS of Norway



SNAP - Benguet	SN Aboitiz Power – Benguet, Inc. (formerly, SN Aboitiz Power Hydro, Inc.)
SNAP - Magat	SN Aboitiz Power – Magat, Inc.
SN Aboitiz Power Group	Refers to the group of companies formed out of the strategic partnership between AboitizPower and SN Power, and refers to MORE and its Subsidiaries, including, SN Aboitiz Power-Benguet, Inc. SN Aboitiz Power-Gen, Inc., SN Aboitiz Power-RES, Inc., and SN Aboitiz Power-Magat, Inc.
SO	System Operator
Sole Issue Manager	BDO Capital & Investment Corporation
SPC	SPC Power Corporation (formerly Salcon Power Corporation)
Spot Market Price	Price of electricity in the WESM, determined per hourly trading interval
SPPC	Southern Philippine Power Corporation
SPPC Plant	A 55- MW Bunker C-fired power plant owned and operated by Southern Philippines Power Corporation (SPPC)
SRC	Republic Act No. 8799, otherwise known as the Securities Regulation Code of the Philippines, as amended and may be amended from time to time, including the rules and regulations issued thereunder
SRC IRR	2015 Implementing Rules and Regulations of the SRC
STEAG Power	STEAG State Power, Inc.
Stranded Costs	As defined in the EPIRA, the excess of the contracted costs of electricity under eligible contracts over the actual selling price of the contracted energy output under such contracts. Eligible contracts are those approved by the ERB from December 31, 2000 onwards.
Stranded Debt	As defined in the EPIRA, refers to any unpaid financial obligations of the National Power Corporation that have not been liquidated by the proceeds from the sale and privatization of its assets.
Subsidiary	In respect of any Person, any entity (i) over fifty percent (50.0%) of whose capital is owned directly by that Person; or (ii) for which that Person may nominate or appoint a majority of the members of the board of directors or such other body performing similar functions
Tax Code	Presidential Decree No. 1158, otherwise known as the National Internal Revenue Code, as amended and may be further amended from time to time, including the rules and regulations issued thereunder
TCIC	Taiwan Cogeneration International Corporation
TeaM Energy	TeaM Energy Corporation
TeaM Philippines	TeaM Philippines Industrial Power II Corporation (formerly Mirant (Phils.) Industrial Power II Corp.)
THC	Tsuneishi Holdings (Cebu), Inc.

Tiwi-MakBan	Tiwi-MakBan Geothermal Complex, composed of twelve (12) geothermal plants and one (1) binary plant, located in the provinces of Batangas, Laguna and Albay.
TLI	Therma Luzon, Inc.
TMI	Therma Marine, Inc.
TMO	Therma Mobile, Inc.
TPI	Therma Power, Inc.
TPVI	Therma Power Visayas, Inc.
Transaction Date	with respect the incurrence of any loan obligation with a maturity of more than one (1) year, the date such loan obligation is incurred
Transco	National Transmission Corporation and, as applicable, NGCP, which is the Transco concessionaire
Treasury Transaction	any currency, commodity, or interest rate purchase, cap or collar agreement, forward rate agreement, future or option contract, swap or other similar agreement, in relation to the Issuer's treasury management
Trust Agreement	Trust Agreement dated October 10, 2018 entered into between the Company and the Trustee in relation to the Second Tranche Bonds
Trustee	BDO Unibank, Inc. – Trust and Investments Group
TRO	Temporary Restraining Order
TSA	Transmission Service Agreement
TSC	Transition Supply Contract
TSI	Therma South, Inc.
TVI	Therma Visayas, Inc.
TWh	Terawatt-hour
UCPB	United Coconut Planters Bank
ULGEI	Unified Leyte Geothermal Energy, Inc.
ULGPP	Unified Leyte Geothermal Power Plant
Underwriting Agreement	Underwriting Agreement dated October 10, 2018 entered into between the Company and the Joint Lead Underwriters in relation to the Second Tranche Bonds
UnionBank	Union Bank of the Philippines
US\$ or USD or U.S. dollar	The lawful currency of the United States of America
VAT	Value Added Tax
VEC	Vivant Energy Corporation

VECO	Visayan Electric Company, Inc.
VIGC	Vivant Integrated Generation Corporation
Vivant	Vivant Energy Corporation
WCIP - SEZ	West Cebu Industrial Park –Special Economic Zone
WESM	Philippine Wholesale Electricity Spot Market
WESM Rules	The WESM Rules are the basic rules, requirements, and procedures that govern the operation of the Philippine electricity market. Promulgated by the DOE.
WMPC	Western Mindanao Power Corporation
WMPC Plant	A 100-MW Bunker C-fired power station in Zamboanga City owned and operated by the Western Mindanao Power Corporation
Writ of Kalikasan	A legal remedy provided for under A.M. No. 09-6-8-SC issued by the Philippine Supreme Court issued when persons whose constitutional right to a balanced and healthful ecology is violated, or threatened with violation by an unlawful act or omission of a public official or employee, or private individual or entity, involving environmental damage of such magnitude as to prejudice the life, health or property of inhabitants in two or more cities or provinces.
YoY	Year-on-Year

## EXECUTIVE SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements and notes thereto appearing elsewhere in this Prospectus. Because it is a summary, it does not contain all of the information that a prospective purchaser should consider before investing. Prospective investors should read the entire Prospectus carefully, including the section entitled “Risk Factors and Other Considerations” and the financial statements and the related notes to those statements included in this Prospectus.

### **The Offering**

AboitizPower is offering for subscription and issue to eligible Bondholders the Second Tranche Bonds, consisting of Series B Bonds and Series C Bonds, in the aggregate principal amount of ₱10,000,000,000.00, with an Oversubscription Option in the aggregate principal amount of up to ₱5,000,000,000.00. In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Second Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within the Shelf Period.

### **Investment Thesis**

AboitizPower is a vertically-integrated, diversified, and experienced industry leader, with a strong financial position. These competitive strengths allow it to pursue its robust growth initiatives to meet the country’s energy needs. Its mission is to provide reliable power, at a reasonable price, with the least possible adverse effects on its environment and host communities.

### **The Company**

AboitizPower is a publicly listed holding company. Its controlling shareholder, AEV, is a diversified conglomerate that is listed on the PSE and has interests in power, banking and financial services, food, infrastructure, and land. This relationship allows the Company to draw on the extensive business networks, local business knowledge, relationships and expertise of AEV’s and the Aboitiz Group’s senior managers to identify growth opportunities at an early stage and to capitalize on such opportunities more decisively.

As of June 30, 2018, the Company has accumulated interests in a diversified and balanced mix portfolio of forty-eight (48) generating plants with a renewable capacity of 29% and a thermal capacity of 71%. This portfolio uses five technologies: 54% coal, 17% oil, 15% hydro, 12% geothermal, and 1% solar<sup>1</sup>; giving the Company the agility to meet the power needs of the country, from baseload, to intermediate, to peaking demand, including ancillary services to stabilize the grids.

The Company also owns interests in several distribution utilities in Luzon, Visayas, and Mindanao, including Visayan Electric Company, Inc. (VECO) and Davao Light & Power Company, Inc. (Davao Light), which are, respectively, the second and third largest privately owned distribution utilities in the Philippines, in terms of both customers and annual GWh sales.

For a full discussion, please refer to the section on “*The Company*” on page 72 of this Prospectus.

### **History**

Incorporated in 1998, AboitizPower has grown to become a leader in the Philippine power industry with interests in a number of privately-owned generation companies and distribution utilities. AEV owns 76.88% of the outstanding capital stock of AboitizPower, as of 30 June 2018.

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<sup>1</sup> Figures will not sum up to 100% due to rounding.

Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in The Philippine Stock Exchange, Inc. (PSE) on 16 July 2007. As of June 29, 2018, the Company's market capitalization was at P255.7 Billion.

For a full discussion, please refer to the section on "*The Company*" on page 72 of this Prospectus.

### **Summary of Financial Information**

The summary of financial and operating information presented below as at 31 December 2017 and 2016 and each of the three years in the period ended 31 December 2017 were derived from the consolidated financial statements of AboitizPower, audited by SyCip Gorres and Velayo ("SGV") and prepared in compliance with in accordance with Philippine Financial Reporting Standards ("PFRS"). The financial and operating information presented below as of and for the six-month periods ended 30 June 2018 and 2017 were derived from the unaudited interim condensed financial statements of AboitizPower prepared in compliance with Philippine Accounting Standards ("PAS") 34, "Interim Financial Reporting".

Prospective Bondholders should read the summary financial information below together with the AboitizPower's audited consolidated financial statements, including the Notes thereto, presented as an Annex and the section entitled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on page 161 of this Prospectus. The information is not necessarily indicative of the results of the future operations.

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

(Amounts in Thousands)

	As of Jun 30 2018 (Unaudited)	As of Dec 31, 2017 (Audited)	As of Dec 31, 2016 (Audited)	As of Dec 31, 2015 (Audited)
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	₱36,476,195	₱35,699,631	₱47,094,741	₱51,098,269
Trade and other receivables	22,410,104	17,359,828	15,465,121	13,692,393
Derivative assets	288,766	228,644	188,417	185,283
Inventories	6,030,276	5,643,607	4,452,812	2,040,603
Other current assets	13,900,599	9,029,886	6,448,096	3,392,473
<b>Total Current Assets</b>	<b>79,105,940</b>	<b>67,961,596</b>	<b>73,649,187</b>	<b>70,409,021</b>
<b>Noncurrent Assets</b>				
Investments and advances	31,968,072	31,248,595	30,595,989	22,551,845
Property, plant and equipment	207,564,229	204,025,303	192,976,388	134,810,627
Intangible assets	46,445,505	46,344,658	46,718,057	7,592,720
Investment Properties	-	-	-	3,300
Derivative assets - net of current portion	471,361	113,297	103,444	378,083
Available-for-sale (AFS) investments	-	102,999	100,309	3,620
Financial assets at FVTPL	101,659	-	-	-
Net pension assets	56,400	56,400	45,667	34,777
Deferred income tax assets	1,846,568	1,406,796	1,802,570	584,879
Other noncurrent assets	6,089,474	10,217,355	11,015,283	6,120,374
<b>Total Noncurrent Assets</b>	<b>294,543,268</b>	<b>293,515,403</b>	<b>283,357,707</b>	<b>172,080,225</b>
<b>TOTAL ASSETS</b>	<b>₱373,649,208</b>	<b>₱361,476,999</b>	<b>₱357,006,894</b>	<b>₱242,489,246</b>

### LIABILITIES AND EQUITY

<b>Current Liabilities</b>				
Short-term loans	₱10,724,800	₱4,717,300	₱4,155,600	₱2,568,000
Current portions of:				
Long-term debts	13,547,531	20,692,751	7,458,363	2,368,161
Finance lease obligation	3,316,165	3,316,165	2,968,491	2,583,754
Long-term obligation on power distribution system	40,000	40,000	40,000	40,000
Derivative liabilities	5,179	47,577	127,442	-
Trade and other payables	25,111,895	19,852,383	17,398,218	14,140,576
Income tax payable	704,073	646,115	654,392	852,709
<b>Total Current Liabilities</b>	<b>53,449,643</b>	<b>49,312,291</b>	<b>32,802,506</b>	<b>22,553,200</b>

	As of Jun 30, 2018 (Unaudited)	As of Dec 31, 2017 (Audited)	As of Dec 31, 2016 (Audited)	As of Dec 31, 2015 (Audited)
<b>Noncurrent Liabilities</b>				
Noncurrent portions of:				
Long-term debts	P141,136,075	P131,360,749	P151,914,172	P56,006,863
Finance lease obligation	45,861,884	45,909,089	49,371,713	51,085,100
Long-term obligation on power distribution system	199,784	186,071	197,248	207,184
Derivative liabilities – net of current portion	-	-	233,435	-
Customers' deposits	6,115,667	6,094,690	6,831,242	6,383,278
Asset retirement obligation	3,065,185	2,959,060	1,821,577	3,016,528
Net pension liabilities	326,077	361,228	247,387	492,848
Deferred income tax liabilities	871,892	912,601	1,043,996	1,130,678
Other noncurrent liabilities	-	402,756	334,398	-
<b>Total Noncurrent Liabilities</b>	<b>197,576,564</b>	<b>188,186,244</b>	<b>211,995,168</b>	<b>118,322,479</b>
<b>Total Liabilities</b>	<b>251,026,207</b>	<b>237,498,535</b>	<b>244,797,674</b>	<b>140,875,679</b>
<b>Equity Attributable to Equity Holders of the Parent</b>				
Paid-in capital	19,947,498	19,947,498	19,947,498	19,947,498
Net unrealized loss on AFS investments	-	(625)	(3,311)	-
Share in net unrealized valuation gains on AFS investments of an associate	124,121	124,121	114,920	114,920
Cumulative translation adjustments	2,178,597	113,637	(78,232)	185,431
Share in cumulative translation adjustments of associates and joint ventures	(389,536)	(144,507)	(128,203)	(256,376)
Actuarial losses on defined benefit plans	(601,605)	(601,461)	(607,913)	(609,066)
Share in actuarial gains (losses) on defined benefit plans of associates and joint ventures	5,257	4,963	(1,878)	(3,748)
Acquisition of non-controlling interests	(259,147)	(259,147)	(259,147)	(259,147)
Excess of cost over net assets of investments	(421,260)	(421,260)	(526,883)	(421,260)
Loss on dilution	(433,157)	(433,157)	-	-
Retained earnings				
Appropriated	34,060,000	34,060,000	34,060,000	20,900,000
Unappropriated	61,838,168	63,006,308	52,597,568	57,970,269
	<b>116,048,936</b>	<b>115,396,370</b>	<b>105,114,419</b>	<b>97,568,521</b>
<b>Non-controlling Interests</b>	<b>6,574,065</b>	<b>8,582,094</b>	<b>7,094,801</b>	<b>4,045,046</b>
<b>Total Equity</b>	<b>122,623,001</b>	<b>123,978,464</b>	<b>112,209,220</b>	<b>101,613,567</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P373,649,208</b>	<b>P361,476,999</b>	<b>P357,006,894</b>	<b>P242,489,246</b>

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

(Amounts in Thousands, Except Earnings Per Share Amounts)

	For the six- month period ended Jun 30, 2018 (Unaudited)	For the six- month period ended Jun 30, 2017 (Unaudited)	For the year ended Dec 31, 2017 (Audited)	For the year ended Dec 31, 2016 (Audited)	For the year ended Dec 31, 2015 (Audited)
<b>OPERATING REVENUES</b>	<b>₱65,031,776</b>	<b>₱56,647,678</b>	<b>₱119,391,303</b>	<b>₱89,163,269</b>	<b>₱85,173,952</b>
<b>OPERATING EXPENSES</b>	<b>48,214,275</b>	41,519,539	85,217,574	62,852,969	60,487,375
<b>FINANCIAL INCOME (EXPENSES)</b>					
Interest income	<b>342,711</b>	423,974	927,012	1,083,535	846,293
Interest expense and other financing costs	<b>(5,350,759)</b>	(5,188,229)	(11,247,780)	(7,704,011)	(6,633,858)
	<b>(5,008,048)</b>	(4,764,255)	(10,320,768)	(6,620,476)	(5,787,565)
<b>OTHER INCOME (EXPENSES)</b>					
Share in net earnings of associates and joint ventures	<b>1,923,308</b>	2,412,475	4,697,864	3,641,210	3,979,947
Other income (expenses) - net	<b>(1,151,847)</b>	(266,614)	(1,704,000)	1,669,212	(336,639)
	<b>771,461</b>	2,145,861	2,993,864	5,310,422	3,643,308
<b>INCOME BEFORE INCOME TAX</b>	<b>12,580,914</b>	12,509,745	26,846,825	25,000,246	22,542,320
<b>PROVISION FOR INCOME TAX</b>	<b>1,726,763</b>	1,742,239	3,858,398	3,496,140	3,589,669
<b>NET INCOME</b>	<b>₱10,854,151</b>	<b>₱10,767,506</b>	<b>₱22,988,427</b>	<b>₱21,504,106</b>	<b>₱18,952,651</b>
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the parent	<b>₱9,118,033</b>	₱9,720,562	₱20,416,442	₱20,002,582	₱17,603,797
Non-controlling interests	<b>1,736,118</b>	1,046,944	2,571,985	1,501,524	1,348,854
	<b>₱10,854,151</b>	<b>₱10,767,506</b>	<b>₱22,988,427</b>	<b>₱21,504,106</b>	<b>₱18,952,651</b>
<b>Earnings Per Common Share</b>					
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	<b>₱1.24</b>	₱1.32	₱2.77	₱2.72	₱2.39



**ABOITIZ POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Amounts in Thousands)

	<b>For the six- month period ended Jun 30, 2018 (Unaudited)</b>	For the six- month period ended Jun 30, 2017 (Unaudited)	For the year ended Dec 31, 2017 (Audited)	For the year ended Dec 31, 2016 (Audited)	For the year ended Dec 31, 2015 (Audited)
<b>NET INCOME</b>					
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the parent	<b>₱9,118,033</b>	₱9,720,562	₱20,416,442	₱20,002,582	₱17,603,797
Non-controlling interests	<b>1,736,118</b>	1,046,944	2,571,985	1,501,524	1,348,854
	<b>10,854,151</b>	10,767,506	22,988,427	21,504,106	18,952,651
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	<b>2,393,153</b>	337,091	378,492	71,222	225,922
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱13,247,304</b>	₱11,104,597	₱23,366,919	₱21,575,328	₱19,178,573
<b>ATTRIBUTABLE TO:</b>					
Equity holders of the parent	<b>₱10,938,114</b>	₱10,057,653	₱20,617,187	₱20,124,770	₱17,821,712
Non-controlling interests	<b>2,309,190</b>	1,046,944	2,749,732	1,450,558	1,356,861
	<b>₱13,247,304</b>	₱11,104,597	₱23,366,919	₱21,575,328	₱19,178,573

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands)

	For the 6 months ended Jun 30, 2018 (Unaudited)	For the year ended Dec 31, 2017 (Audited)	For the year ended Dec 31, 2016 (Audited)	For the year ended Dec 31, 2015 (Audited)
NET CASH FROM OPERATING ACTIVITIES	₱12,933,796	₱30,235,931	₱29,887,980	₱25,199,597
NET CASH USED IN INVESTING ACTIVITIES	(260,889)	(9,452,925)	(81,380,348)	(8,902,646)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	(12,162,504)	(32,122,699)	47,483,228	(5,448,755)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	510,403	(11,339,693)	(4,009,140)	10,848,196
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	266,161	(55,417)	5,612	18,198
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	35,699,631	47,094,741	51,098,269	40,231,875
CASH AND CASH EQUIVALENTS AT END OF PERIOD	₱36,476,195	₱35,699,631	₱47,094,741	₱51,098,269

For a full discussion, please refer to the section on “*Financial And Other Information*” on page 236 of this Prospectus.

### Competitive Strengths

The Company believes that its principal strengths are the following:

- Strong track record in both power generation and distribution
- Ability to take advantage of expected strong power market fundamentals
- Vertically-integrated power generation and distribution company
- Power generation contracts that provide steady and predictable cash flow
- Benefits and low operating costs from renewable energy and renewable energy sources
- Dependable and growing sources of income from its power distribution businesses
- Strong financial position and the ability to obtain limited recourse and corporate level financing
- Established relationships with strategic partners
- Strong and experienced management team

For a full discussion, please refer to the section on “*Competitive Strengths*” on page 32 of this Prospectus.

### Business Strategy

The Company’s business strategy is to increase shareholder value by developing new generation projects, selectively acquiring existing generating facilities, expanding its electricity-related services and continuing to improve the operational efficiency of its existing generation and distribution facilities. More specifically, the Company’s strategy includes the following:

- Expand the Company’s generation portfolio
- Contract the bulk of the Company’s attributable net sellable capacity
- Maximize contestable market share through Retail Energy Supply Subsidiaries

- Maintain a high level of social responsibility in the communities in which the Company operates

For a full discussion, please refer to the section on “*Business Strategy*” beginning page 81 of this Prospectus.

### **Risks of Investing**

An investment in the Second Tranche Bonds involves a certain degree of risk. A prospective Bondholder should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether or not to invest in the Second Tranche Bonds.

Risks related to the Company’s business:

- Competition Risk
- Electricity Trading Risk
- Regulatory Risk
- Reputation Risk
- Project Risk
- Business Interruption Due to Force Majeure, Natural Calamities, and Critical Equipment Breakdown
- Financial Risk
- Fuel Supply and Price Risk

Risks Related to the Philippines:

- A slowdown in the Philippines’ economic growth could adversely affect the Company
- Any political instability in the Philippines may adversely affect the Company
- Territorial disputes involving the Philippines and its neighboring countries may adversely affect its economy and business development

Risks Related to the Offer:

- Liquidity Risk
- Reinvestment Risk
- Pricing Risk
- Retention of Ratings Risk
- Suitability of Investment
- Bonds have no preference under Article 2244(14) of the Civil Code

For a full discussion, please refer to the section on “*Risk Factors and Other Considerations*” on page 39 of this Prospectus.

This Prospectus contains forward-looking statements that involve risks and uncertainties. AboitizPower adopts what it considers conservative financial and operational controls and policies to manage its business risks. AboitizPower’s actual results may differ significantly from the results discussed in the forward-looking statements. See section “*Forward-Looking Statements*” on page 9 of this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of AboitizPower, in particular, and those that pertain to the over-all political, economic, and business environment, in general.

## CAPITALIZATION

The following presents a summary of the short-term debts, long-term debts, and capitalization of the Aboitiz Power Group as of June 30, 2018, and as adjusted to reflect the issue of the Second Tranche Bonds:

	As of June 30, 2018	As adjusted for ₱10 bn issue	As adjusted for ₱15 bn issue
<b>Short-term debt</b>			
Short-term loans	10,725	6,881	3,581
Current portions of:			
Long-term debt	13,548	8,692	8,692
Finance lease obligation	3,316	3,316	3,316
Total short-term debts	27,589	18,889	15,589
<b>Long-term debts – net of current portion</b>			
Non-current portions of:			
Long-term debt	141,136	141,136	141,136
Finance lease obligation	45,862	45,862	45,862
The issue of Second Tranche Bonds	–	9,881	14,825
Total long-term debts	186,998	196,879	201,823
<b>Equity</b>			
Equity attributable to equity holders of the parent	116,049	116,049	116,049
Non-controlling interests	6,574	6,574	6,574
Total Equity	122,623	122,623	122,623
Total Capitalization	337,210	338,391	340,035

## SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by, and should be read in conjunction with the more detailed information appearing elsewhere in the Prospectus to which it relates.

Issuer	:	Aboitiz Power Corporation
Sole Issue Manager	:	BDO Capital & Investment Corporation
Joint Lead Underwriters		BDO Capital & Investment Corporation BPI Capital Corporation United Coconut Planters Bank
Trustee	:	BDO Unibank, Inc. – Trust and Investments Group
Registrar and Paying Agent	:	Philippine Depository & Trust Corp.
Issue / Issue Amount	:	SEC-registered fixed rate, Peso-denominated bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of the Issuer consisting of a primary offer in the aggregate principal amount of ₱10,000,000,000.00, with an Oversubscription Option of up to ₱5,000,000,000.00.
		In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Second Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within Shelf Period.
		The Oversubscription Option is exercisable by the Joint Lead Underwriters in consultation with the Issuer.
Use of Proceeds	:	Proceeds of the Offer will be used by AboitizPower for (i) refinancing of the medium-term loan of Therma Power, Inc., (ii) repayment of its short-term loan obligations; and (iii) general corporate purposes, as more described in the section entitled “Use of Proceeds” on page 46 of this Prospectus
Issue Price	:	100% face value
Manner of Distribution	:	Public Offering
Offer Period	:	The Offer shall commence on October 12, 2018 and end on October 18, 2018.
Issue Date	:	October 25, 2018
Maturity Date or Redemption Date	:	Series B Bonds: Five (5) years and one (1) quarter from Issue Date Series C Bonds: Ten (10) years from Issue Date
		Except when the Early Redemption Option (as defined below) is exercised, the Second Tranche Bonds will be redeemed at par (or 100% of face value) on their respective Maturity Dates.
Interest Rate	:	Series B Bonds: 7.5095% Series C Bonds: 8.5091%

Interest Payment Date : The Interest shall be paid quarterly in arrears on January 25, April 25, July 25, and October 25 of each year commencing on January 25, 2019, until and including the Maturity Date (each, an “Interest Payment Date”), or the next Banking Day if such dates fall on a non-Banking Day without any adjustment in the amount of interest as originally computed..

Interest on the Second Tranche Bonds shall be calculated on a 30/360-day basis.

Form and Denomination : The Second Tranche Bonds shall be issued in scripless form in minimum denominations of ₦50,000.00 each, and in multiples of ₦10,000.00 thereafter.

Early Redemption : The Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Second Tranche Bonds (the “Early Redemption Option”), on the Interest Payment Dates specified below (any such date, the “Optional Redemption Date”) or the immediately succeeding Banking Day if such date is not a Banking Day, without any adjustment in the amount of interest as originally computed. The amount payable to the Bondholders upon the exercise of the Early Redemption Option by the Issuer shall be calculated based on the principal amount of the relevant Second Tranche Bonds being redeemed as the aggregate of the: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount (total outstanding principal amount of the relevant Second Tranche Bonds) and the applicable Optional Redemption Price (as set out below) in accordance with the following schedule:

*Series B Bonds:*

<b>Optional Redemption Date</b>	<b>Optional Redemption Price (inclusive of Prepayment Penalty)</b>
4 years from Issue Date	100.25%

*Series C Bonds:*

<b>Optional Redemption Dates</b>	<b>Optional Redemption Price (inclusive of Prepayment Penalty)</b>
7 years from Issue Date	102.00%
8 years from Issue Date	101.00%
9 years from Issue Date	100.25%

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the relevant Series B Bonds or Series C Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption on the Optional Redemption Date stated in such notice.

Redemption for Taxation Reasons : The Issuer may redeem any series of the Second Tranche Bonds in

whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Second Tranche Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer.

For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes on the income of the Bondholders, which shall be for the account of the Bondholders.

Negative Pledge : The Second Tranche Bonds shall have the benefit of a negative pledge on all existing and future assets of the Issuer, subject to certain permitted liens, as provided under Section 5.02 (a) of the Trust Agreement.

Purchase and Cancellation : The Issuer may at any time purchase any of the Second Tranche Bonds at any price in the open market or by tender or by contract, in accordance with PDEX Rules, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Second Tranche Bonds pro-rata from all Bondholders. The Second Tranche Bonds so purchased will be redeemed and cancelled, and may no longer be reissued.

Upon listing of the Second Tranche Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

Status of the Second Tranche Bonds : The Second Tranche Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.02 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Second Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AboitizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Second Tranche Bonds.

Rating : The Second Tranche Bonds are rated PRS Aaa by PhilRatings.

Listing : The Issuer intends to list the Second Tranche Bonds in the PDEX on Issue Date.

Non-Reliance : Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and

affairs of the Issuer on the basis of such documents and information as it has deemed appropriate and that it has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or wilful misconduct.

#### Own Risk

Bondholders understand and acknowledge that investment in the Second Tranche Bonds is not covered by the Philippine Deposit Insurance Corporation ("PDIC") and that any loss or depreciation in the value of the assets of the Bondholders, resulting from the investments or reinvestment in the Second Tranche Bonds and the regular conduct of the Trustee's trust business shall be for the account of the Bondholder.



## RISK FACTORS AND OTHER CONSIDERATIONS

*An investment in the Second Tranche Bonds described in this Prospectus involves a number of risks. The price of the securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. There is an extra risk of losing money when securities are bought from smaller companies. Past performance is not a guide to future performance and there may be a large difference between the buying price and the selling price of these securities. Investors deal with a range of investments, each of which may carry a different level of risk. Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below before deciding to invest in the Second Tranche Bonds.*

*This section entitled "Risk Factors and Other Considerations" does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study the trading of these securities before commencing any trading activity. Investors should seek professional advice regarding any aspect of the securities such as the nature of risks involved in trading of securities, and specifically those high-risk securities. Investors may request publicly available information on the Second Tranche Bonds and the Company from the Philippine SEC.*

*The risks factors discussed in this section are of equal importance and are only separated into categories for easy reference.*

### RISKS RELATED TO THE COMPANY'S BUSINESS

An integral part of AboitizPower's Enterprise Risk Management efforts is to anticipate, understand, and address the risks that the Company may encounter in the businesses it is involved in.

#### **Competition Risk**

AboitizPower faces pivotal changes in the power industry. Its investments, as well as those of its competitors in greenfield and brownfield projects are starting to pour in, with new players coming into the game. The industry is experiencing an oversupply of electricity in some areas, and is looking at being in this scenario for the next few years.

As the impact of oversupply of power in the Philippines becomes more evident, AboitizPower continues efforts to market, and to contract ahead of time, all projected capacities from investments, as well as renew expiring contracts. This is to minimize volatile market exposure and lock in revenue and cash flow streams to the greatest extent possible.

With Open Access, Contestable Customers are provided with the option to source their electricity from eligible suppliers.

This may adversely affect the distribution franchises of the AboitizPower Group when supply contracts have to be reduced, as customers switch from being captive customers to Open Access-eligible customers before the expiration of the utility supply contracts. The Distribution Utilities will have to adjust the levels supply obtained from its contracted power generators at a minimal cost impact to remaining customers.

At the same time, AboitizPower's generation assets that have uncontracted capacities will have indirect access to Contestable Customers, both in its own utilities and other utilities, through the Company's licensed RES entities, specifically AESI and AdventEnergy.

#### **Electricity Trading Risk**

The Wholesale Electricity Spot Market (WESM) is in the process of transitioning from a one-hour dispatch interval to a five minute dispatch interval. There may, however, be risks associated with adapting to the much shorter and more frequent intervals.

In Mindanao, where there is currently no operating spot market, there are also risks in moving from no market to an operating market. AboitizPower continues to enhance its trading capabilities by continuing its efforts to upgrade its trading software, infrastructure, processes, and manpower to cope with these changes.

### **Regulatory Risk**

AboitizPower's generation and distribution businesses are subject to constantly evolving regulations. Regulators are tightening their scrutiny, and the public has become more vigilant and involved in the power debate.

To respond proactively to potential fundamental changes that can impact its businesses, AboitizPower has a regulatory team who works very closely with the Company's generation and distribution companies, and maintains open lines of communication with regulatory agencies.

The Company's regulatory team has developed a strategy anchored on long-term views of expected or anticipated changes in the regulatory field. The team's approach integrates understanding how regulations will affect AboitizPower's businesses, and planning and preparing for expected changes in regulations, rather than waiting for regulations to be imposed.

Regular dialogues are conducted with media, NGOs, the academe, and organized industry groups such as PIPPA and PEPOA to educate them about the power industry. The Company's regulatory team will continue to actively participate in consultative processes as well as to have more public discussions over the necessity and propriety of specific regulations, or their relevance to current business practices and technology changes that could lead to the development of new rules and policies that will be beneficial not just to AboitizPower but to the power industry as a whole.

### **Reputation Risk**

AboitizPower recognizes that its reputation is its single most valuable asset, a competitive advantage that enables the Company to earn the trust of its stakeholders. The Company also knows that the reputation it has established throughout the years took generations to strengthen and is therefore something it wants to protect, build and enhance continuously.

Today's world of higher corporate governance standards, coupled with heightened public consciousness and greater scrutiny from key stakeholders because of social media, have created a new environment where corporate reputation has become a differentiating asset as well as one of its top risks.

Managing AboitizPower's reputation requires an understanding of its reputational terrain, which includes all its stakeholders: team members, customers, shareholders, lenders, regulators, host communities and local government units.

AboitizPower manages reputational risk, which could be the effect of an occurrence of another risk, through the following:

- building organization capability through a formalized governance structure and intelligence process;
- assessing and mitigating risks;
- identifying and engaging all stakeholders;
- anticipating, resolving and proactively managing issues;
- developing and implementing a proactive communication campaign by maximizing all relevant channels, including social media;
- actively engaging team leaders and team members through its 1AP culture program;
- measuring brand relevance and integrity through reputation metrics; and

- integrating sustainable practices across the value chain to promote inclusive growth.

A Group-wide stakeholder management strategy that includes policy, framework, guidelines, and metrics has been established to further enhance the Company's ability to identify, understand, and manage the needs and requirements of its different stakeholders.

### **Project Risk**

As AboitizPower continues the construction of its ongoing projects, regular reviews of project risk management plans are conducted, in order to monitor implementation of risk control measures. Efforts to monitor performance of selected partners and reputable contractors and third-party suppliers are in place. Careful review is also done to ensure that appropriate insurance coverage is obtained.

Operational readiness reviews are also performed to ensure that minimum requirements are in place prior to start of operations.

### **Business Interruption due to Force Majeure, Natural Calamities, and Critical Equipment Breakdown**

The loss of critical functions and equipment caused by natural calamities such as earthquakes, windstorms, typhoons and floods could result in a significant interruption of the businesses within the Aboitiz Group.

Interruption may also be caused by other factors such as a breakdown of major equipment, failures in software, network, and applications, fires and explosions, hazardous waste spills, workplace fatalities, product tampering, terrorism, and other serious risks.

Regular preventive maintenance and risk surveys of AboitizPower's facilities, technological infrastructure and systems is strictly performed. Loss and loss prevention controls are continuously evaluated and strengthened as well.

Loss, and loss prevention controls are continuously evaluated and strengthened as well.

Configuration of the Enterprise addition of the CMMS Maximo System (Maximo) for the Generation Companies, which started in 2016, was implemented on-track for the Coal, Geothermal, Run-of-river, Hydro, and Oil business units, with the last facility going live in August 2018.

Group insurance facilities that leverage on the Company's portfolio of assets, supported by risk modelling and quantification, are in place. Business interruption insurance has also been procured to cover the potential loss in gross profits in the event of a major damage to AboitizPower's critical facilities and assets. This has resulted in AboitizPower and its Business Units having the right insurance solutions as they continue efforts to achieve the optimal balance between retaining and transferring risks and lowering the Total Cost of Insurable Risk (TCOIR).

To ensure the continuity of operations in the event of a business interruption, AboitizPower and its Subsidiaries are continuously reviewing, testing and enhancing their Business Continuity Plans.

### **Financial Risk**

In the course of its operations, AboitizPower is exposed to financial risks. These are:

- Interest rate risks resulting from movements in interest rates that may have an impact on outstanding long-term debt;
- Credit risks involving possible exposure to counter-party default on its cash and cash equivalents, available-for-sale investments, and trade and other receivables;
- Refinancing and liquidity risks in terms of the proper matching of the type of financing required for specific investments as well as maturity of these loans; and

- Foreign exchange (forex) risks in terms of forex fluctuations that may significantly affect its foreign currency-denominated placements, transactions and borrowings.

### **Fuel Supply and Price Risk**

AboitizPower has several thermal plants: Therma Luzon, Therma South and the upcoming Therma Visayas that use coal, and CPPC, EAUC, TMI and TMO that use Bunker-C fuel. These fuel types are exposed to global market price movement and supply challenges.

For AboitizPower's coal-fired generation plants, the strategy on the coal supply side is to establish and diversify other sources of coal to ensure security of energy supply at competitive prices. In addition, the Company is not currently contracting long-term coal supply agreements mainly due to high price volatility of coal, freight prices, and counterparty risk.

For AboitizPower's diesel-fired generation plants, namely CPPC, EAUC, TMI and TMO, the strategy on the supply side is to enter into or renew their medium-term supply contracts with the biggest oil companies in the country.

In addition, AboitizPower's exposure is limited as a result of the utilization of capacity-based contracts for about half of its PSAs. Such contracts come with a provision for the pass-through of fuel costs, where fuel prices are indexed versus the commodity markets for oil and coal for the energy generated by the Company's business units.

For a full discussion on the Tax Reform Act for Acceleration and Inclusion (TRAIN) impact, please refer to the section on "The Company" on page 72 of this Prospectus

## **RISKS RELATED TO THE PHILIPPINES**

### **A slowdown in the Philippines' economic growth could adversely affect the Company**

Historically, results of operations have been influenced, and will continue to be influenced, to a significant degree by the general state of the Philippine economy, with demand for power historically being tied to the level of economic activity in the Philippines. As a result, the Company's income and results of operations depend, to a significant extent, on the performance of the Philippine economy. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the peso, and the imposition of exchange controls.

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the Philippine Peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. Over the last several years, the government instituted several reforms in the fiscal and banking sectors, among others, that strengthened the country's economic fundamentals.

The Philippines enjoys investment grade credit ratings from the following major agencies:

- Fitch Ratings - BBB- (stable), which was affirmed last July 2018
- Standard & Poors - BBB (positive) which was granted April 2018
- Moody's Investors Service - Baa2 (stable), which was affirmed last July 2018

The Philippine gross domestic product (GDP) grew by 6.7% in 2017. As identified in the Philippine Development Plan 2017-2022, Philippine GDP growth is expected to strengthen at 7% to 8% in the medium term, making the Philippines one of the faster growing economies of the ASEAN region.

Nonetheless, any deterioration in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in demand for the Company's products. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

Historically, the demand for power for the past ten (10) years, has shown an increasing trend. This has been the case despite the volatility in the economic, financial, and political conditions of the country. It may be attributable to the inelasticity of electricity at certain levels wherein essential appliances and industries need to operate. The rising population and remittances from overseas workers will likewise provide a minimum growth in the demand for power.

### **Any political instability in the Philippines may adversely affect the Company**

The Philippines has from time to time experienced political, social, and military instability. In the past decade, there has been political instability in the Philippines, including alleged extrajudicial killings, alleged electoral fraud, impeachment proceedings against two (2) former presidents, the chief justice of the Supreme Court of the Philippines, and public and military protests arising from alleged misconduct by previous administrations. In addition, a number of current and past officials of the Philippine government are currently under investigation on corruption charges stemming from allegations of misuse of public funds, extortion, and bribery. An unstable political environment may also arise from the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting.

There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. Likewise, no assurance can be given that the future political or social environment in the Philippines will be stable.

Further, in May 2016, the Philippines elected Rodrigo M. Duterte as its new president, winning 38.5% of the votes cast. The 2016 elections had a record voter turnout of 81%, the highest in the country's three automated elections. The Duterte administration has unveiled a "10-point plan" which has committed, among others, to "continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies." As of the last quarter of 2016, President Duterte's approval and trust ratings remained high. The new leadership is currently focused on executing its reform agenda. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years. As of the date of this Prospectus, a consultative committee to review the 1987 Philippine Constitution has already been formed, and has already submitted for review of President Rodrigo Duterte the first draft of the proposed federal constitution. On July 27, 2018, President Rodrigo Duterte signed Republic Act 11054, approving the BBL which was renamed to Bangsamoro Organic Law. There is no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

The Supreme Court also recently ruled against Maria Lourdes P. Sereno in the quo warranto proceedings initiated by the Office of the Solicitor General, removing her from the post of Chief Justice of the Supreme Court. As of the date of this Offering Circular, there is a criminal case against a former Philippine President in relation to a failed military operation in Mindanao.

In general, political or social instability in the Philippines could negatively affect the general economic conditions and business environment in the Philippines, which could have a material adverse effect on the business, operations, and financial position of the Company.

### **Territorial disputes involving the Philippines and its neighboring countries may adversely affect its economy and business environment**

Competing and overlapping territorial claims by the Philippines, China and several Southeast Asian nations (such as Vietnam, Brunei, Malaysia) over certain islands and features in the West Philippine Sea (South China Sea) have for decades been a source of tension and conflicts. The South China Sea covers more than three million square kilometers in terms of area and is home to some of the biggest coral reefs of the world. It is also believed that under the seabed lies vast unexploited oil and natural gas deposits. China claims historic rights to

nearly all of the West Philippine Sea based on its so-called “nine-dash line” and in recent years dramatically expanded its military presence in the sea which has raised tensions in the region among the claimant countries. In 2013, the Philippines became the first claimant country to file a case before the Permanent Court of Arbitration, the international arbitration tribunal based at The Hague, Netherlands to legally challenge claims of China in the West Philippine Sea and to resolve the dispute under the principles of international law as provided for under the United Nations Convention on the Law of the Sea (UNCLOS). In July 2016, the tribunal rendered a decision stating that “as between the Philippines and China, Mischief Reef and Second Thomas Shoal (in the West Philippine Sea/South China Sea) form part of the exclusive economic zone and continental shelf of the Philippines” and that the “nine-dash line” claim of China is invalid. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. China was reported to conduct land reclamation activities in the disputed territories, which was completed in 2016. News reports indicate increased Chinese activity in the contested waters, including the installation of missile systems and the deployment of bomber planes. Several countries have conducted Freedom of Navigation operations in the contested waters to challenge China’s militarization of artificial features in the West Philippine Sea. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank’s business, financial position and results of operations.

There is no guarantee that the territorial dispute between the Philippines and other countries, including China, would end or that any existing tension will not escalate further, as China has repeatedly announced that it will not honor said ruling. In such event, the Philippine economy may be disrupted and its business and financial standing may be adversely affected.

## **RISKS RELATED TO THE OFFER**

### **Liquidity Risk**

The Philippine securities markets are substantially smaller, less liquid, and more concentrated than major global securities markets. As such, the Company cannot guarantee that the market for the Second Tranche Bonds will always be active or liquid. Even if the Second Tranche Bonds are listed on the PDEX, trading in securities such as the Second Tranche Bonds, may sometimes be subject to extreme volatility in response to interest rates, developments in local and international capital markets and the overall market for debt securities and other factors. There is no assurance that the Second Tranche Bonds may be disposed at prices, volumes or at times deemed appropriate by the Bondholders.

### **Reinvestment Risk**

Prior to the relevant Maturity Dates, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), any series of the outstanding Second Tranche Bonds on the relevant Optional Redemption Dates (see “*Description of The Offer – Optional Redemption*” on page 56 of this Prospectus). In the event that the Company exercises this early redemption option, the relevant series of the Second Tranche Bonds will be redeemed and the Company would pay the amounts to which Bondholders would be entitled. Following such redemption and payment, there can be no assurance that investors in the redeemed Second Tranche Bonds will be able to re-invest such amounts in securities that would offer a comparative or better yield or terms, at such time.

### **Pricing Risk**

The market value of bonds moves (either up or down) depending on the change in interest rates. The Second Tranche Bonds when sold in the secondary market are worth more if interest rates decrease since the Second Tranche Bonds have a higher interest rate relative to the market. Conversely, if the prevailing interest rate increases the Second Tranche Bonds are worth less when sold in the secondary market. Therefore, an investor faces possible loss if he decides to sell when the prevailing interest rate has increased.

### **Retention of Ratings Risk**

There is no assurance that the rating of the Second Tranche Bonds will be retained throughout the life of the Second Tranche Bonds. The rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

### **Suitability of Investment**

Each potential investor in the Second Tranche Bonds must determine the suitability of that investment in the context of its own distinct circumstances. In particular, each potential investor should: (i) have sufficient knowledge and experience to make a satisfactory evaluation of the Second Tranche Bonds, the merits and risks of investing in the Second Tranche Bonds and the information contained in this Prospectus; (ii) have access to, and knowledge of, relevant analytical tools to evaluate, in the context of its particular financial situation, an investment in the Second Tranche Bonds and the impact the Second Tranche Bonds will have on its overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Second Tranche Bonds, including where the currency for principal or interest payments is different from the potential investor's currency; (iv) understand thoroughly the terms of the Second Tranche Bonds and be familiar with the behavior of any relevant financial markets; and (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate, foreign exchange rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **The Second Tranche Bonds have no preference under Article 2244(14) of the Civil Code.**

The Master Certificate of Indebtedness, which represents the Second Tranche Bonds subject of the Offer, shall not be notarized and, thus, will not be deemed a public instrument under Article 2244 (14) of the Civil Code. As such, the Second Tranche Bonds shall not enjoy preference under Article 2244 (14) of the Civil Code, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Second Tranche Bonds. This is consistent with the status of the Second Tranche Bonds as being direct, unconditional, unsecured, and unsubordinated Peso denominated obligations of the Issuer.

## USE OF PROCEEDS

The Issue Price shall be at par, which is equal to the face value of the Series B Bonds and the Series C Bonds. AboitizPower expects that the net proceeds of the Second Tranche Bonds shall amount to approximately ₱9,881,132,143 for a ₱10,000,000,000.00 Issue Size or ₱14,825,066,094 for an Issue Size of ₱15,000,000,000.00, assuming full exercise of the Oversubscription Option, and after deducting fees, commissions and expenses.

*Based on an Issue Size of ₱ 10,000,000,000.00*

Documentary Stamp Tax	₱75,000,000
Issue Management and Underwriting Fees <sup>2</sup>	₱31,500,000
Other Professional Fees	₱7,100,000
SEC Registration Fee and Legal Research	₱2,687,500
Credit Rating Fees	₱2,142,857
Other Expenses (e.g. Trustee Fee, Rating Fee, Printing Cost, etc.)	₱437,500
<b>Estimated net proceeds of the Issue</b>	<b>₱9,881,132,143</b>

*Based on an Issue Size of ₱ 15,000,000,000.00*

Documentary Stamp Tax	₱112,500,000
Issue Management and Underwriting Fees <sup>3</sup>	₱47,250,000
Other Professional Fees	₱7,500,000
SEC Registration Fee and Legal Research	₱4,031,250
Credit Rating Fees	₱3,214,286
Other Expenses (e.g. Trustee Fee, Rating Fee, Printing Cost, etc.)	₱437,500.00
<b>Estimated net proceeds of the Issue</b>	<b>₱14,825,066,964</b>

Aside from the foregoing one-time costs, AboitizPower expects the following annual expenses related to the Second Tranche Bonds:

1. Aside from the Listing Application Fee, the Issuer will be charged an annual maintenance fee of ₱150,000.00 in advance upon the approval of the Listing;
2. The Issuer will pay a yearly retainer fee to the Trustee amounting to ₱180,000 per annum;
3. After the Issue, a Paying Agency fee amounting to ₱100,000 is payable every Interest Payment Date. The Registrar will charge a monthly maintenance fee based on the face value of the Second Tranche Bonds and the number of Bondholders; and
4. The Issuer will pay an annual monitoring fee to Philratings amounting to ₱560,000 (VAT inclusive). However, Philratings charges the annual monitoring fee to the Company in relation to all of its bonds outstanding.

The net proceeds of the Offer will be used, for (i) refinancing of the medium-term loan of Therma Power, Inc., (ii) repayment of its short-term loan obligations; and (iii) general corporate purposes.

<sup>2</sup> Inclusive of GRT

<sup>3</sup> Inclusive of GRT



The allocation of the proceeds of the Offer and the schedule of disbursements shall be as follows:

Oversubscription Option is Not Exercised

	No Oversubscription	Timing of Disbursement
Refinancing of the Medium-Term Loan of Therma Power, Inc.	₱8.7 Billion	Within 2018
General Corporate Purposes	₱1.2 Billion	Within 12 months from Issue Date
<b>Total</b>	<b>₱9.9 Billion</b>	

Oversubscription Option is Fully Exercised

Refinancing of the Medium-Term Loan of Therma Power, Inc.	₱8.7 Billion	Within 2018
Repayment of Short-Term Loan	₱3.3 Billion	Within 12 months from Issue Date
General Corporate Purposes	₱2.8 Billion	Within 12 months from Issue Date
<b>Total</b>	<b>₱14.8 Billion</b>	

**Refinancing of the Medium-Term Loan of Therma Power, Inc.**

The Company plans to use ₱8.7 Billion of the net proceeds from the Offer as part of the refinancing plan of the medium-term loan of Therma Power, Inc. ("TPI"), a wholly-owned subsidiary of the Company. The medium-term loan was obtained by TPI from The Bank of Tokyo-Mitsubishi UFJ, Ltd., DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, Maybank Kim Eng Securities Pte. Ltd., Mizuho Bank, Ltd., and Standard Chartered Bank, last 23 December 2016 to partially finance TPI's acquisition of indirect partnership interests in GNPowder Mariveles Coal Plant Ltd. Co. ("GMCP") and GNPowder Dinginin Ltd. Co. ("GNPD"). As part of this refinancing plan and to minimize interest expenses, TPI has fully repaid the medium-term loan ahead of its stated maturity date of 4 October 2018. The total amount prepaid is broken down as follows:

Lender	Amount Prepaid
MUFG Bank, Ltd., Labuan Branch	USD26,666,666.83
DBS Bank Ltd., Singapore	USD13,332,512.74
The Hongkong and Shanghai Banking Corporation Limited, Hong Kong	USD26,666,666.83
Maybank International, Labuan Branch	USD13,332,512.74
Mizuho Bank, Ltd., Singapore Branch	USD26,666,666.83
Standard Chartered Bank, Singapore Branch	USD19,734,974.52
Bank of China (Hong Kong) Limited, Hong Kong	USD3,076,923.08
Bank of China Limited, Singapore Branch	USD2,338,461.54
Bank of China Limited, Manila Branch	USD738,461.54
Mega International Commercial Bank Co., Ltd., Manila Branch	USD1,846,153.85
Mega International Commercial Bank Co, Ltd., Offshore Banking Branch	USD1,846,153.85
Chang Hwa Commercial Bank Co., Ltd., Offshore Banking Branch	USD2,461,538.46
Taiwan Business Bank, Offshore Banking Branch	USD2,461,538.46
First Commercial Bank, Offshore Banking Branch	USD2,461,538.46
Taiwan Cooperative Bank, Offshore Banking Branch	USD2,461,538.46
CTBC Bank Co., Ltd, Singapore	USD2,461,538.46

Hua Nan Commercial Bank, Ltd., Offshore Banking Branch	USD2,461,538.46
Sunny Bank Ltd., Taipei	USD1,846,153.85
The Export-Import Bank of the Republic of China, Taipei	USD1,230,769.23
China Construction Bank Corporation, Hong Kong Branch	USD5,907,692.31
<b>Total</b>	<b>USD160,000,000.00</b>

The Company made temporary advances to TPI for this purpose. With the net proceeds from the Offer, the Company will effectively refinance the transition financing extended to TPI.

#### Repayment of Short-Term Loan

The net proceeds of the Offer shall also be used to repay the Company's short-term loan obligation. As of the date of the Prospectus, the details of the short-term loan obligation to be repaid are as follows:

Bank	Principal to be paid	Interest Rate
Metropolitan Bank and Trust Company	₱3.3 Billion	4.3% p.a.

The proceeds of the short-term loan obligation were used by the Company to partially fund equity infusions into Therma Visayas, Inc. (in the amount of ₱1.9 Billion) and Therma Power Visayas, Inc., (in the amount of ₱1.5 Billion) both wholly-owned Subsidiaries of the Company.

#### General Corporate Purposes

The balance of proceeds from the Offer shall be used by the Company to fund general corporate purposes, which may include funding of working capital requirements of Davao Light and Power Co. ("DLPC"), a wholly-owned subsidiary of the Company, of up to ₱2.8 Billion, and funding of pre-development costs of its projects. The Company expects to fully disburse the proceeds for such purpose within twelve (12) months from Issue Date. DLPC is expected to return such amount allocated through the issuance of dividends to the Company. The audited financial statements of DLPC for fiscal year ended 2017 is attached as Annex C.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event there is any change in the Company's current plans, including force majeure, market conditions and other circumstances, the Company will carefully evaluate the situation and may reallocate the proceeds at the discretion of Management. In the event of any substantial deviation, adjustment, or reallocation in the planned use of proceeds, the Company shall inform the SEC and the Bondholders in writing at least thirty (30) days before such deviation, adjustment or reallocation is implemented.

Pending the above use of proceeds, the Company shall invest the net proceeds from the Offer in short-term liquid investments including but not limited to short-term government securities, bank deposits, and money market placements which are expected to earn at prevailing market rates.

In the event that the Oversubscription Option is partly exercised or not exercised at all, or in case the Company is not able to raise the full amount of the Offer, the Company shall use internally generated funds and/or available bank lines to the extent the proceeds of the Offer are insufficient to fund the refinancing of the TPI medium-term loan and short-term loan and general corporate purposes, as applicable. The Company believes that it can roll over the short term-loan obligation to be prepaid if the Oversubscription Option is partly exercised or not exercised at all.

No amount of proceeds shall be used to reimburse any officer, director, employee, or stockholder for services rendered, assets previously transferred, money loaned or advanced, or otherwise. Except for the underwriting

fees, issue management fees and expenses related to the Second Tranche Bonds, no amount of the proceeds will be utilized to pay any outstanding financial obligation to the Joint Lead Underwriters.

## **DETERMINATION OF THE OFFERING PRICE**

The Series B Bonds and the Series C Bonds shall be issued on a fully-paid basis and at an issue price that is at par.

## PLAN OF DISTRIBUTION

### THE OFFER

The Second Tranche Bonds is offered by the Company as the second tranche of the Bonds under the Company's ₱30,000,000,000 Debt Securities Program. The Company shall issue the Second Tranche Bonds to institutional and retail investors in the Philippines through a public offering to be conducted through the Sole Issue Manager and the Joint Lead Underwriters. The Offer does not include an international offering.

Pursuant to the confirmation and certificate of permit to offer securities for sale to be issued by the SEC, the Offer will consist of the primary offer of an aggregate principal amount of ₱10,000,000,000.00 with an Oversubscription Option of up to ₱5,000,000,000.00. In case the Oversubscription Option is partly exercised or not exercised at all during the Offer Period, the Second Tranche Bonds under Oversubscription Option that will not be taken up or exercised during the Offer Period will remain under shelf registration and may be issued in tranches within the Shelf Period.

### SHELF REGISTRATION OF SECURITIES NOT COVERED BY THE OFFER

After the close of the Offer and within the Shelf Period, AboitizPower may, at its sole discretion, offer any or all of the remaining balance of the aggregate principal amount of the Bonds in subsequent tranches, including any amount remaining if the Oversubscription Option is partly exercised or not exercised at all. Any such subsequent offering requires the submission by AboitizPower of the relevant updates and amendments to the registration statement and the issuance of the corresponding Permit to Sell by the SEC. As a listed Company, AboitizPower regularly disseminates such updates and information in its disclosures to the SEC, PDEX, and PSE.

However, there can be no assurance in respect of: (i) whether AboitizPower would issue such Bonds at all; (ii) the size or timing of any individual issuance or the total issuance of such Bonds; or (iii) the specific terms and conditions of such issuance. Any decision by AboitizPower to offer such debt securities will depend on a number of factors at the relevant time, many of which are not within AboitizPower's control, including but not limited to: prevailing interest rates, the financing requirements of AboitizPower's business and prospects, market liquidity and the state of the domestic capital market, and the Philippine, regional and global economies in general.

### UNDERWRITING OBLIGATIONS OF THE JOINT LEAD UNDERWRITERS

BDO Capital, BPI Capital and UCPB pursuant to the Underwriting Agreement with AboitizPower dated October 10, 2018, have agreed to act as Joint Lead Underwriters for the Offer and as such, distribute and sell the Second Tranche Bonds at the Issue Price. Subject to the satisfaction of certain conditions provided in the Underwriting Agreement and in consideration for certain fees and expenses. The Joint Lead Underwriters have committed severally and not jointly to underwrite the following amounts on a firm basis:

Joint Lead Underwriter	Commitment
BDO Capital	₱5,000,000,000.00
BPI Capital	₱3,000,000,000.00
UCPB	₱2,000,000,000.00
<b>Total</b>	<b>₱10,000,000,000.00</b>

The Underwriting Agreement may be terminated in certain circumstances prior to payment being made to AboitizPower of the net proceeds of the Offer. In case the Underwriting Agreement is terminated, the Company shall notify SEC of the termination and its subsequent course of action.

BDO Capital is the sole Issue Manager for this transaction.

The Sole Issue Manager and Joint Lead Underwriters shall receive an aggregate fee of 0.315% inclusive of GRT on the final aggregate nominal principal amount of the Second Tranche Bonds issued, which is inclusive of underwriting fees and selling commissions to be paid.

The Joint Lead Underwriters are duly licensed by the SEC to engage in underwriting or distribution of securities. The Joint Lead Underwriters may, from time to time, engage in transactions with and perform services in the ordinary course of its business for AboitizPower.

The Joint Lead Underwriters have no direct relations with AboitizPower in terms of ownership by either of their respective majority shareholder/s and have no right to designate or nominate any member of the Board of Directors of the Company. However, Mr. Romeo L. Bernardo is an independent director of the Company and BPI Capital, a Joint Lead Underwriter.

BDO Capital, the Sole Issue Manager and a Joint Lead Underwriter is a subsidiary of BDO Unibank, Inc. which serves as the Trustee.

The Joint Lead Underwriters have no contract or other arrangement with the Company by which it may return to the Company any unsold Bonds.

BDO Capital was incorporated in the Philippines in December 1998. It is duly licensed by the SEC to operate as an investment house and was licensed by the SEC to engage in underwriting or distribution of securities to the public. As of June 30, 2018, it had total assets of ₱3.9 billion, total liabilities of ₱0.4 billion and total equity of ₱3.5 billion.

BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December of 1994, BPI Capital is duly licensed by the Philippine SEC to engage in the underwriting and distribution of securities. As of 30 June 2018, BPI Capital had total assets of ₱3.7 billion and total equity of ₱3.6 billion. The company operates as a wholly owned subsidiary of the Bank of the Philippine Islands.

United Coconut Planters Bank (UCPB) is a universal bank that provides a full range of financial services to middle market companies, small and medium-sized businesses, large corporations, government institutions, and individuals in the Philippines. With an asset size of over ₱300 billion, its services include consumer finance, commercial credit, corporate and investment banking, trust banking, domestic and international trade finance, treasury and money market investment, bancassurance, cash management and deposit services. It began its operations in 1963 and obtained its expanded commercial banking license in 1981. UCPB is majority owned by the government and has three subsidiaries, namely UCPB Savings Bank, Inc., UCPB Securities, Inc., and UCPB Leasing and Finance Corporation. UCPB and its subsidiaries operate through a consolidated network of 212 branches and 344 ATMs nationwide.

## **SALE AND DISTRIBUTION**

The distribution and sale of the Second Tranche Bonds shall be undertaken by the Joint Lead Underwriters who shall sell and distribute the Second Tranche Bonds to third party buyers/investors. The Sole Issue Manager and Joint Lead Underwriters are authorized to organize a syndicate of co-lead managers, soliciting dealers and/or selling agents for the purpose of the Offer; provided, however, that the Joint Lead Underwriters shall remain severally, but not jointly responsible to the Issuer in respect of its obligations under the Underwriting Agreement entered into by them with the Issuer and the Issuer shall not be bound by any of the terms and conditions of any agreement entered into by the Sole Issue Manager and the Joint Lead Underwriters with such other parties. Nothing herein shall limit the rights of the Joint Lead Underwriters from purchasing the Second Tranche Bonds for its respective accounts.

There are no persons to whom the Second Tranche Bonds are allocated or designated. The Second Tranche Bonds shall be offered to the public at large and without preference.

## TERM OF APPOINTMENT

The engagement of the Sole Issue Manager and the Joint Lead Underwriters shall subsist so long as the SEC Permit to Sell remains valid, unless otherwise terminated pursuant to the Underwriting Agreement.

## MANNER OF DISTRIBUTION

The Joint Lead Underwriters shall, at its discretion but with written notice to AboitizPower, determine the manner by which proposals for applications for purchase and issuances of the Second Tranche Bonds shall be solicited, with the primary sale of the Second Tranche Bonds to be effected only through the Joint Lead Underwriters.

The Sole Issue Manager, in consultation with the Issuer, shall agree on the process for allocating the Second Tranche Bonds and the manner of accepting the Applications to Purchase (the "Allocation Plan"). Consistent with bank procedures (if applicable) and the allocation plan, each of the Joint Lead Underwriters shall be responsible for determining who are Eligible Bondholders from the Applicants and for establishing the *bona fide* identity of each in accordance with AMLA, as well as its own internal policies and arrangements under acceptable standards and policies regarding "know-your-customer" and anti-money laundering.

## OFFER PERIOD

The Offer Period shall commence on October 12, 2018 and end on October 18, 2018 or such other date as may be mutually agreed by the Company and the Joint Lead Underwriters.

All applications to purchase the Second Tranche Bonds shall be evidenced by a duly completed and signed Application to Purchase, together with two (2) fully executed signature cards authenticated by the Corporate Secretary with respect to corporate and institutional investors, and shall be accompanied by the payment in full of the corresponding purchase price of the Second Tranche Bonds applied for, by check or by appropriate payment instruction, and the required documents which must be submitted to the Joint Lead Underwriters.

Corporate and institutional purchasers must also submit a certified true copy of its SEC Certificate of Registration, its latest Articles of Incorporation and By-laws, or such other relevant organizational or charter documents, and the duly notarized certificate of the Corporate Secretary attesting to the resolution of the board of directors and/or committees or bodies authorizing the purchase of the Second Tranche Bonds and designating the authorized signatory/ies therefore, including his or her specimen signature. Individual Applicants must also submit a photocopy of any one of the following identification cards (ID): passport, driver's license, postal ID, company ID, SSS/GSIS ID and/or Senior Citizen's ID or such other ID and documents as may be required by or acceptable to the selling bank, which must be valid as of the date of the Application.

An Applicant who is exempt from or is not subject to withholding tax, or who claims preferential tax treaty rates shall, in addition, be required to submit the following requirements to the relevant Joint Lead Underwriter (together with their applications) who shall then forward the same to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:

- a. Proof of Tax Exemption or Entitlement to Preferential Tax Rates
  - i. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

- ii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;
- iii. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying financing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and
- iv. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the relevant Joint Lead Underwriter, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the relevant Joint Lead Underwriter.

- b. A duly notarized declaration (in the prescribed form) warranting that the Bondholder’s tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder’s entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and
- c. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (a), (b) and (c) above, as may be applicable, will result in the application of the regular income tax rate provided under the Tax Code.

Completed Applications to Purchase and corresponding payments must reach the relevant Joint Lead Underwriter prior to the end of the Offer Period, or such earlier date as may be specified by the relevant Joint Lead Underwriter. Acceptance by each Joint Lead Underwriter of the completed Application to Purchase shall be subject to the availability of the Second Tranche Bonds and the approval by AboitizPower and the relevant Joint Lead Underwriter. In the event that any check payment is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically cancelled and any prior acceptance of the Application to Purchase is deemed revoked.

## **MINIMUM PURCHASE**

A minimum purchase of ₱50,000.00 shall be considered for acceptance. Purchases in excess of the minimum shall be in multiples of ₱10,000.00.

## **ALLOTMENT OF THE SECOND TRANCHE BONDS**

If the Second Tranche Bonds are insufficient to satisfy all Applications to Purchase, the available Second Tranche Bonds shall be allotted in accordance with the chronological order of submission of properly



completed and appropriately accomplished Applications to Purchase on a first-come, first-served basis, without prejudice subject to AboitizPower's exercise of its right of rejection.

## **ACCEPTANCE OF APPLICATIONS**

AboitizPower and the Joint Lead Underwriters reserve the right to accept or reject applications to subscribe in the Second Tranche Bonds, and in case of oversubscription, allocate the Second Tranche Bonds available to the applicants in a manner they deem appropriate. If any application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Joint Lead Underwriter.

## **REFUNDS**

In the event an Application is rejected or the amount of the Second Tranche Bonds applied for is scaled down, the relevant Joint Lead Underwriter, upon receipt of such rejected and/or scaled down applications, shall notify the Applicant concerned that his application has been rejected or the amount of Second Tranche Bonds applied for is scaled down, and refund the amount paid by the Applicant with no interest thereon. With respect to an Applicant whose application was rejected, refund shall be made by the relevant Joint Lead Underwriter by making the check payment of the Applicant concerned available for his retrieval. With respect to an Applicant whose application has been scaled down, refund shall be made by the issuance by the relevant Joint Lead Underwriter of its own check payable to the order of the Applicant and crossed "Payees' Account Only" corresponding to the amount in excess of the accepted Application. All checks shall be made available for pick up by the Applicant concerned at the office of the relevant Joint Lead Underwriter to whom the rejected or scaled down Application was submitted within ten (10) Banking Days after the last day of the Offer Period. The Issuer shall not be liable in any manner to the Applicant for any check payment corresponding to any rejected or scaled-down application which is not returned by the relevant Joint Lead Underwriter; in which case, the Joint Lead Underwriter shall be responsible directly to the Applicant for the return of the check or otherwise the refund of the payment.

## **SECONDARY MARKET**

AboitizPower intends to list the Second Tranche Bonds at the PDEX. AboitizPower may purchase the Second Tranche Bonds at any time, in the open market or by tender or by contract, in accordance with PDEX Rules, without any obligation to make pro rata purchases of Bonds from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Second Tranche Bonds on the PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

## **REGISTRY OF BONDHOLDERS**

The Second Tranche Bonds shall be issued in scripless form and will be eligible for trading under the scripless book-entry system of PDTC. Master Certificates of Indebtedness representing the Second Tranche Bonds sold in the Offer shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders.

Legal title to the Second Tranche Bonds shall be shown in the Registry Book (the "Registry Book") to be maintained by the Registrar. Initial placement of the Second Tranche Bonds and subsequent transfers of interests in the Second Tranche Bonds shall be subject to applicable prevailing Philippine selling restrictions. AboitizPower will cause the Registry Book to be kept at the specified office of the Registrar. The names and addresses of the Bondholders and the particulars of the Second Tranche Bonds held by them and of all transfers of Bonds shall be entered into the Registry Book.

Initial placement of the Second Tranche Bonds and subsequent transfers of interests in the Second Tranche Bonds shall be subject to applicable prevailing Philippine selling restrictions.

## DESCRIPTION OF THE OFFER

*The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Second Tranche Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws and resolutions of the Board of Directors and Shareholders of the Company, the information contained in the Prospectus, the Trust Agreement, the Underwriting Agreement, the Registry and Paying Agency Agreement and other agreements relevant to the Offer.*

The corresponding issue of the Second Tranche Bonds in an aggregate principal amount of ₱10,000,000,000, with an Oversubscription Option in the aggregate principal amount of up to ₱5,000,000,000, were authorized by a resolution of the Board of Directors of AboitizPower (the "Issuer") dated 26 July 2018.

The Second Tranche Bonds shall be constituted by a Trust Agreement executed on October 10, 2018 (the "Trust Agreement") entered into between the Issuer and BDO Unibank, Inc. – Trust and Investments Group (the "Trustee"), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Second Tranche Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement.

A registry and paying agency agreement executed on October 10, 2018 (the "Registry and Paying Agency Agreement") in relation to the Second Tranche Bonds among the Issuer, Philippine Depository & Trust Corp. as paying agent (the "Paying Agent") and as registrar (the "Registrar").

The Second Tranche Bonds shall be offered and sold through a general public offering in the Philippines, and issued and transferable in minimum principal amounts of Fifty Thousand Pesos (₱50,000.00) and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter, and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

The Series B Bonds shall mature on January 25, 2024, while the Series C Bonds shall mature on October 25, 2028 unless earlier redeemed by the Issuer pursuant to the terms thereof and subject to the provisions on redemption and payment below.

The Paying Agent and Registrar has no interest in or relation to AboitizPower which may conflict with its role as Registrar for the Offer. The Trustee has no interest in or relation to AboitizPower which may conflict with the performance of its functions as Trustee.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Second Tranche Bonds (the "Bondholders") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them.

## FORM AND DENOMINATION

The Second Tranche Bonds are in scripless form, and shall be issued in denominations of Fifty Thousand Pesos (₱50,000.00) each as a minimum and in multiples of Ten Thousand Pesos (₱10,000.00) thereafter and traded in denominations of Ten Thousand Pesos (₱10,000.00) in the secondary market.

## TITLE

Legal title to the Second Tranche Bonds shall be shown in the Registry Book maintained by the Registrar. A notice confirming the principal amount of the Second Tranche Bonds purchased by each applicant in the Offering shall be issued by the Registrar to all Bondholders following the Issue Date. Upon any assignment, title to the Second Tranche Bonds shall pass by recording of the transfer from the transferor to the transferee

in the electronic Registry Book maintained by the Registrar. Settlement in respect of such transfer or change of title to the Second Tranche Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamps taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder.

## **BOND RATING**

The Second Tranche Bonds have been rated PRS Aaa, with a Stable Outlook by PhilRatings on August 29, 2018. Obligations rated PRS Aaa are of the highest quality with minimal credit risk. The Company's capacity to meet its financial commitment on the Second Tranche Bonds is extremely strong. PRSAaa is the highest rating assigned by PhilRatings. The rating and outlook were assigned given the following key considerations: (1) significant levels of cash flows and financial flexibility in relation to debt service requirements; (2) adequate capital structure supported by healthy growth in retained earnings; (3) diversified portfolio, with good growth prospects and; (4) experienced management team.

A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

## **TRANSFER OF BONDS**

### **Registry Book**

The Issuer shall cause the Registry to be kept by the Registrar, in electronic form. The names and addresses of the Bondholders and the particulars of the Second Tranche Bonds held by them and of all transfers of Second Tranche Bonds shall be entered into the Registry Book. As required by Circular No. 428-04 issued by the Bangko Sentral ng Pilipinas, the Registrar shall send each Bondholder, in the mode elected by such Bondholder in the Application to Purchase or the Registration Form, a written statement of registry holdings at least quarterly (at the cost of the Issuer) and a written advice confirming every receipt or transfer of the Second Tranche Bonds that is effected in the Registrar's system (at the cost of the relevant Bondholder). Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfers of the Second Tranche Bonds may be made during the period commencing on a Record Date as defined in the section on "*Interest Payment Date.*"

### **Transfers; Tax Status**

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any such transfers. Settlement in respect of such transfers or change of title to the Second Tranche Bonds, including the settlement of any documentary stamps taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a business day. Restricted transfers include, but are not limited to, transfers between taxable and non-taxable entities, between taxable entities of different tax categories (where tax-withheld entities with different final withholding tax rates (e.g. 20%, 25%, 30%) are considered as belonging to different tax categories), or between parties who claim the benefit of a tax treaty; provided, however, that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name to ensure that the computation is based on the final withholding tax rate of the taxable party to the trade. For such transactions, the tax-exempt entity shall be treated as belonging to the same tax category as its taxable counterpart for the interest period within which such transfer occurred. A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to Registrar. Transfers taking place in the Register of Bondholders after the Second Tranche Bonds are listed on PDEX shall be allowed between tax-exempt and non-tax-exempt entities

without restriction and observing the tax exemption of tax-exempt entities, if and/or when so allowed under and in accordance with the relevant rules, conventions, and guidelines of PDEX and PDTC.

### **Secondary Trading of the Second Tranche Bonds**

The Issuer intends to list the Second Tranche Bonds at PDEX for secondary market trading or such other securities exchange as may be licensed as such by the SEC. Secondary market trading in PDEX shall follow the applicable PDEX rules, conventions, and guidelines governing trading and settlement between bondholders of different tax status and shall be subject to the relevant fees of PDEX and PDTC. Upon listing of the Second Tranche Bonds with PDEX, investors shall course their secondary market trades through PDEX Brokering Participants for execution in the PDEX Trading Platform in accordance with PDEX Trading Rules, Conventions and Guidelines, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEX Settlement Rules and Guidelines. The PDEX rules and conventions are available in the PDEX website ([www.pds.com.ph](http://www.pds.com.ph)). An Investor Frequently Asked Questions (FAQ) discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEX website.

### **RANKING**

The Second Tranche Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of the Issuer and shall rank *pari passu* and rateably in priority of payment without any preference or priority amongst themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by the Issuer pursuant to Section 5.02 (a) of the Trust Agreement or as may be allowed by the Trust Agreement, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of Issue Date. The Second Tranche Bonds shall effectively be subordinated in right of payment to, among others, all of AbotizPower's secured debts to the extent of the value of the assets securing such debt and all of its debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines, unless the Issuer procures a waiver of the preference created by such notarization or equally and ratably extend such preference to the Second Tranche Bonds.

### **INTEREST**

#### **Interest Payment Dates**

The Second Tranche Bonds bear interest on its principal amount from and including Issue Date at the rate of 7.5095% p.a., for the Series B Bonds and 8.5091% p.a., for the Series C Bonds, payable quarterly starting on January 25, 2019 for the first interest payment date, and January 25, April 25, July 25, and October 25 of each year for each subsequent Interest Payment Date at which the Second Tranche Bonds are outstanding, or the subsequent Banking Day, without adjustment, if such Interest Payment Date is not a Banking Day. The last Interest Payment Date shall fall on the Maturity Date.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be the day two (2) Banking Days prior to the relevant Interest Payment Date (the "Record Date"), which shall be the reckoning day in determining the Bondholders entitled to receive interest, principal or any other amount due under the Second Tranche Bonds, provided that if such day falls on a non-Banking Day, the Record Date shall be the next Banking Day immediately preceding said date. No transfers of the Second Tranche Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Date.

#### **Interest Accrual**

Each Series B Bond and Series C Bond shall cease to bear interest from and including the Maturity Date, as defined in the discussion on "Final Redemption," unless, upon due presentation, payment of the principal in respect of the Bond then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see "Penalty Interest") shall apply.

## **Determination of Interest Amount**

The interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

## **REDEMPTION AND PURCHASE**

### **Final Redemption**

Unless previously purchased and cancelled, the Second Tranche Bonds shall be redeemed at par or 100% of face value on the respective Maturity Dates. However, payment of all amounts due on such date may be made by the Issuer through the Paying Agent, without adjustment, on the succeeding Banking Day if the Maturity Date is not a Banking Day.

### **Optional Redemption**

Prior to the respective Maturity Dates, the Issuer shall have the option, but not the obligation, to redeem in whole (and not in part), the outstanding Series B Bonds or Series C Bonds on the Optional Redemption Dates, as provided below, or the immediately succeeding Banking Day if such date is not a Banking Day (the "Optional Redemption Date"), without any adjustment on the principal or interest accruing.

The amount payable to the Bondholders in respect of the Optional Redemption exercise (the "Optional Redemption Price") shall be calculated based on the principal amount of the Series B Bonds or Series C Bonds being redeemed as the aggregate of the: (i) accrued interest computed from the last Interest Payment Date up to the relevant Optional Redemption Date; and (ii) the product of the principal amount and the applicable Optional Redemption Price in accordance with the following schedule:

*Series B Bonds:*

<b>Optional Redemption Dates</b>	<b>Optional Redemption Price</b>
4 years from Issue Date	100.25%

*Series C Bonds:*

<b>Optional Redemption Dates</b>	<b>Optional Redemption Price</b>
7 years from Issue Date	102.00%
8 years from Issue Date	101.00%
9 years from Issue Date	100.25%

The Issuer shall give not less than thirty (30) nor more than sixty (60) days prior written notice of its intention to redeem the relevant Series B Bonds or Series C Bonds, which notice shall be irrevocable and binding upon the Issuer to effect such early redemption on the Optional Redemption Date stated in such notice.

### **Redemption for Taxation Reasons**

The Issuer may redeem the Series B Bonds or the Series C Bonds in whole, but not in part, on any Interest Payment Date (having given not more than sixty (60) nor less than thirty (30) days' notice to the Trustee) at par plus accrued interest, subject to the requirements of Applicable Law, if payments under the Series B Bonds or the Series C Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on Issue Date as a result of certain changes in Applicable Law, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Issuer.

For avoidance of doubt, the Issuer shall not be liable for the payment of the additional or increased taxes, which shall be for the account of the Bondholders.

The Trustee, upon receipt of written notice of redemption delivered by the Issuer, shall declare the principal of the Series B Bonds or the Series C Bonds, including all accrued interest, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty that is imposed under an optional redemption, anything in this Agreement or in the Series B Bonds or the Series C Bonds contained to the contrary notwithstanding.

### **Mandatory Redemption**

If any one or more of the following events shall occur, in the reasonable opinion of the Bondholders holding at least two-thirds (2/3) of the outstanding amount of the Second Tranche Bonds for the events contemplated in (a), (b) or (c) below or the Majority Bondholders for the events contemplated in (d) below (and with written notice to the Trustee), and be continuing for a period of fifteen (15) Banking Days with respect to the events contemplated in (a) or (c) below:

- a. Any law, government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Issuer to comply with its obligations under the Trust Agreement or the Second Tranche Bonds which shall be modified in a manner which, in the reasonable opinion of the Trustee, while not constituting an Event of Default, will materially and adversely affect the ability of the Issuer to comply with such obligations, or shall be withdrawn or withheld;
- b. Any provision of the Trust Agreement or any of the related documents is or becomes invalid, illegal or unenforceable by reason of: (i) any final judgment or order by a court of competent authority; or (ii) notwithstanding any pending action before a court of competent authority: (x) any final and effective act of any Government Authority, or (y) any final and effective law, rule, or regulation to the extent that it becomes for any reason unlawful for the Issuer to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law is introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents;
- c. Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Issuer shall be revoked, canceled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, by reason of: (i) any final judgment or order by a court of competent authority; or (ii) notwithstanding any pending action before a court of competent authority: (x) any final and effective act of any Government Authority, or (y) any final and effective law, rule, or regulation, in such a manner as to materially and adversely affect the financial condition or operations of the Issuer; and
- d. Any Government Authority or any competent authority condemns, seizes, or expropriates all or substantially all of the assets or properties of the Issuer, unless such act is contested in good faith by the Issuer or unless such act is suspended or restrained by an order of a court of competent jurisdiction;

then, the Trustee, by notice in writing delivered to the Issuer, may declare the principal of the Second Tranche Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable without any pre-payment penalty.

### **Purchase**

The Issuer may at any time purchase any of the Second Tranche Bonds at any price in the open market or by tender or by contract in accordance with PDEX Rules, without any obligation to purchase Second Tranche Bonds pro-rata from all Bondholders. Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing of the Second Tranche Bonds on PDEX, the Issuer shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

## **Payments**

The principal of, interest on, and all other amounts payable on the Second Tranche Bonds shall be paid to the Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Second Tranche Bonds shall be payable in Philippine Pesos, net of final taxes and fees (if any). AboitizPower shall ensure that so long as any of the Second Tranche Bonds remains outstanding, there shall at all times be a Paying Agent for the purposes of the Second Tranche Bonds. AboitizPower may terminate the appointment of the Paying Agent, as provided in the Registry and Paying Agency Agreement. In the event the appointed office of any institution shall be unable or unwilling to continue to act as the Paying Agent, AboitizPower shall appoint the Makati City office of such other leading institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

## **Payment of Additional Amounts - Taxation**

Interest income on the Second Tranche Bonds is subject to final withholding tax at rates depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Except for such final withholding tax and as otherwise provided below or in the Trust Agreement, and without prejudice to the right of the Issuer to exercise its option to redeem the Series B Bonds or the Series C Bonds for taxation reasons, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Issuer; provided however that, the Issuer shall not be liable for the following:

1. The applicable final withholding tax applicable on interest earned on the Series B Bonds and the Series C Bonds prescribed under the Tax Code, as amended and its implementing rules and regulations as maybe in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Issuer as being sufficient in form and substance:
  - a. Proof of Tax Exemption or Entitlement to Preferential Tax Rates
    - i. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;
    - ii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;
    - iii. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and
    - iv. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form

prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the Underwriter, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the Underwriter.

- b. A duly notarized declaration (in the prescribed form) warranting that the Bondholder's tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or warranting the Bondholder's entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.
- c. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (a), (b), and (c) above, as may be applicable, will result in the application of the normal income tax rate provided under the Tax Code.

2. Any applicable taxes on other income due to any Bondholder arising from the Ser Bonds, including but not limited to the Prepayment Penalty, if and when applicable;
3. Gross Receipts Tax under the Tax Code;
4. Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
5. Value Added Tax ("VAT") under the Tax Code, as amended. Documentary stamp tax for the primary issue of the Second Tranche Bonds and the execution of the Bond Agreements, if any, shall be for the Issuer's account.

## **FINANCIAL RATIOS**

The Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation, and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt, as at the last day of the Relevant Period immediately preceding the Transaction Date, to Consolidated Equity, in respect of the Relevant Period immediately preceding the Transaction Date, will exceed 3:1.

With respect to the Second Tranche Bonds, there are no other regulatory ratios that the Issuer is required to comply with.

For the schedule of the Issuer's relevant financial ratios as of December 2017, December 2016, and December 2015, please refer to the section entitled "*Financial Ratios.*"

## **EVENTS OF DEFAULT**

Each of the following events constitutes an Event of Default.



1. **Payment Default.** The Issuer fails to pay when due and payable any amount of principal or interest which the Issuer is obligated to pay the Bondholders under the Trust Agreement and the Second Tranche Bonds, and such failure to pay is not remedied within seven (7) Banking Days from due date thereof.

The Issuer fails to pay when due and payable any other amount payable by the Issuer in respect of the Second Tranche Bonds and under the Trust Agreement in the manner, at the place, and in the currency in which it is expressed to be payable, and such non-payment continues for thirty (30) days from the date such payment is due. These other amounts include Penalty Interest, insofar as the payment of such interest is concerned.

2. **Representation Default.** Except for clerical or typographical error, any representation or warranty made by the Issuer in the Trust Agreement or in any document issued pursuant thereto or otherwise in connection therewith shall prove to have been untrue, incorrect, or misleading in any material respect as at the time it was made or deemed to have been made or is violated or not complied with, and the circumstances which cause such representation or warranty to be incorrect or misleading continue for not less than thirty (30) days (or such longer period as the Majority Bondholders shall approve) after receipt of written notice from the Trustee to that effect.
3. **Other Provisions Default.** The Issuer fails to perform or comply with any other term, obligation, or covenant contained in the Trust Agreement or in any other document or instruments related or otherwise in connection therewith and any such failure, violation, non-compliance is not remediable or if remediable, continues unremedied for a period of ninety (90) days for financial covenants and sixty (60) days for all other covenants from the date after written notice thereof shall have been given by the Trustee; Provided, however, that for the avoidance of doubt, no additional grace period shall apply to the Events of Default.
4. **Cross-Default.** The Issuer violates any other material obligation by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money which constitutes an event of default under said contract, or in general, violation of any, law or regulation which violation, if remediable, is not remedied by the Issuer within thirty (30) Banking Days from receipt of notice by the Trustee to the Issuer, or which violation is otherwise not contested by the Issuer, and the effect of such violation results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; and which violation will, further, in the reasonable opinion of the Trustee, adversely and materially affect the performance by the Issuer of its obligations under this Agreement and the Second Tranche Bonds. Provided, however, that no event of default will occur under this paragraph unless the aggregate amount of indebtedness in respect of which one or more of the events above mentioned has/have occurred equals or is in excess of five percent (5%) of the fair market value of Assets of the Issuer, based on the relevant parent-only financial statements of the Issuer.
5. **Insolvency Default.** The Issuer becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, which act shall include: (i) the filing of a petition in any bankruptcy, reorganization, winding up or liquidation of the Issuer, or any other proceeding analogous in purpose and effect: Provided, however, that in case the foregoing petition is filed by any other party, other than the Issuer, such event shall be considered a declared Event of Default only upon the issuance of a final order by the court of competent authority; (ii) the making of an assignment by the Issuer of substantially all or all of its assets, or in fraud of creditors; (iii) the admission in writing by the Issuer of its inability to pay its debts; (iv) the entry of any final order or judgment of any court, tribunal, or administrative agency or body confirming the bankruptcy or insolvency of the Issuer or approving any reorganization, winding up or liquidation of the Issuer; or (v) the appointment of a receiver, liquidator, assignee, trustee, or sequestrator of the Issuer, or a substantial part of its property or assets or a substantial part of its capital stock or to assume custody or control of the Issuer, or the ordering of its dissolution, winding-up or liquidation of its affairs.
6. **Closure Default.** The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except that if the closure is: (i) due to

strikes or lockouts; or (ii) necessary to prevent business losses; or (iii) due to fortuitous events or force majeure, then such closure shall not be deemed a Closure Default.

7. **Judgment Default.** Any final judgment, decree or arbitral award for the sum of money, damages or for a fine or penalty in excess of 20% of the Issuer's Fair Market Value of Assets or its equivalent in any other currency is entered against the Issuer and any relevant period specified for payment in such judgment, decree, order, or agreement, shall have expired without being satisfied, discharged, or stayed; and
8. **Writ and Similar Process Default.** Any writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Issuer's assets, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within sixty (60) days after its issue or levy (or such longer period as the Issuer satisfies the Majority Bondholders as appropriate under the circumstances).

## CONSEQUENCES OF DEFAULT

### Declaration

1. If any one or more of the Events of Default shall occur and be continuing, the Trustee, upon the written direction of the Bondholders holding at least two-thirds (2/3) of the outstanding amount of the Second Tranche Bonds, by notice in writing delivered to the Issuer, may declare the principal of the Second Tranche Bonds then outstanding, including all interest accrued and unpaid thereon and all amounts due thereunder, to be due and payable immediately, anything contained in this Agreement or in the Second Tranche Bonds to the contrary notwithstanding.
2. The provision above, however, is subject to the condition that, except in the case of a Writ and Similar Process Default, the Majority Bondholders, by written notice to the Issuer and to the Trustee, may rescind and annul such declaration made by the Trustee pursuant to a consequence of default and its consequences, upon such terms, conditions and agreements, if any, as they may determine, including, in connection with a Cross Default, the fact that the non-payment of the obligation is contested in good faith by the Issuer; provided, that, no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereto. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Second Tranche Bonds, or of any Second Tranche Bond issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the Second Tranche Bonds.
3. At any time after an Event of Default shall have occurred, the Trustee may:
  - a. by notice in writing to the Issuer, the Registrar, and the Paying Agent, require the Registrar and Paying Agent to:
    - i. act thereafter as agents of the Bondholders represented by the Trustee on the terms provided in the Registry and Paying Agency Agreement (with consequential amendments as necessary and save that the Trustee's liability under the provisions thereof for the indemnification, remuneration and payment of out-of-pocket expenses of the Paying Agent and the Registrar shall be limited to amounts for the time being held by the Trustee on the trusts of this Agreement in relation to the Second Tranche Bonds and available to the Trustee for such purpose) and thereafter to hold all sums, documents and records held by them in respect of the Second Tranche Bonds on behalf of the Trustee; and/or
    - ii. deliver all evidence of the Second Tranche Bonds and all sums, documents and records held by them in respect of the Second Tranche Bonds to the Trustee or as the Trustee shall direct in such notice; provided, that, such notice shall be deemed not to apply to any document or record which the Paying Agent or Registrar is not obliged to release by any Applicable Law; and

- b. by notice in writing to the Issuer, require the Issuer to make all subsequent payments in respect of the Second Tranche Bonds to the order of the Trustee and with effect from the issue of any such notice until such notice is withdrawn.

### **Notice of Default**

The Trustee shall, within ten (10) days after the occurrence of an Event of Default give to the Bondholders written notice of any such Event of Default known to it unless the same shall have been cured before the giving of such notice; provided, that, in the case of a Payment Default, the Trustee shall, upon written notice from the Paying Agent of the Issuer's failure to pay any amount of principal or interest which the Issuer is obligated to pay the Bondholders under the Trust Agreement and the Second Tranche Bonds, immediately notify the Bondholders upon the occurrence of such Payment Default; provided further, that such written notice from the Paying Agent shall not be required if the Issuer's failure to pay was caused by a technical error or by reasons beyond the control of the Issuer. The existence of a written notice required to be given to the Bondholders under this Section shall be published in two (2) newspapers of general circulation in Metro Manila, Philippines for two (2) consecutive days, indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Second Tranche Bonds at the principal office of the Trustee as indicated in this Agreement upon presentation of sufficient and acceptable identification to the Trustee.

Subject to Applicable Law, in case of the occurrence of an Event of Default, the Issuer shall authorize the Registrar to provide the Trustee with the list of Bondholders containing the names, addresses, tax identification number (TIN), tax status, and account details of the Bondholders, the amount of the Second Tranche Bonds held by them, the Cash Settlement Account numbers where payment to them shall be credited and such other information as may be agreed upon between the Registrar and the Issuer.

### **Penalty Interest**

In case any amount payable by the Issuer under the Second Tranche Bonds, whether for principal, interest, fees due to the Trustee, Registrar or Paying Agent or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest and other amounts, pay penalty fee on the defaulted amount(s) at the rate of two percent (2.0%) per annum (the "Penalty Interest") from the time the amount fell due until it is fully paid.

### **Payments in the Event of Default**

The Issuer covenants that upon the occurrence of any Event of Default, the Issuer will pay to the Bondholders, through the Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Second Tranche Bonds on the overdue principal and with Penalty Interest, where applicable, and in addition thereto the Issuer will pay to the Trustee such further amounts as shall be determined by the Trustee to be sufficient to cover the cost and expenses of collection, including reasonable compensation to the Trustee, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without negligence or bad faith by the Trustee hereunder.

Upon the occurrence of an Event of Default and in accordance with the requirements of the Trust Agreement, the Bondholders shall have the right, but not the obligation, to require the Issuer to redeem the Second Tranche Bonds in full, by payment of the amounts stated above, plus the principal amount, by delivery of the relevant evidence of the Second Tranche Bonds to the Trustee.

### **Application of Payments**

Any money collected by the Trustee and any other funds held by it, subject to any other provision of the Trust Agreement relating to the disposition of such money and funds, shall be applied by the Trustee in the order of preference as follows:

First: To the payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Trustee, Paying Agent, Registrar, and each such person's agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by the Trustee, Paying Agent and Registrar without negligence or bad faith.

Second: To the payment of Penalty Interest.

Third: To the payment of the interest, in the order of the maturity of such interest.

Fourth: To the payment of the principal amount of the outstanding Bonds due and payable.

Fifth: The remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

Except for any interest and principal payments, all disbursements of the Paying Agent in relation to the Second Tranche Bonds shall require the conformity of the Trustee.

## **Remedies**

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the conditions and covenants of in the Trust Agreement.

No delay or omission by the Trustee or by any Bondholder to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto, and every power and remedy given in the Trust Agreement to the Trustee or to the Bondholder may be exercised from time to time and as often as may be necessary or expedient.

## **Ability to File Suit**

No Bondholder shall have any right by virtue of or by availing of any provision of this Agreement to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless all of the following conditions have been fulfilled: (1) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Second Tranche Bonds, and (2) the Majority Bondholders shall have decided and made a written request upon the Trustee to institute such suit, action or proceeding in its own name, and (3) the Trustee for sixty (60) days after receipt of such notice and request shall have neglected or refused to institute any such suit, action or proceeding, unless such failure was due to any circumstance beyond its control, and (4) no directions inconsistent with such written request or waiver of default by the Bondholders shall have been made, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholder shall have any right in any manner whatsoever by virtue of or by availing of any provision of this Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under this Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all Bondholders. For the protection and enforcement of the provisions of this Section, each and every Bondholder and the Trustee shall be entitled to such relief as can be given under the Applicable Law.

## **Waiver of Default by Bondholders**

The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or the Majority

Bondholders may decide for and in behalf of the Bondholders to waive any past default except the Payment Default, Cross-Default, Insolvency Default, and Closure Default, and its consequences. In case of any such waiver, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Second Tranche Bonds.

## **MEETINGS OF BONDHOLDERS**

### **Meetings**

A meeting of Bondholders may be called at any time and from time to time pursuant to the provisions of this Section for the purpose of taking any action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under applicable law and such other matters related to the rights and interests of the Bondholders under the S Second Tranche Bonds.

### **Notice of Meetings**

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Second Tranche Bonds may direct the Trustee to call a meeting of the Bondholders, to take any action specified herein, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Issuer and to each of the registered Bondholders and published in two (2) newspapers of general circulation in Metro Manila, Philippines not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the notices for the requested meeting shall be reimbursed by the Issuer within ten (10) days from receipt of the duly supported statement of account.

### **Failure of Trustee to Call a Meeting**

In case at any time the Issuer, pursuant to a resolution of its board of directors, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Second Tranche Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, the notice of such meeting within fifteen (15) Banking Days after receipt of such request, then the Issuer or the holders of the Second Tranche Bonds in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and the costs thereof shall be chargeable to the Trustee, except when such failure is beyond the control of the Trustee.

### **Quorum**

The presence of the Majority Bondholders personally or by proxy shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

### **Procedure for Meetings**

The Trustee shall preside at all the meetings of the Bondholders unless the meeting shall have been called by the Issuer or by the Bondholders, in which case the Issuer or the Bondholders calling the meeting, as the case may be, shall move for the election of the chairman and secretary of the meeting from among the Bondholders then present or represented during the meeting.

Any meeting of the Bondholders duly called pursuant to the provisions of this Section may be adjourned from time to time for a period or periods not to exceed in the aggregate one (1) year from the date for which the

meeting shall originally have been called, and the meeting so adjourned may be held on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Second Tranche Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

In an event consent/s are requested from the Bondholders, the Bondholders' records with the Registrar as of the immediately preceding month-end prior to the date of the request shall be used by the Trustee until the results of the exercise is completed. Transfers or changes to ownership during any exercise shall be disregarded by the Trustee. Notwithstanding the foregoing, if the Registrar determines the record date of Bondholders according to its Agreements then such listing shall prevail and the Trustee shall rely on such records

### **Voting Rights**

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of the Second Tranche Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of such meeting. Bondholders shall be entitled to one vote for every Ten Thousand Pesos (₱10,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representative of the Issuer and its legal counsel.

### **Voting Requirement**

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the majority of the Bondholders present or represented in a meeting at which there is a quorum, except as otherwise provided in the Trust Agreement.

Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Trustee as if the votes were unanimous.

### **Role of the Trustee in Meetings of Bondholders**

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of Bonds, the appointment of proxies by registered holders of Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem fit. The minutes of each meeting and any resolution made thereat shall be taken by the Trustee.

### **Evidence Supporting Bondholders' Action**

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of Bonds may take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing; (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith; or (iii) a combination of such instruments and any such record of meeting of the Bondholders. The Trustee shall rely on the Registrar to authenticate all Bondholders' signature at all times.

### **Duties and Responsibilities of the Trustee**

The Trustee shall act as trustee for and in behalf of the Bondholders and as such shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Issuer with all its representations and warranties, and the Issuer's observance of all its covenants and performance of all its

obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters to be taken up with the Issuer.

The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the Master Certificates of Indebtedness for the total issuance of the Second Tranche Bonds.

The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the Trust Agreement.

The Trustee may, from time to time, request the Issuer to submit such certification of its officers, reports of its external auditors, and other documents relating to the Issuer's ability to comply with its obligations under the Second Tranche Bonds and the Trust Agreement, as well as to examine such records of the Issuer as may be related to the Issuer's obligations under the Second Tranche Bonds and the Trust Agreement.

The request shall be reasonable, made not less than seventy-two (72) hours prior to the intended date of examination and shall be in writing to the Issuer which shall include, in reasonable detail, the purpose for such request and the intended use of the requested documents or information. The Issuer may require the Trustee, its directors, officers, employees, representatives, agents, partners, consultants and advisors to hold in confidence such documents and information furnished to the Trustee pursuant to said request or to limit the use thereof for the purpose intended as stated in the request, provided such limitation shall not apply if in conflict with the duties and responsibilities of the Trustee under any provision of the Trust Agreement.

The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs under similar circumstances.

The Trustee shall inform the Bondholders of any event, breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns of such events.

The Trustee shall perform such other powers and functions as provided for elsewhere under the Trust Agreement.

### **Supplemental Agreements**

With the written consent of the Majority Bondholders, the Issuer, when authorized by a resolution of its board of directors, and the Trustee may, from time to time and at any time, enter into an agreement or agreements supplemental hereto for the purpose of adding any provision to or changing in any manner or eliminating any of the provisions of the Trust Agreement; provided, however, that no such supplemental agreement shall:

1. Without the consent of each Bondholder affected thereby:
  - a. extend the fixed maturity of the Series B Bonds or Series C Bonds, or
  - b. reduce the principal amount of the Series B Bonds or Series C Bonds, or
  - c. reduce the rate or extend the time of payment of interest and principal thereon;
2. Affect the rights of some of the Bondholders without similarly affecting the rights of all the Bondholders; or
3. Reduce the percentage required to be obtained of the Bondholders to consent to or approve any supplemental agreement or any waiver provided for in this Agreement without the consent of all the Bondholders.

It shall not be necessary to obtain the consent of the Bondholders for the purpose of approving the particular form of any proposed supplemental agreement but such consent shall be necessary for the purpose of approving the substance thereof.

Any consent given shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof or of any Bonds issued in lieu thereof or in exchange therefor, irrespective of whether or not any notation of such consent is made upon the Second Tranche Bonds.

Promptly after the execution by the Issuer and the Trustee of any supplemental agreement, the Issuer shall send a notice to the Bondholders setting forth in general terms the substance of such supplemental agreement. Any failure of the Issuer to send such notice or any defect therein shall not, however, in any way impair or affect the validity of any supplemental agreement.

## **MISCELLANEOUS PROVISIONS**

### **Notice**

Any notice or demand authorized by the Trust Agreement to be given to the Issuer and the Trustee shall be sufficiently given for all purposes hereof, if delivered or mailed at their respective addresses mentioned herein or at such address designated by them subsequently in writing.

Notices to the Bondholders shall be sent to their mailing address as set forth in the Registry Book. Except where a specific mode of notification is provided for herein, notices to Bondholders shall be sufficient when made in writing and transmitted in any of the following modes: (i) registered mail; (ii) surface mail; (iii) by one-time publication in a newspaper of general circulation in the Philippines; or (iv) personal delivery to the address of record in the Registry Book. The Trustee shall rely on the Registry Book provided by the Registrar, in determining the Bondholders entitled to notice.

All notices shall be deemed to have been received (i) ten (10) days from posting if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by surface mail; (iii) on the date of publication, or (iv) on the date of delivery, for personal delivery.

### **Binding and Conclusive Nature**

Except as provided under the Trust Agreement, all notifications, opinion, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Trustee for the purposes of the provisions of the Trust Agreement, shall (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, and all Bondholders and (in the absence of willful default, bad faith or manifest error) no liability to the Issuer, the Registrar, the Paying Agent or the Bondholders shall attach to the Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions under the Trust Agreement, resulting from the Trustee's reliance on the foregoing.

### **Dispute Settlement**

In case any dispute shall arise between the Issuer, the Trustee or any of the Bondholders in respect of the Trust Agreement, or other related agreements or arrangements, the Issuer, the Trustee or any of the Bondholders shall attempt to resolve the same amicably by agreement which shall be in writing. However, if no such agreement is concluded within thirty (30) Banking Days from the time the dispute arose, or such period as may be reasonable under the circumstances, the parties may have recourse to the usual judicial action obtaining under the circumstances.

### **No Right to Set-Off**

The Trustee shall have no right to apply funds or money of the Issuer on deposit with or in the custody of the Trustee or any of its branches, subsidiaries, or affiliates on reduction of amounts past due under the Trust Agreement.



**Governing Law**

The Second Tranche Bonds issued hereunder shall be governed by, and construed and interpreted in accordance with, the laws of the Republic of the Philippines.

## THE COMPANY

### BUSINESS DEVELOPMENT

AboitizPower is a publicly-listed holding company incorporated on and has been in business since 13 February 1998. Through its Subsidiaries and Affiliates, AboitizPower is a well-positioned leader in the Philippine power industry being the second largest generation, distribution, and retail electricity supply Company.<sup>4</sup>

The Company's controlling shareholder, AEV, is a diversified conglomerate that is listed in the PSE, and has interests in power, banking and financial services, food, infrastructure, and land. This relationship allows the Company to draw on AEV's strong foundation for sustained growth by being the Philippines' second oldest family-led business group, with an experienced management team, right partners and robust talent management, strong financial position, proactive risk and insurance management, and Global Reporting Initiative-certified sustainability reporting system to support the Company's robust growth initiatives.

The Company has accumulated interests in a portfolio of power generating plants, using renewable and non-renewable sources. As of the first half of 2018, its generation companies have an attributable net sellable capacity of 3,175 MW. Following the ERC's control test to determine the market share of the Company, and supplemented with DOE's information (based on Luzon-Visayas-Mindanao Power Outlook released July 2016) for capacity coming online, the Company's projected market share of the national grid's installed generating capacity by end of June 2018 is 17.9%.

The table below summarizes the Company's power generation companies and key information as of 30 June 2018:

Plant Name	Net Sellable Capacity (MW)	Attributable Net Sellable Capacity (MW)	Management Company	Offtaker
Ambuklao	105	53	SNAP-Benguet	WESM
Bakun	70	70	LHC	NPC (2026)
Benguet 1-11	38	38	Hedcor	NPC (2018) / Bilaterals
Binga	140	70	SNAP-Benguet	WESM / NGCP
Davao 1-5	5	5	Hedcor	Davao Light
Magat	360	180	SNAP-Magat	WESM / Coops / NGCP
Sibulan (A, B and Tudaya A)	49	49	Hedcor Sibulan	Davao Light
Sabangan	14	14	Hedcor Sabangan	FIT
Maris Main Canal 1	9	4	SNAP-Magat	FIT*
Tudaya (B)	7	7	Hedcor Tudaya	FIT
Tiwi - Makban	344	344	APRI	WESM / Bilaterals
Unified Leyte	40	40	AESI	VECO
Sacasun	46	46	SacaSun	WESM
Mindanao	210	71	STEAG Power	NPC (2031)
Mariveles	632	418	GN Power Mariveles	Bilaterals/WESM
Davao	260	260	TSI	Bilaterals
Pagbilao	700	700	TLI	Bilaterals / WESM
Pag3	400	200	PEC	TLI
Toledo	216	57	CEDC	Bilaterals

<sup>4</sup> Based on ERC Resolution No. 03, Series of 2015, A Resolution Setting the Installed Generating Capacity Per Grid and National Grid and the Market Share Limitations Per Grid and the National Grid for 2015; DOE Luzon-Visayas-Mindanao Power Outlook, July 2016, PEMC Retail Report, May 17, 2017, and Department of Energy, Distribution Development Plan 2010-2019, January 2012.

Cebu	66	40	CPPC	VECO
Cotabato	7	7	Cotabato Light	
Bajada	38	38	Davao Light	Davao Light
General Santos	55	11	SPPC	NPC (2016)
Mactan	44	44	EAUC	MEPZ I / Bilaterals
Mobile 1	96	96	TMI	Bilaterals
Mobile 2	96	96	TMI	Bilaterals
Mobile 3-6	200	200	TMO	Meralco
Zamboanga	100	20	WMPC	Bilaterals
<b>Total</b>	<b>4,345**</b>	<b>3,175**</b>		

\*FIT application pending approval

\*\*Sum figures will differ due to rounding effect

The Company owns interests in several distribution utilities in Luzon, Visayas and Mindanao, including VECO and Davao Light, which are respectively the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales. The Company also owns interests in Cotabato Light, SFELAPCO, SEZ, MEZ, BEZ, and LEZ. For 2017, the Distribution Companies sold a total attributable energy of 6,955 GWh. As of year-end 2017, the Distribution Companies are serving approximately 954,300 customers.

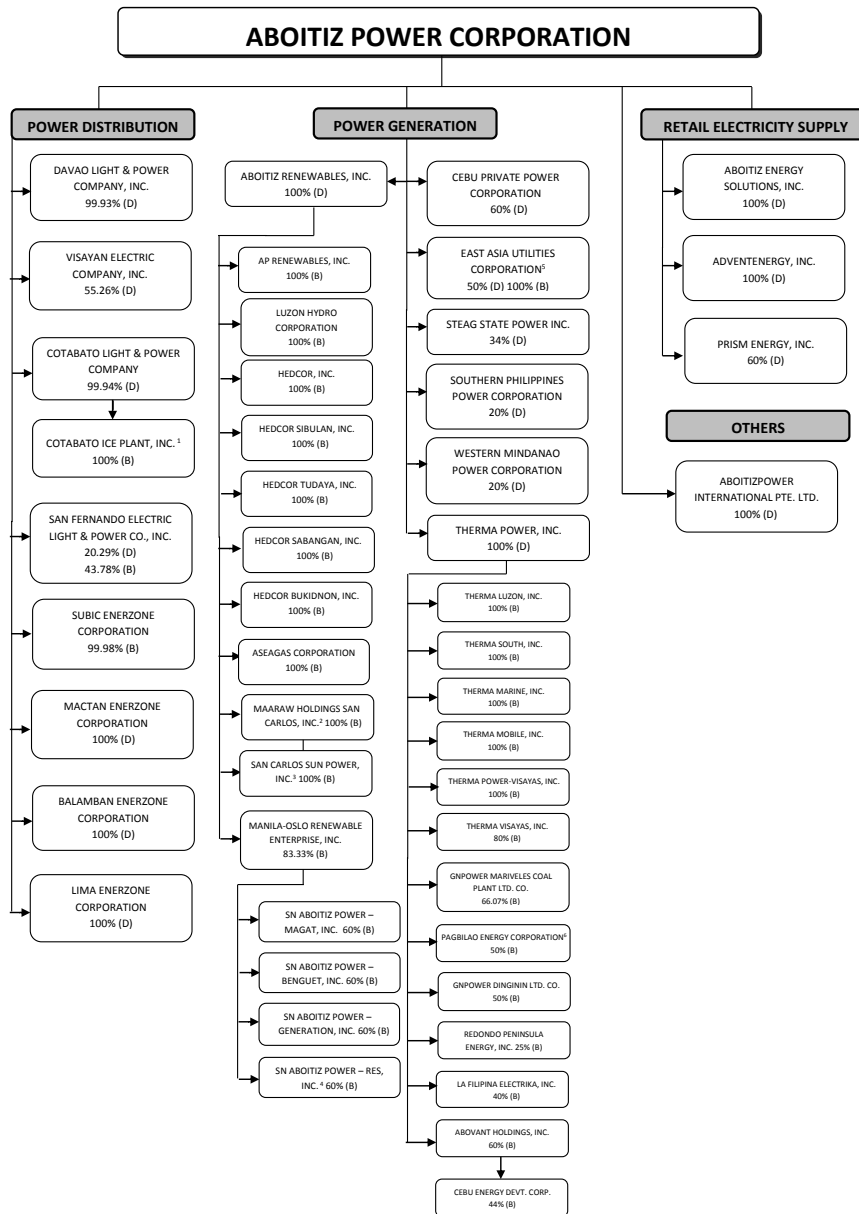
AboitizPower's interests, direct and indirect, in the Group's Distribution Utilities, as well as their franchise periods as of year end December 2017, are shown in the table below:

Distribution Utility	AboitizPower % Ownership	Franchise Term	Franchise Expiry
VECO	55.26%	25 years	2030
Davao Light	99.93%	25 years	2025
SFELAPCO	43.78%	25 years	2035
Cotabato Light	99.94%	25 years	2039
SEZ	99.98%	25 years	2028
MEZ	100%	21 years	Zone Life
BEZ	100%	50 years	Zone life
LEZ	100%	50 years	Zone Life

MEZ, BEZ, and LEZ, which operate the power distribution utilities in Mactan Economic Processing Zone II, West Cebu Industrial Park, and Lima Technology Center, respectively, are duly registered with the Philippine Economic Zone Authority as Ecozone Utilities Enterprises. Cotabato Light's franchise was renewed for another 25 years upon the signing of RA 10637 on 16 June 2014, by then President Benigno C. Aquino III.

# BRIEF HISTORY OF ABOITIZPOWER AND ITS SIGNIFICANT SUBSIDIARIES

AS OF MARCH 31, 2018



**Legend:**  
 B – Beneficial Ownership  
 D – Direct Ownership

<sup>1</sup> Other services

<sup>2</sup> ARI has a 60% direct ownership in Maaraw San Carlos; AboitizPower International has a 40% indirect ownership in Maaraw San Carlos<sup>3</sup>

<sup>3</sup> ARI has a 35% direct ownership (50% indirect ownership) in Sacasun; AboitizPower International has 50% indirect ownership in Sacasun

<sup>4</sup> Engages in Retail Electricity Supply Business

<sup>5</sup> TPI has a 50% ownership in EAUC

<sup>6</sup> Joint operations

The Aboitiz Group's involvement in the power industry began when members of the Aboitiz family acquired 20% ownership interest in Visayan Electric Company, Inc. (VECO) in the early 1900s. The Aboitiz Group's direct and active involvement in the power distribution industry can be traced to the 1930s when Aboitiz & Company, Inc. (ACO) acquired Ormoc Electric Light Company and its accompanying ice plant, Jolo Power Company, and Cotabato Light & Power Company (Cotabato Light). In July 1946, the Aboitiz Group strengthened its position in power distribution in the Southern Philippines when it acquired Davao Light & Power Company, Inc. (Davao Light), now the third largest privately-owned electric utility in the Philippines in terms of customers and annual gigawatt hour (GWh) sales.

In December 1978, ACO divested its ownership interests in Ormoc Electric Light Company and Jolo Power Company to allow these companies to be converted into electric cooperatives, a policy being promoted by the government of former President Ferdinand Marcos. ACO sold these two companies and scaled down its participation in the power distribution business in order to focus on the more lucrative franchises held by Cotabato Light, Davao Light, and VECO.

In response to the Philippines' pressing need for adequate power supply, the Aboitiz Group became involved in power generation, becoming a pioneer and industry leader in hydroelectric energy. In 1978, the Aboitiz Group Incorporated Hydro-Electric Development Corporation (HEDC). HEDC carried out feasibility studies (including hydrological and geological studies), hydroelectric power installation and maintenance, and also developed hydroelectric projects in and around Davao City. On June 26, 1990, the Aboitiz Group also incorporated Northern Mini-Hydro Corporation (now Cleanergy, Inc.), which focused on the development of mini-hydroelectric projects in Benguet province in northern Luzon. By 1990, HEDC and Cleanergy had commissioned and were operating 14 plants with combined installed capacity of 36 MW. In 1996, the Aboitiz Group led the consortium that entered into a Build-Operate-Transfer (BOT) agreement with the National Power Corporation (NPC) to develop and operate the 70-MW Bakun AC hydroelectric plant in Ilocos Sur.

AboitizPower was incorporated on 13 February 1998 as a holding Company for the Aboitiz Group's investments in power generation and distribution. Ownership in AboitizPower was opened to the public through an IPO of its common shares in July 2007. Its common shares were officially listed in the Philippine Stock Exchange, Inc. (PSE) on 16 July 2007.

To meet the demands of the Company's growing business, AboitizPower transferred its corporate headquarters from Cebu to Metro Manila. The transfer to its present principal office was approved by the stockholders during the 20 May 2013 Annual Stockholders' Meeting and was approved by the SEC on 16 July 2013. AboitizPower's current principal office is at 32nd Street, Bonifacio Global City, Taguig City.

### **Magat Plant**

In December 2006, the Company and its partner, Statkraft Norfund Power Invest AS of Norway, through SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat), submitted the highest bid for the 360-MW Magat hydroelectric plant (Magat Plant) auctioned by the Power Sector Assets and Liabilities Management Corporation (PSALM). The price offered was US\$530 million (mn). PSALM turned over possession and control of the Magat Plant to SN Aboitiz Power-Magat on 26 April 2007.

### **Subic Coal Project**

In February 2007, the Company, through its wholly owned Subsidiary, Therma Power, Inc. (TPI), entered into a Memorandum of Agreement (MOA) with Taiwan Cogeneration International Corporation (TCIC) to collaborate in the building and operation of an independent coal-fired power plant in the Subic Bay Freeport Zone, called the Subic Coal Project. In May 2007, Redondo Peninsula Energy, Inc. (RP Energy) was incorporated as the project Company that will undertake the Subic Coal Project. In July 2011, Meralco PowerGen Corporation (MPGC), TCIC and TPI entered into a Shareholders' Agreement to formalize their participation in RP Energy. MPGC took the controlling interest in RP Energy, while TCIC and TPI maintained the remaining stake equally.

### **Equity Interest in EAUC**

On 20 April 2007, the Company acquired 50% of the outstanding capital stock of East Asia Utilities Corporation (EAUC) from El Paso Philippines Energy Company, Inc. (El Paso Philippines). EAUC operates a Bunker C-fired plant with a capacity of 50 MW within the Mactan Export Processing Zone I (MEPZ I) in Mactan Island, Cebu. On the same date, the Company also acquired 60% of the outstanding common shares of Cebu Private Power Corporation (CPPC) from EAUC. CPPC operates a 70-MW Bunker C-fired plant in Cebu City. On June 14, 2016, in line with its target to increase its attributable net sellable capacity to 4,000 MW by 2020, AboitizPower, through its wholly-owned Subsidiary, TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines.

### **Cebu Coal Project**

In August 2007, the Company, together with Vivant Energy Corporation (VEC) of the Garcia Group, signed a MOA with Global Business Power Corporation (Global Power) of the Metrobank group for the construction and operation of a 3x82-MW coal-fired power plant in Toledo City, Cebu (Cebu Coal Project). The Company and the Garcia Group formed Abovant Holdings, Inc. (Abovant) as the investment vehicle of their 44% equity interest in Cebu Energy Development Corporation (Cebu Energy), the project company of the Cebu Coal Project. AboitizPower owns 60% equity interest in Abovant and effectively holds a 26.4% beneficial interest in Cebu Energy.

### **Equity Interest in STEAG Power**

On 15 November 2007, AboitizPower closed the purchase of the 34% equity ownership in STEAG State Power Inc. (STEAG Power), owner and operator of a 232-MW coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The Company won the competitive bid to buy the 34% equity from Evonik Steag GmbH (formerly known as Steag GmbH) in August 2007. The total purchase price for the 34% equity in STEAG Power is US\$102 mn, inclusive of interests.

### **Ambuklao Hydroelectric Power Plant**

On 28 November 2007, SN Aboitiz Power–Benguet, Inc. (SN Aboitiz Power–Benguet), the consortium between AboitizPower and SN Power Group, submitted the highest bid for the Ambuklao-Binga Hydroelectric Power Complex consisting of the 75-MW Ambuklao hydroelectric power plant (HEPP) located in Bokod, Benguet and the 100-MW Binga hydroelectric power plant located in Itogon, Benguet. The price offered was US\$325 mn.

### **Tiwi-MakBan Geothermal Facilities**

On 26 May 2009, AP Renewables, Inc. (APRI), a wholly owned Subsidiary of AboitizPower, took over the ownership and operations of the 289-MW Tiwi geothermal power facility in Albay and the 458-MW Makiling-Banahaw geothermal power facility in Laguna (collectively referred to as the “Tiwi-MakBan Geothermal Facilities”) after winning the competitive bid conducted by PSALM on 30 July 2008. Currently, the Tiwi-MakBan Geothermal Facilities have a sustainable capacity of approximately 693.2 MW.

### **Pagbilao Coal-Fired Power Plant**

Therma Luzon, Inc. (TLI), a Subsidiary of AboitizPower, won the competitive bid for the appointment of the Independent Power Producer Administrator (IPPA) of the 700-MW (2x350 MW) contracted capacity of the Pagbilao Coal-Fired Power Plant on 28 August 2009 (Pagbilao Plant). It assumed dispatch control of the Pagbilao power plant on 1 October 2009, becoming the first IPPA in the country. As IPPA, TLI is responsible for procuring the fuel requirements of, and for selling the electricity generated by the Pagbilao Plant. The Pagbilao Plant is located in Pagbilao, Quezon.

### **Mobile 1 and Mobile 2 Power Barges**

AboitizPower, through its subsidiary, Therma Marine, Inc. (TMI), assumed ownership over Mobile 1 and Mobile 2 on 6 February 2010 and 1 March 2010, respectively, after acquiring the two power barges from

PSALM for US\$30 mn through a negotiated bid concluded on 31 July 2009. Each of the barge-mounted diesel powered generation plants has a generating capacity of 100 MW. Mobile 1 and Mobile 2 are moored at Barangay San Roque, Maco, Compostela Valley and Nasipit, Agusan del Norte, respectively. Prior to AboitizPower's acquisition of the barges, Mobile 1 was referred to as Power Barge (PB) 118 while Mobile 2 was referred to as PB 117.

### **Navotas Fishport Floating Power Plants**

On 27 May 2011, Therma Mobile, Inc. (TMO), a Subsidiary of AboitizPower, acquired four barge-mounted floating power plants located at Navotas Fishport, Manila, including their respective operating facilities, from Duracom Mobile Power Corporation and East Asia Diesel Power Corporation. The barge-mounted floating power plants have a total installed capacity of 242 MW. The barges have undergone rehabilitation starting July 2011, and on November 12, 2013, have started commercial operations at the capacity of 100 MW. The current dependable capacity of 204 MW of the barges was attained and proven in a successful capacity test in April 2015.

### **Unified Leyte Geothermal Power Plant**

In 2013, Aboitiz Energy Solutions, Inc. (AESI) won 40 strips of energy corresponding to 40 MW capacity of Unified Leyte Geothermal Power Plant (ULGPP). The notice of award was issued to AESI on 29 January 2014, and this allowed AESI to sell 40 MW of geothermal power from ULGPP beginning 1 January 2015.

### **Ownership and Equity Interests in Distribution Companies**

In a share swap agreement with AEV on 20 January 2007, AboitizPower issued a total of 2,889,320,292 of its common shares in exchange for AEV's ownership interests in the following Distribution Utilities, as follows:

1. An effective 55% equity interest in VECO, the second largest privately-owned distribution utility in the Philippines in terms of customers and annual GWh sales and the largest distribution utility in the Visayas region;
2. 100% equity interest in each of Davao Light and Cotabato Light. Davao Light is the third largest privately owned distribution utility in the Philippines in terms of customers and annual GWh sales;
3. An effective 64% ownership interest in Subic EnerZone Corporation (SEZ), which manages the Power Distribution System (PDS) of the Subic Bay Metropolitan Authority (SBMA); and
4. An effective 44% ownership interest in San Fernando Electric Light and Power Co., Inc. (SFELAPCO), which holds the franchise to distribute electricity in the city of San Fernando, Pampanga, in Central Luzon and its surrounding areas.

On 8 June 2007, as part of the reorganization of the power-related assets of the Aboitiz Group, the Company acquired 100% interest in Mactan Enerzone Corporation (MEZ) from its Affiliate, Aboitiz Land, Inc. (AboitizLand). MEZ owns and operates the PDS in MEPZ II in Mactan Island in Cebu. The Company also acquired 60% interest in Balamban Enerzone Corporation (BEZ), which owns and operates the PDS in West Cebu Industrial Park-Special Economic Zone (WCIP-SEZ) in Balamban, in the eastern part of Cebu. The Company also consolidated its ownership interests in SEZ by acquiring the combined 25% interest in SEZ held by AEV, SFELAPCO, Okeelanta Corporation (Okeelanta) and Pampanga Sugar Development Corporation (PASUDECO). These acquisitions were made through a share swap agreement, which involved the issuance of the Company's 170,940,307 common shares issued at the initial public offering (IPO) price of ₱5.80 per share in exchange for the foregoing equity interests in MEZ, BEZ and SEZ.

In 2007, AboitizPower entered into an agreement to buy the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with the 35% equity in SEZ of AboitizPower's Subsidiary, Davao Light, this acquisition brought AboitizPower's total equity in SEZ to 100%.

In 2008, AboitizPower bought the 40% equity ownership of Tsuneishi Holdings (Cebu), Inc. (THC) in BEZ for approximately ₱178 mn. The acquisition brought AboitizPower's total equity in BEZ to 100%.

## **Developments in the Past Three (3) Years**

### ***Maris Canal Hydropower Plant***

This project, undertaken by SN Aboitiz Power-Magat, Inc. was inaugurated in January 2018. The 8.5MW Maris plant has been operating under the Feed-In Tariff (FIT) System at a rate of P5.8705 kwh/hour starting from its commercial operations date on November 20, 2017.

### ***Naga Power Plant Complex***

On 31 March 2014, Therma Power-Visayas, Inc. (TPVI) was declared the highest bidder for the privatization of the Naga Power Plant Complex (NPPC) located in Colon, Naga City, Province of Cebu. SPC Power Corporation (SPC), the other bidder, exercised its right-to-top (RTT) under the Naga Power Plant Land-Based Gas Turbine Land Lease Agreement (LBGT- LLA), and PSALM declared SPC as the winning bidder.

Senator Sergio R. Osmeña III filed a petition for certiorari and prohibition to enjoin PSALM from implementing SPC's RTT, and to have the said RTT declared null and void. PSALM, SPC and TPVI were impleaded as respondents. In its 28 September 2015 Decision, the Supreme Court cancelled the award to SPC on the finding that SPC's RTT is void for lack of interest or right to the object over which the right to top is to be exercised. The Supreme Court has denied the motions filed by SPC with finality and issued an Entry of Judgment on 9 January 2017. On February 14, 2017, TPVI thru counsel, received a copy of the Entry of Judgment dated January 9, 2017, stating that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and have been recorded in the Book of Entries of Judgment. On 24 May 2018, TPVI received the Certificate of Effectivity (COE) from PSALM to initiate the Company's purchase of the NPPC. The COE implements the Sept. 28, 2015 decision of the Supreme Court, which upheld the April 30, 2014 award of the facility to TPVI. On 16 July 2018, the NPPC was physically turned over and accepted by TPVI.

### ***Pagbilao Unit III***

On 15 May 2014, TPI entered into a joint venture agreement with TPEC Holdings Corporation to form Pagbilao Energy Corporation (PEC). PEC is the project Company that will develop, construct, and operate the 400-MW Pagbilao Unit III, located in the same site as the existing 700-MW Pagbilao Units I and II coal-fired thermal power plant in Pagbilao Quezon. PEC started commercial operations in March 2018.

### ***Issuance of Fixed-Rate Corporate Retail Bonds***

On March 23, 2017, the Board of Directors approved the issuance of fixed-rate corporate retail bonds in the aggregate amount of up to ₱30 bn (the "2017 Bonds"), registered under the shelf registration program of the SEC to be issued in tranches. On May 16, 2017, PhilRatings assigned an issue credit rating of "PRS Aaa" with Stable Outlook for the first tranche of the 2017 Bonds. SEC issued the Order of Registration and Certificate of Permit to Offer Securities for Sale on June 19, 2017. On July 3, 2017, an aggregate amount of ₱3 bn Series "A" Bonds was issued with a fixed interest rate of 5.3367% per annum. The Series "A" Bonds, which will mature on July 3, 2027, were listed with PDEX, allowing the bonds to be traded in the secondary market.

### ***Solar Photovoltaic Power Generation Projects***

In November 2014, the Company, through its holding company for its renewable assets, Aboitiz Renewables, Inc. (ARI), entered into a joint framework agreement with Sun Edison Philippines Helios BV (SunEdison Philippines) to jointly explore, develop, construct, and operate utility scale solar photovoltaic power generation projects in the Philippines for the next three years. The projects intend to swiftly bring cost-effective solar energy to the country. On 18 August 2015, ARI and SunEdison Philippines signed shareholders' agreements to formalize the equity sharing, governance structure, and other terms and conditions of the ARI and SunEdison Philippines partnership in Maaraw Holdings San Carlos, Inc. The joint venture company, San Carlos Sun Power, Inc. (Sacasun), undertook the acquisition, development and exploration of the 59-Megawatt peak (MWp) solar photovoltaic power generation project in San Carlos City, Negros Occidental. On 15 July 2016, ARI issued default notices to its joint venture partner, Sun Edison Philippines Helios BV, in respect of



their project vehicle, Sacasun, due to a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code filed by SunEdison Philippines' parent company, Sunedison, Inc. (SUNE) in early 2016. On 29 December 2016, ARI signed a Memorandum of Understanding (MOU) with BDO Unibank, Inc. (BDO) and Sacasun for the acquisition by ARI of Sacasun's loan from BDO.

In July 2017, a Compromise Agreement was entered into by AboitizPower through its Subsidiary, AboitizPower International, and SunE Solar B.V.'s (SunE Solar), the parent company of SunEdison Philippines. On 4 December 2017, AboitizPower International acquired SunE Solar equity interest in Sunedison Philippines, resulting in the divestment by SUNE and its subsidiaries' participation in the Sacasun Project. On 29 December 2017, AboitizPower International completed its acquisition of SunEdison Philippines.

### ***Davao Coal—Fired Power Plant***

On 18 September 2015, TSI declared full commercial operations of the first of its two 150-MW units of the planned 300-MW circulating fluidized bed coal-fired power plants in Davao del Sur. TSI's Unit 1 delivered contracted power to more than twenty customers consisting of electric cooperatives and distribution utilities all over Mindanao. TSI's Unit 2 started full commercial operations on 2 February 2016.

### ***Equity Interest in Aseagas***

On January 15, 2018, Aseagas announced that its plant would permanently cease operations, after initially suspending its commissioning on November 24, 2017 due to unavailability of supply of organic effluent wastewater from its supplier, Absolut Distillers, Inc.

### ***Ownership Interests in GMCP and GNPD***

On 3 October 2016, TPI was selected as the preferred bidder for the competitive tender process undertaken by certain investment funds affiliated with The Blackstone Group L.P. for the indirect sale of all of their partnership interests in GNPower-Mariveles and GNPower-Dingin. On 4 October 2016, the Purchase and Sale Agreements for the acquisition were finalized, which resulted in TPI acquiring an 82.8% beneficial ownership interest in GNPower-Mariveles and 50% beneficial ownership interest in GNPower-Dingin. AboitizPower's effective ownership interest in GNPower-Mariveles will ultimately be reduced from 82% to 66.1% and in GNPower-Dingin from 50% to 40%, after GNPower-Mariveles and GNPower-Dingin respectively returns a portion of the equity contributions of AboitizPower in each partnership. The acquisition was completed on 27 December 2016, upon receipt of the approvals from the PHCC and the BOI.

On 26 September 2018, the Company entered into a share purchase agreement with Arlington Mariveles Netherlands Holding BV, an affiliate of AC Energy, Inc. ("AC Energy"), and a shareholders' agreement with AC Energy, a wholly-owned subsidiary of Ayala Corporation, for the proposed acquisition of a 49% voting stake and 60% economic stake in AA Thermal, Inc., AC Energy's thermal platform in the Philippines (the "Transaction"). However, closing of the Transaction is still subject to the satisfaction of certain conditions precedent, including the approval by the PHCC. The Transaction was valued at USD 579.2 million. AA Thermal's assets initially consist of AC Energy's limited partnership interests in GNPower-Mariveles and GNPower-Dingin. Upon closing, the agreement will increase the Company's beneficial ownership in the Mariveles Project to 78.325%, and in the Dingin Project to 70%.

## **COMPETITIVE STRENGTHS AND BUSINESS STRATEGY**

The Company believes that its principal strengths are the following:

### **Strong track record in both power generation and distribution.**

*Power generation.* The Company, through its Subsidiaries and Affiliates, has extensive experience in developing, financing, building and operating power generation facilities throughout the Philippines. The Company is one of the largest Filipino-owned private power producers in the country. The Company believes its extensive experience in all aspects of power generation places it in an excellent position to capture future

market share in the Philippine power generation industry.

*Power distribution.* Through its affiliation with the Aboitiz Group, with more than 70 years of experience in the Philippine power distribution sector, the Company has a track record of efficiently operating and maintaining power distribution utilities in two of the largest electricity markets in the Philippines, Cebu City and its surrounding areas and Davao City. Continuous efforts are being made to improve reliability and increase efficiency by instituting standardized operating systems and processes and introduced automated systems. Aside from that, the Company is also known for finding innovative ways in improving certain aspects of the business. One outstanding example of that is the Interruptible Load Program (ILP) of VECO and Davao Light. The ILP program is considered to be a major factor in reducing the negative effects of supply deficits; a win-win approach the benefits the consumer by tapping the spirit of volunteerism among the local business community while compensating them almost entirely for running their own generators.

### **Ability to take advantage of expected strong power market fundamentals.**

According to the DOE for the period from 2012 to 2020, growth in demand for electricity in the Luzon, Visayas, and Mindanao grids increase at an average annual growth rate of 4.13%, 4.52% and 4.57% respectively. As an established and reputable operator of IPPs, the Company believes that its portfolio of generation facilities will allow it to benefit from the continued economic development of the Philippines. The Company is well-positioned to provide a number of energy-related services, such as baseload, peaking, and reserve power requirements.

### **Vertically-integrated power generation and distribution Company.**

Being a vertically integrated power company allows AboitizPower the opportunity to compete and maximize value in the key segments of the power industry value chain by driving and capitalizing on the synergies between Generation and Distribution. The customer relationships built over the last 70 years by the distribution business allows the Company direct customer contact and a ready base market for its Greenfield and acquisition targets. Today, this synergy is already being maximized with AboitizPower expanding its capacity base in support of the increasing requirements of AboitizPower's Distribution Companies.

### **Power generation contracts that provide steady and predictable cash flow.**

As of December 2017, 57% of the attributable net sellable capacity of the Company are under long-term capacity based contracts. The Company believes that these contracts will provide steady cash flows in the medium and long-term from a variety of offtakers including distribution utilities and contestable customers under the Open Access regime. In particular, the Generation Companies have existing bilateral contracts that require offtakers to either pay for available capacity (in the case of the majority of the Company's baseload and oil plants) or to pay for all the electricity generated by the relevant plant (in the case of the bulk of the Company's run-of-river hydroelectric plants). A number of plants also have contracts that do not take fuel risk either because of direct pass-through mechanisms in their respective PPAs or fuel is supplied by their offtakers.

### **Benefits and low operating costs from renewable energy and renewable energy sources.**

**Operating leverage.** Since the Company's run-of-river hydroelectric power generation facilities rely on natural water flow to generate electricity, they are not exposed to market fluctuations in the price of hydrocarbon fuels. Further, hydroelectric plants, such as the 360 MW Magat plant and 231 MW Ambuklao-Binga plants, have relatively quick ramp-up and ramp-down capabilities. The Company's Magat and Ambuklao-Binga plants can provide multiple ancillary services to the Luzon Grid, such as frequency regulation, acting as a spinning reserve and providing back-up power.

**Other benefits from renewable energy.** Electricity sales from generating facilities using renewable energy sources, such as the Company's hydroelectric facilities, are "zero-rated" for purposes of VAT. This means that the Generation Companies are not required to include the VAT as part of the rates they charge offtakers but are allowed to claim as tax credit the amount of VAT that they are required to pay to their suppliers.

Further, because the Company has a number of run-of-river hydroelectric facilities located in different regions of the Philippines, the Company believes it has a natural hedge against the risk of hydrological conditions in one area of the Philippines affecting all of the Company Run-of-river facilities.

Republic Act No. 9513, the Renewable Energy Act is intended to give additional incentives to the Generation Companies, which will in turn translate to lower operating costs. The law provides fiscal and non-fiscal incentives, including income tax holiday for a period of seven (7) years, duty-free importation, and special rates on real property taxes among others. See the section entitled "*The Renewable Energy Act of 2008*" on page 234 of this Prospectus.

### **Dependable and growing sources of income from its power distribution businesses.**

The Company's ownership interest in the Distribution Companies is expected to continue to provide stable sources of revenues. With VECO and Davao Light as the second and third largest privately-owned distribution utilities in the Philippines in terms of both customers and annual GWh sales forming part of the Company's distribution portfolio, the Company is well-positioned to benefit from increases in electric consumption in two of the largest electricity markets in the Philippines as economic activity in these markets increases.

### **Strong financial position and the ability to obtain limited recourse and corporate level financing.**

The Company believes that its strong financial position enables it to implement its strategy of expanding its generation portfolio through selective acquisitions and Greenfield projects, while at the same time improving the operation performance and efficiency of the Distribution Companies. The Company's strong balance sheet supports its growth plans. The Company, through the Generation Companies and the Distribution Companies, has also consistently been able to secure bank financing from leading Philippine and multinational banks.

### **Established relationships with strategic partners.**

The Company has established a strategic partnership to own and operate the Magat and Ambuklao-Binga hydroelectric plants with SN Power, which is a leading renewable energy Company with projects and operations in Asia, Africa and Latin America. Aside from this, AboitizPower has also established partnerships with the likes of STEAG GmbH, Global Power, Meralco, and TeaM Energy, which are recognized names in their respective industries. The Company remains open to strategic partnerships in the pursuit of exploratory projects.

The Company believes that it can build on its relationships with these partners to enhance its ability to compete for, develop, finance and operate future power generation projects.

### **Strong and experienced management team.**

The Company is led by a seasoned management team with a track record of hands-on management in the complex power generation and distribution business. The management team is not only tenured but has in depth technical and financial expertise to meet the challenges of this fast growing business. In line with this, further domain expertise has been integrated in Trading, Marketing, Energy Economics, Assets and Contracts Management, Business Development, Environment and Construction among others. As a result, AboitizPower posts sustained positive growth and an equally strong financial performance.

As a leader of this industry, the Company's management team is in constant collaboration and communication with regulatory bodies such as the DOE and ERC. Hand in hand with various energy stakeholders on a national and local level, the management team works to promote good business practices and the interests of the public. With over 100 years in business, the Company knows that the strength of the business not only rests in operational expertise but in the reputation of the Company as it meets its obligations to its various stakeholders.

AboitizPower is committed to becoming a critical enabler in the country's development.

## BUSINESS STRATEGY

The Company's business strategy is to increase shareholder value by developing new generation projects, selectively acquiring existing generating facilities, expanding its electricity-related services, improving the operational efficiency of its existing generation and distribution facilities, and maximizing its contestable market share. More specifically, the Company's strategy includes the following:

### **1. Expand the Company's generation portfolio**

The Company will expand its generation portfolio to support the country's growing energy needs. Its target is to reach 4,000 MW of attributable net sellable capacity by 2020. To achieve this, the Company's current plans include:

**Developing Greenfield and Brownfield Projects.** AboitizPower, together with its Subsidiaries and Associates, is in various stages of construction of its greenfield and brownfield projects.

300-MW CFB Coal-Fired Project in Toledo City, Cebu. This project is undertaken by Therma Visayas, Inc. (TVI), a partnership between AboitizPower and Vivant. The 2x170-MW coal-fired power plant is in the testing and commissioning phase, but is experiencing technical issues with turbines that will delay commercial operation date (COD) of the first unit to December 2018 and the second unit to first quarter of 2019.

68-MW Manolo Fortich Hydropower Plant in Bukidnon. The project is undertaken by Hedcor Bukidnon, Inc. The COD of Plant 1 (43.4-MW) was achieved in early July, and Plant 2 (25.4-MW) is expected to reach COD in September 2018 once the final tunnel lining works are completed. The plant is expected to operate under the Feed-in-Tariff (FIT).

2x668-MW Supercritical Coal-Fired GN Power Dinginin in Bataan. This project is undertaken by GNPowder Dinginin Ltd. Co., a partnership composed of Therma Power, Inc. (TPI), AC Energy Holdings, Inc., a wholly-owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. Both Unit 1 and Unit 2, each of 668-MW, are under construction, with targeted commercial operations expected to commence in 2019 and 2020, respectively.

600-MW CFB Coal-Fired Power Plant in Subic. This project is undertaken by Redondo Peninsula Energy, Inc. (RP Energy), a joint venture among Meralco PowerGen Corporation (MPGC), Aboitiz subsidiary Therma Power, Inc. (TPI) and Taiwan Cogeneration International Corporation (TCIC). The project involves the construction and operation of a 2 x 300 MW (net) circulating-fluidized-bed (CFB) coal-fired power plant. On April 20, 2016, RP Energy entered into a Power Service Agreement (PSA) with Manila Electric Company (Meralco) for a contracted capacity of 225 MW within a 20-year term. This PSA was filed for approval with the Energy Regulatory Commission (ERC) on April 29, 2016. Public hearings were subsequently held, and were concluded on January 6, 2017. On April 10, 2018, RP Energy and Meralco agreed to extend the longstop date of the PSA for a period of six (6) months or from April 29, 2018 to October 29, 2018. If the ERC does not approve the PSA by October 29, 2018, RP Energy would then have the option to terminate the PSA. To date, RP Energy is still awaiting the ERC's PSA approval.

390-MW Alimit Hydropower Complex in Ifugao. SN Aboitiz Power-Ifugao, Inc. (SN AboitizPower-Ifugao), is in the process of developing the Alimit Hydro Power Complex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility, and the 20-MW Olilicon hydropower. The affected municipalities are Aguinardo, Lagawe, Lamut, and Mayoyao. The development is still in the feasibility study phase, including the permitting process. Due to market constraints, the technical studies of the pumped storage facility have been temporarily suspended. An important component of the feasibility review is the Free Prior and Informed Consent from the indigenous peoples. SN AboitizPower-Ifugao will continue working with the government, indigenous peoples' representatives, and industry partners.

19-MW La Trinidad Hydropower Plant in La Trinidad, Benguet. This project is undertaken by Hedcor, Inc. It is currently under construction with targeted COD by the second half of 2019. The plant is expected to operate under the FIT.

Hydro in the Philippines. Hedcor continually explores hydropower potentials located in Luzon and Mindanao. Based on exploration, Hedcor sees the potential of building plants with capacities ranging from 20 MW to 70 MW. When the projects pass the evaluation stage and once permits are secured, the construction period for the hydropower plant facilities will commence.

Hydro in Indonesia. AboitizPower entered into an agreement with SN Power AS and PT Energi Infranasantara to participate in the feasibility studies for the exploration and development of a potential 127 MW hydropower generation project along the Lariang River in Central Sulawesi, Indonesia. The project company, PT Auriga Energi, was awarded the basic license to develop the project. It is and is currently conducting pre-feasibility studies.

Solar in the Philippines. AboitizPower is continuously looking for opportunities in the solar space.

**Participating in the Government's Privatization Program for its Power Assets.** AboitizPower continues to closely evaluate the investment viability of the remaining power generation assets that PSALM intends to auction off.

AboitizPower is also keen on participating in PSALM's public auction for the Independent Power Producer Administrator (IPPA) contracts, which involves the transfer of the management and control of total energy output of power plants under contract with National Power Corporation (NPC) to the IPP administrators.

Naga Power Plant Complex. On April 30, 2014, Power Sector Assets and Liabilities Management (PSALM) issued a Notice of Award to AboitizPower subsidiary, Therma Power Visayas, Inc. (TPVI), for submitting the highest bid amounting to P1.08 bn. TPVI received the Certificate of Effectivity (COE) from PSALM last May 24, 2018. Thereafter, on July 16 2018 TPVI took possession of the power plant complex. The facility is currently being assessed for maintenance and rehabilitation works.

**Acquiring Additional Power Generation Assets.** AboitizPower will pursue opportunities to acquire existing power generation assets that are offered for sale, if they add value to its existing generation business.

## **2. Contract the bulk of the Company's attributable net sellable capacity**

In the past, AboitizPower used to generate the bulk of its sales through energy-based contracts in the form of transition supply contracts inherited by the Company when it won its bids for several assets previously owned by the Philippine government. As these contracts expired, AboitizPower embarked on a deliberate shift from energy-based to capacity-based contracts to allow AboitizPower to benefit from more stable and predictable cash flows. In view of growing competition, the strategy has shifted to contracting as much of its attributable net sellable capacity as possible, with the end goal of optimizing its highly diversified fuel portfolio.

## **3. Expand the scope of the Company's distribution business and continue to improve the operational efficiency of its existing distribution assets**

AboitizPower currently owns eight distribution utilities, including the country's second and third largest distribution utilities in the country. Its target is to reach 12 TWh of energy sales to distribution and retail customers (see section on "Retail Electricity And Other Related Services" on page 102 of this Prospectus). To achieve this, the current plans for the distribution business include:

*Expanding AboitizPower's distribution business.* AboitizPower intends to explore opportunities to expand its portfolio of distribution companies by either acquiring additional distribution utilities or cooperatives; or by entering into agreements to manage distribution utilities or systems.

*Improving the performance of the distribution utilities.* AboitizPower will focus on improving the distribution utilities' level of service and lowering their operating costs by maximizing synergies with the generation units and across the distribution utilities and by investing in new systems that will allow the distribution utilities to be more efficiently managed. The Company believes that a strong distribution business of sufficient scale will continue to provide a springboard for the Company's strategies in electricity generation and electricity-related services.

#### **4. Maximize contestable market share through Retail Energy Supply Subsidiaries**

The implementation of Open Access presents an opportunity to the Company, as it has two wholly owned subsidiaries (i.e. AESI and AdventEnergy, Inc.) that are licensed RES, which can enter into contracts with entities that qualify as eligible contestable customers. These contracts can be served from uncontracted capacities of the Company's generating assets. AP's target is to maximize its contestable market share, and contract a total capacity of 800 MW by 2020.

#### **5. Maintain a high level of social responsibility in the communities in which the Company operates.**

The Company aims to conduct its business operations consistent with the highest standards of social responsibility and sustainable development, particularly in terms of environmental responsibility. The Company has actively participated in the development of the communities where its projects are located, which contribute to social and political stability in the areas where the Company operates. The Company also contributes a portion of its revenues to local government units to fund community development activities in the areas of education, health care, rural electrification and environmental protection. By continuing to strengthen its relationships with the local communities where it does business and build support and goodwill among the residents, non-governmental organizations, local government units and other stakeholders, the Company believes that it increases the likelihood that it will benefit from political and social stability in the areas where it operates.

## **PRINCIPAL PRODUCTS**

### **Generation of Electricity**

Since its incorporation in 1998, AboitizPower has accumulated interests in both renewable and non-renewable generation plants. As of 31 December 2017, the power generation business accounted for 80% of earning contributions from AboitizPower's business segments. AboitizPower conducts its power generation activities through the Subsidiaries and Affiliates listed in the table below.

The table below summarizes the Generation Companies' operating results as of 31 December 2017, compared with the same period in 2016 and 2015:

Generation Companies	Energy Sold			Revenue		
	2017	2016	2015	2017	2016	2015
	(in GWh)			(in mn Pesos)		
APRI	2,747	2,688	2,643	11,645	10,334	10,714
Hedcor	162	140	154	822	782	800
LHC	272	263	248	774	801	712
Hedcor Sibulan	259	189	212	1,591	1,131	1,260
Hedcor Tudaya	41	30	33	240	180	187
Hedcor Sabangan	55	28	39	325	166	228
SN Aboitiz Power-Magat	1,324	923	762	8,298	6,308	6,223
SN AboitizPower-Bengue	989	867	819	6,996	6,307	6,549
TLI	5,126	5,091	5,124	22,939	19,661	20,455
TSI*	1,647	1,640	436	10,535	8,869	1,745
Cebu Energy	1,724	1,723	1,713	8,752	7,966	8,109
STEAG Power	1,212	1,605	1,671	4,255	4,706	4,811
WMPC	221	355	644	1,439	1,636	1,430

Generation Companies	Energy Sold			Revenue		
	2017	2016	2015	2017	2016	2015
	(in GWh)			(in mn Pesos)		
SPPC	50	155	292	524	633	709
CPPC	141	146	159	1,484	1,292	1,465
EAUC	63	90	117	844	725	936
TMI	182	917	1,205	2,076	4,268	6,437
TMO	286	336	308	3,111	2,911	3,231
Davao Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral
Cotabato Light**	0	0	0	Revenue Neutral	Revenue Neutral	Revenue Neutral

\* Operations for Unit 1 started only in 2015.

\*\*Plants are operated as stand-by plants and are revenue neutral, with costs for operating each plant recovered by Davao Light and Cotabato Light, as the case may be, as approved by the ERC.

## Renewable Energy

### Aboitiz Renewables, Inc. (ARI)

Since the start of its operations in 1998, AboitizPower has been committed to developing expertise in renewable energy technologies. AboitizPower's management believes that due to the growing concerns on the environmental impact of power generation using traditional fossil fuel energy sources, greater emphasis should be placed on providing adequate, reliable and reasonably priced energy through innovative and renewable energy technologies such as hydroelectric and geothermal technologies. As such, a significant component of the AboitizPower's future projects is expected to focus on those projects that management believes will allow the Company to leverage its experience in renewable energy and help maintain the AboitizPower's position as a leader in the Philippine renewable energy industry.

As one of the leading providers of renewable energy in the country, AboitizPower holds all its investments in renewable energy through its wholly owned Subsidiary, ARI. AboitizPower, either directly and/or through ARI, owns equity interests in the following generation companies.

### Geothermal

#### AP Renewables Inc.

Incorporated on March 9, 2007, APRI is one of the leading renewable power companies in the country. It is one of the country's leading renewable power companies. It acquired the Tiwi-MakBan geothermal facilities located in Tiwi, Albay, Bay and Calauan both in Laguna, and Sto. Tomas, Batangas from PSALM in July 2008. These geothermal facilities, with a total potential capacity of 693.2 MW, were formally turned over to APRI on 25 May 2009.

The Tiwi-MakBan Plants produce clean energy that is reasonable in cost, efficient in operation and environment- friendly. As a demonstration of APRI's commitment to providing world class services, adhering to environmental management principles to reduce pollution, complying with regulations, and ensuring a safe and healthy workplace, the Company was issued Integrated Management System (IMS) certifications by TÜV Rheinland Philippines, which include International Organization for Standardization (ISO) 9001:2015, ISO 14001:2015 (Environment), and OSHAS (Occupational Health and Safety Series) 18001:2007 (Health and Safety).

In 2013, APRI and PGPC entered into an Interim Agreement amending the GRSC to modify the steam price formula. This agreement resulted in a more rational fuel costing during off-peak hours when electricity demand is low. APRI and PGPC continue to discuss the merit and feasibility of mutually beneficial steam off-take arrangements. The GRSC will expire on 30 September 2021. On 24 August 2018, APRI and PGPC signed a Geothermal Resources Supply and Services Agreement ("GRSSA") to supersede the GRSC and IA. Under the GRSSA, the parties will transition within three years from effective date of 26 August 2018 from the current

hybrid coal-indexed and market pricing to full market price at equal sharing. In addition to fuel pricing rationalization, the GRSSA imposes obligation on the part of PGPC to deliver incremental steam capacity of minimum 50 MW and additional twelve (12) production wells. The GRSSA effective date will run until the expiration of APRI's initial DOE operating contracts term on 22 October 2034.

APRI's geothermal facilities have generally operated at par or better than industry standards. The Company routinely evaluates and implements various projects while improving coordination with PGPC to improve efficiency levels and counteract the challenges of a declining steam supply.

APRI, a wholly-owned Subsidiary of ARI, is effectively 100% owned by AboitizPower.

## ***Large Hydros***

### **SN Aboitiz Power – Magat, Inc.**

SN Aboitiz Power-Magat is ARI's joint venture with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa and Latin America. SN Aboitiz Power-Magat is 60% owned by MORE. SN Power Invest Netherlands BV (SN Power Netherlands) owns the remaining 40% of SN Aboitiz Power-Magat. On 14 December 2006, SN Aboitiz Power-Magat won the bid for the 360-MW Magat HEPP (Magat Plant) conducted by PSALM.

The Magat Plant, which is located at the border of Ramon, Province of Isabela and Alfonso Lista, Ifugao in Northern Luzon, was completed in 1983. As a hydroelectric facility that can be started up in a short period of time, the Magat Plant is ideally suited to act as a peaking plant with the capability to capture the significant upside potential that can arise during periods of high demand. This flexibility allows for the generation and sale of electricity at the peak demand hours of the day. This hydroelectric asset has minimal marginal costs, granting its competitive advantage in terms of economic dispatch order versus other fossil fuel-fired power plants that have significant marginal costs.

The Magat reservoir has the ability to store water equivalent to 17 days of 24 hours of full generating capacity. The Magat Plant's source of upside - water as a source of fuel and the ability to store it - is also its source of limited downside. SN Aboitiz Power-Magat is an accredited provider of much needed Ancillary Services (AS) to the Luzon grid. It sells a significant portion of its available capacity to the System Operator of the Luzon grid. SN Aboitiz Power-Magat's remaining capacity is sold as electric energy to the spot market through the WESM and to load customers through bilateral contracts.

On December 2015, ERC approved the renewal of SN Aboitiz Power-Magat's COC for all four 90-MW units of the Magat Plant. The COC is valid for five years or until November 28, 2020.

The RESC for the Magat Plant was signed on June 2, 2016. This made SN Aboitiz Power-Magat eligible for the incentives provided under the RE Law. Specifically, SN Aboitiz Power-Magat elected to avail the 10% corporate income tax rate incentives provided under the RE Law. A series of extensive stakeholder engagement activities was successfully conducted to mitigate the impact of the change from national wealth tax to government share on host local government units to ensure a smooth transition.

The Maris Canal Hydropower Plant Project involved the construction of an 8.5-MW run-of-river hydropower plant in Ramon, Isabela. The project broke ground in late 2015 and was inaugurated in January 2018.

SN Aboitiz Power-Magat has sustained the implementation of its Integrated Management System (ISO 14001 Environmental Management System, ISO 9001 Quality Management System, and OHSAS 18001 Occupational Health & Safety Management System), as verified and audited by the certification body last August 2016. SN Aboitiz Power-Magat was given the Corporate Safety and Health Excellence Award during the 12th Energy Safety and Health Conference, an award given to companies with outstanding workplace safety and health performance.

SN Aboitiz Power-Magat is ARI's joint venture with SN Power, a leading Norwegian hydropower company with projects and operations in Asia, Africa, and Latin America. MORE owns 60% of the company while SN Power



Philippines Inc. (SN Power Philippines) owns the remaining 40%.

### **SN Aboitiz Power – Benguet, Inc.**

Incorporated on March 12, 2007, SN Aboitiz Power-Benguet is the owner and operator of the Ambuklao-Binga Hydroelectric Power Complex, which consists of the 105-MW Ambuklao HEPP ("Ambuklao Plant") and the 140-MW Binga HEPP ("Binga Plant"), located in Brgy. Tinongdan, Itogon, Benguet Province.

On November 28, 2007, SN Aboitiz Power-Benguet submitted the highest bid to PSALM for the Ambuklao-Binga Hydroelectric Power Complex, which then consisted of the 75-MW Ambuklao Plant and the 100-MW Binga Plant. The Ambuklao-Binga hydroelectric power complex was turned over to SN Aboitiz Power-Benguet on July 10, 2008. SN Aboitiz Power-Benguet began a massive rehabilitation project that restored the Ambuklao Plant to operating status and increased its capacity from 75 MW to 105 MW. The Ambuklao Plant had been decommissioned since 1999 due to siltation and technical issues as a result of the massive earthquake in 1990. Rehabilitation was completed, and re-operation of the Ambuklao Plant commenced in 2011 as a 105-MW plant. On the other hand, the Binga Plant also underwent refurbishment that began in 2010 and was completed in 2013. This refurbishment increased the Binga Plant's capacity to 125 MW. It is now capable of generating up to 140 MW.

In April 2015, SN Aboitiz Power-Benguet received its amended COC from the ERC for all four units of the Binga Plant. The amended COC reflects the increase of Binga's capacity from 125.8 MW (31.45 MW for each of the four units) to 140 MW (35 MW for each unit), following uprating work that began on 2 December 2014 and was completed on 23 February 2015. The uprating was a result of commissioning tests which show that the Binga Plant could generate as high as 35 MW at "rated head" or the water depth for which a hydroelectric generator and turbines were designed. The Binga Plant was uprated to its maximum capacity without major technical changes to existing equipment.

The RESCs for the Ambuklao and Binga Plants were signed on June 2, 2016 and June 24, 2016, respectively. This made SN Aboitiz Power-Benguet eligible for the incentives provided under the RE Law. Specifically, SN Aboitiz Power-Benguet elected to avail the 10% corporate income tax rate incentives provided under the RE Law. The Binga Plant has previously obtained an ITH extension from the BOI that was effective until August 11, 2015. The Ambuklao Plant also obtained an ITH extension on February 26, 2013, which is valid until June 30, 2018. A series of extensive stakeholder engagement activities was successfully conducted to mitigate the impact of the shift from national wealth tax to government share on host local government units to ensure a smooth transition.

The ASPA for the Ambuklao Plant entered into on March 2013 between SN Aboitiz Power - Benguet and NGCP expired on 26 July 2016 (2013 ASPA). On 24 August 2016, the company and NGCP jointly filed a new ASPA with the ERC. The parties agreed to extend the 2013 ASPA pending issuance by the ERC of a Provisional Authority or Final Approval of the new ASPA. On 5 December 2016, the ERC issued a letter granting the issuance of a Provisional Authority for the implementation of the ASPA for the Ambuklao Plant effective 26 December 2016. The new ASPA is valid for five years from effectivity date under the same terms and conditions as the 2013 ASPA, and has firm contracted capacities covering regulating and contingency reserves of 30 MW to 82 MW depending on the month of the year.

The Ambuklao Plant's total sold capacity in 2017 increased by 17% at 816 GWh in 2017 as compared to 696 GWh in 2016, mainly due to higher AS capacity approval. This is equivalent to sold capacity factor of 89% in 2017, as compared to 76% in 2016. The Binga Plant's total sold capacity from spot energy generation and AS in 2017 increased by 3% at 1.18 GWh as compared to 1.14 GWh in 2016. This is equivalent to sold capacity factor of 96% in 2017 compared to 93% in 2016.

Both Ambuklao and Binga Plants have sustained the implementation of its Integrated Management System (ISO 14001 Environmental Management System, ISO 9001 Quality Management System, and OHSAS 18001 Occupational Health & Safety Management System) and have retained the management system certificates. This was verified and audited by the certification body in March 2016.

The Ambuklao and Binga Plants were also the recipients of numerous awards, such as the 2016 Gawad ng

Kaligtasan at Kalusugan (GKK) Award given by the Department of Labor and Employment (DOLE); the Corporate Safety and Health Excellence Award for the outstanding workplace safety and health performance of the plants; and the 2017 SHAPES Corporate Safety and Health Excellence Awards, among others.

As of 31 December 2017, SN Aboitiz Power-Benguet has contributed ₱3.3B of revenue in terms of BCQ, representing 759 GWh in volume. SNAP-Benguet accounts for 47% of total SNAP Group BCQ volume and 48% of total SNAP Group BCQ revenue. SNAP-Benguet's BCQ revenue contribution is 4% of SNAP's total revenue.

SN Aboitiz Power-Benguet is also a joint venture between ARI and SN Power. The company is 60% owned by MORE, while the remaining 40% is owned by SN Power Philippines.

### ***Run-of-River Hydros***

#### **Luzon Hydro Corporation**

Up until May 10, 2011, LHC was ARI's joint venture with Pacific Hydro of Australia, a privately-owned Australian company that specializes in developing and operating power projects utilizing renewable energy sources, principally water and wind power. On March 31, 2011, ARI, LHC and Pacific Hydro signed a Memorandum of Agreement (MOA) granting ARI full ownership over LHC. ARI assumed full ownership and control of LHC on May 10, 2011. At present, AboitizPower effectively owns 100% of LHC through its wholly owned Subsidiary, ARI.

LHC owns, operates and manages the 70-MW Bakun AC run-of-river hydropower plant located in Amilongan, Alilem, Ilocos Sur (Bakun Plant). The Bakun Plant was constructed and operated under the government's BOT scheme. Energy produced by the Bakun Plant, approximately 254 GWh annually, is delivered and taken up by NPC pursuant to a Power Purchase Agreement (the Bakun PPA) and dispatched to the Luzon grid through the 230-kV Bauang-Bakun transmission line of NGCP. Under the terms of the Bakun PPA, all of the electricity generated by the Bakun Plant will be purchased by NPC for a period of 25 years from February 2001. The Bakun PPA also requires LHC to transfer the Bakun Plant to NPC in February 2026, free from liens and without the payment of any compensation by NPC.

The IPPA contract for the Bakun Plant was awarded to Northern Renewables (formerly: Amlan Power Holdings Corporation) following a competitive bidding process conducted by PSALM.

LHC completed the rehabilitation of approximately 900 meters of unlined tunnel of the Bakun Plant on September 2012. The company has also replaced two 15-year old power transformers last February 2016 to improve reliability and to enable it to continuously produce clean and renewable energy to the Luzon Grid.

AboitizPower, through ARI, effectively owns 100% of LHC.

#### **Hedcor, Inc.**

Hedcor, a wholly owned Subsidiary of ARI, is effectively 100% owned by AboitizPower. It was incorporated on 10 October 1986 by ACO as the Baguio-Benguet Power Development Corporation. ARI acquired ACO's 100% ownership interest in Hedcor in 1998.

In 2005, ARI consolidated all of its mini-hydroelectric generation assets, including those developed by HEDC and Cleanergy, in Hedcor. As a result, Hedcor owns, operates and manages run-of-river hydropower plants in northern Luzon and Davao with a combined installed capacity of 44 MW. The electricity generated from Hedcor's hydropower plants are taken up by NPC, Adventenergy and Davao Light pursuant to Power Purchase Agreements (PPAs) with the said off-takers. Irisan 1 which started commercially operating in 2012, is selling under the Feed-in-Tariff (FIT). The remaining electricity is being sold through the WESM.

Northern Luzon's climate is classified as having two pronounced season - dry from November to April and wet for the rest of the year. Due to this classification, generation levels of Hedcor's plants, particularly those located in Northern Luzon, are typically lower during the first five months of each year. During the full years

2016 and 2017, Hecor's hydropower plants generated a total of 145 GWh and 163 GWh of electricity, respectively.

AboitizPower, through ARI, effectively owns 100% of Hedcor.

#### **Hedcor Sibulan, Inc.**

Hedcor Sibulan owns, operates and manages the Sibulan hydroelectric power plants (Sibulan Project). AboitizPower, together with its wholly owned subsidiary, ARI, effectively owns 100% interest in Hedcor Sibulan.

The Sibulan HEPPs have been generating 49.2 MW of clean and renewable energy for Davao since 2010. It is composed of three cascading plants - Sibulan A Hydro which produces 16.5 MW; Tudaya 1 Hydro which produces 6.7 MW; and Sibulan Hydro B which produces another 26 MW by re-using the water from Sibulan A Hydro and Tudaya 1 Hydro. The Certificates of Compliance (COC) for Sibulan Hydro A and B plants were renewed with the ERC on May 18, 2015, and on March 10, 2014 for Tudaya Hydro 1. The energy produced by the Sibulan Project is sold to Davao Light through a Power Supply Agreement (PSA) signed in 2007.

The Sibulan Project is registered as a Clean Development Mechanism project with the United Nations Framework Convention on Climate Change under the Kyoto Protocol. It was issued 575,275 tons of carbon credits since its registration. 172,717 tons of said carbon credits were already sold in the carbon market.

The Sibulan HEPPs were awarded a Renewable Energy Service Contract (RESC) by the Department of Energy (DOE) and are currently enjoying the incentives under the Republic Act No. 9513 or the Renewable Energy Act of 2008 (RE Law). In 2017, Hedcor Sibulan, along with Hedcor Tudaya, obtained the very first ISO 55001:2014 certification which certifies for the Asset Management Standard in the Philippines, proving that the company has an integrated and effective management system for its assets.

AboitizPower, together with its wholly-owned Subsidiary, ARI, effectively owns 100% interest in Hedcor Sibulan.

#### **Hedcor Tudaya, Inc.**

Hedcor Tudaya owns, operates and manages the 7-MW Tudaya Hydro 2 run-of-river hydropower plant in Astorga, Santa Cruz, Davao del Sur. AboitizPower, together with its wholly owned Subsidiary, ARI, effectively owns 100% interest in Hedcor Tudaya. The Tudaya Hydro 2 plant has been commercially operating since March 2014.

Tudaya Hydro 2 is currently selling energy under the FIT mechanism through a Renewable Energy Supply Agreement with Davao del Sur Electric Cooperative, and through a REPA with Transco.

AboitizPower, together with its wholly-owned Subsidiary, ARI, effectively owns 100% interest in Hedcor Tudaya.

#### **Hedcor Sabangan, Inc.**

Hedcor Sabangan owns, operates and manages the 14-MW Sabangan run-of-river hydroelectric power plant in Sabangan, Mountain Province. AboitizPower, together with its wholly owned Subsidiary, ARI, effectively owns 100% interest in Hedcor Sabangan.

The Sabangan plant has been commercially operating since June 2015, and selling under the FIT mechanism through a REPA with Transco.

AboitizPower, together with its wholly-owned Subsidiary, ARI, effectively owns a 100% interest in Hedcor Sabangan.

### **Hedcor Bukidnon, Inc. (Hedcor Bukidnon)**

Hedcor Bukidnon is the project company for the 68.8-MW Manolo Fortich Hydroelectric power project located in Manolo Fortich, Bukidnon. AboitizPower, together with its wholly owned Subsidiary, ARI, effectively owns 100% interest in Hedcor Bukidnon.

This project is composed of the 43.4-MW Manolo Fortich Hydro 1 and the 25.4-MW Manolo Fortich Hydro 2 plants which shall be located in the Province of Bukidnon. Both plants are expected to produce at least 350 GWh annually. The construction of the Manolo Fortich Project began in 2015 with an estimated total project cost of ₱13 bn, began in 2015. Unit 1 and Unit 2 are expected to be completed in 2018.

AboitizPower, together with its wholly owned Subsidiary, ARI, effectively owns a 100% interest in Hedcor Bukidnon.

### ***Solar***

#### **Maaraw Holdings San Carlos, Inc. and San Carlos Sun Power Inc. (Sacasun)**

Sacasun owns and operates the 59-MWp solar photovoltaic power generation plant located in the San Carlos Ecozone, Barangay Punao, San Carlos City, Negros Occidental ("Sacasun Plant"). The project was commissioned on March 9, 2016 and formally inaugurated on April 19, 2016, with the aim of achieving sustainable development and supplying electricity to the Visayas Grid.

As a renewable energy developer, Sacasun intends to fully participate in the renewable energy market and other initiatives which promote utilization of renewable energy resources. The energy generated from the Sacasun Plant benefits more than 8,000 homes within the Visayas Grid and displaces the energy equivalent of 6.5 mn gallons of gasoline or 30,000 tons of coal. Sacasun believes in producing clean energy for sustainable development and inclusive growth of its communities within a shared environment.

Sacasun was initially incorporated on July 25, 2014 as a joint venture between ARI and SunEdison Philippines, a Dutch company. In July 2017, a Compromise Agreement was entered into by AboitizPower through its Subsidiary, AboitizPower International, and SunESolar, the parent company of SunEdison Philippines, wherein AboitizPower International agreed to acquire the entire issued and outstanding shares of SunE Solar in SunEdison Philippines. On December 29, 2017, AboitizPower International completed its acquisition of SunEdison Philippines.

AboitizPower, through its wholly-owned Subsidiaries ARI and AboitizPower International, effectively owns 100% of Sacasun.

#### **Aboitiz Power Distributed Energy, Inc. and Aboitiz Power Distributed Renewables Inc.**

Improvements in technical capabilities and commercial feasibility of distributed energy technologies is of long term strategic importance to AboitizPower. Through its participation in the nascent solar solutions space via the grid-tied rooftop solar power system, AboitizPower Distributed Renewables, Inc. intends to anticipate and reduce potential disruption across the value chain.

Groundwork completed include the attraction of top technical talent for photovoltaic (PV) solar technology such as PV design and structural engineering to set the foundation of developing in-house expertise. In addition, establishing commercial capabilities and exploring synergies with other teams within the Aboitiz Group such as the AboitizPower Retail Electricity Supplier and AboitizPower Distribution Utility customer teams, as well as Aboitiz Land, Inc. (AboitizLand) are in full swing.

Last February 2018, a 100 kW installation for Cebu Praedia Development Corporation, atop the roof of the Aboitiz Corporate Office at Banilad, Cebu was completed. Moreover, an agreement between AboitizLand and AboitizPower Distributed Renewables Inc. to develop a 1.6 MW rooftop solar solution for The Outlets at Lipa in the Lima Technology Center was finalized. While AboitizPower Distributed Renewables, Inc. initially caters to

the robust demand from several business units within the Aboitiz Group to showcase the technology and refine service delivery, a pipeline of customers within the franchise area of distribution utilities as well as contestable customers of the RES are currently being processed.

### ***Non-Renewables***

#### **Therma Power, Inc.**

TPI is a wholly owned Subsidiary of AboitizPower and is the latter's holding company for its non-renewable energy projects. AboitizPower, either directly and/or through TPI, has equity interests in the following generation companies.

#### ***Coal Group***

#### **Therma Luzon, Inc.**

TLI, a wholly owned Subsidiary of AboitizPower, is the first IPPA in the country. On October 1, 2009, it assumed the role of the registered trader of the contracted capacity of the 700-MW (2x350 MW) Pagbilao coal-fired thermal power plant located in Pagbilao, Quezon (Pagbilao Plant or Pag1 and Pag2). As IPPA, TLI is responsible for procuring the fuel requirements of and selling the electricity generated by the Pagbilao Plant. The Pagbilao Plant is owned and operated by TeaM Energy Corporation (TeaM Energy). Under the IPPA Agreement, TLI has the right to receive the transfer of Pag1 and Pag2 at the end of the ECA.

Over the past years, TLI's capacity was contracted to various cooperatives, private distribution utilities, directly connected customers, and an Affiliate Retail Electricity Supplier (RES), AESI. AESI, in turn, sells the power to Contestable Customers under the Retail Competition and Open Access (Open Access) regime. The diversification of the customer base spreads the risk of TLI. Most of these bilateral contracts have terms ranging between two to 20 years. A significant number of TLI's Open Access customers consume most of their energy during off-peak periods. This results in a customer mix with a high load factor.

Currently, TLI is undertaking the necessary procedure to secure its own license to operate as a RES. With this license, TLI will be able to sell, broker, market, and/or aggregate electricity to Contestable Customers and participate in the competitive retail electricity market.

AboitizPower, through its wholly-owned Subsidiary, TPI, effectively owns 100% of TLI.

#### **Pagbilao Energy Corporation**

PEC is 50% owned by TPI and 50% owned by TPEC Holdings Corporation. Consequently, AboitizPower holds 50% effective interest in PEC.

TPI and TeaM Energy entered into a Joint Development Agreement, effective May 31, 2012, to develop, own and operate a third generating unit with a net capacity of 400 MW within the Pagbilao Plant facilities which already provided for the possibility of this new unit. PEC was formed as a separate vehicle for the third unit (Pag3), and is intended to be a separate entity from TLI. PEC is not covered by either TLI's IPPA with PSALM, or TeaM Energy's BOT contract with NPC/PSALM. An Environmental Compliance Certificate (ECC) was issued by the Department of Environment and Natural Resources – Environmental Management Bureau (DENR-EMB) on June 18, 2013.

On May 2014, PEC entered into an Engineering, Procurement and Construction (EPC) contract with a consortium comprised of Mitsubishi Hitachi Power Systems Ltd., Daelim Industrial Co. Ltd., DESCO Inc. and Daelim Philippines Inc. for the project. PEC also signed an Omnibus Agreement to obtain loans and credit accommodations to finance the construction of Pag3 with a consortium of lender-banks in the amount of up to ₱33.31 bn.

PEC started commercial operations in March 2018.

PEC is 50% owned by TPI and 50% owned by TPEC Holdings Corporation. Consequently, AboitizPower has a 50% effective interest in PEC.

#### **Therma South, Inc.**

Incorporated on November 18, 2008, TSI owns and operates the 300-MW (2x150MW) CFB coal-fired power plant located in Barangay Binugao, Toril District, Davao City and Barangay Inawayan, Sta. Cruz, Davao del Sur. AboitizPower, together with its wholly owned Subsidiary, TPI, effectively owns 100% of TSI.

On June 2012, the EPC contract was awarded to the consortium of Black & Veatch and Formosa Heavy Industries Corporation. TSI declared commercial operations for Unit 1 and Unit 2 on September 2015 and February 2016, respectively. Formal inauguration of Unit 2 was held on January 8, 2016, with then President Benigno C. Aquino III as the keynote speaker.

TSI contributes to the continuing growing power requirements of Mindanao by providing stable and cost-effective base load power. TSI has currently contracted out 260 MW of energy and has 22 different approved Power/Energy Supply Agreements with various private distribution utilities and energy cooperatives.

The company seeks to sustain the positive impact it has brought its host communities through various educational, livelihood, and enterprise development programs, benefitting children, students, small and medium business enterprise owners, and most notably its employees.

AboitizPower, through its wholly-owned Subsidiary, TPI, effectively owns 100% of TSI.

#### **Therma Visayas, Inc.**

TVI is the project company for the construction of the 2x150 MW CFB coal-fired power plant located in Barangay Bato, Toledo City, Cebu. AboitizPower together with its wholly owned Subsidiary, TPI, effectively owns 80% of TVI. The remaining 20% is held by Garcia Group through VIGC and VEC.

TVI was incorporated on October 15, 1997 as Vesper Industrial & Development Corporation, a joint venture company of A. Soriano Corporation (Anscor) and Tokuyama Corporation (Tokuyama). In December 2011, AboitizPower through its Subsidiary, TPI, acquired all shares of Anscor and Tokuyama, and thereafter renamed the company to Therma Visayas, Inc. The Garcia Group acquired 20% interest in TVI through subscriptions from its increase in authorized capital stock, which was approved by the SEC on December 23, 2014.

TVI aims to address the increasing power demand of the Visayas grid with provisions for the future addition of a third generating unit. In May 2014, TVI signed an EPC contract with Hyundai Engineering Co., Ltd. and Galing Power Energy Co., Inc. The 2x170-MW coal-fired power plant is in the testing and commissioning phase, but due to technical issues with turbines being experienced, COD of the first unit is delayed to December 2018 and the second unit to first quarter of 2019.

AboitizPower, through its wholly-owned Subsidiary, TPI, effectively owns 80% of TVI. The remaining 20% is held by Vivant Group through VIGC and VEC.

#### **Abovant Holdings, Inc. (Abovant) and Cebu Energy Development Corporation (CEDC)**

Incorporated on 28 November 2007, Abovant is a joint venture company formed to hold investments in Cebu Energy.

Abovant and Global Formosa Power Holdings, Inc. (Global Formosa), a joint venture between Global Business Power Corporation and Formosa Heavy Industries, Inc., formed Cebu Energy to own, operate and maintain a 3x82 MW CFB coal-fired power plant situated within the Toledo Power Complex in Barangay Daanlungsod, Toledo City, Cebu.

In 2012, the Cebu Energy power plant in Toledo City completed its first full year of commercial operations. The first 82 MW unit was commissioned on February 2010, while the second and third units were commissioned in the second and fourth quarter of 2010, respectively. The said power plant provides the much-needed security of the power supply of the province of Cebu and its neighboring province, Bohol.

Abovant is 60% owned by TPI and 40% owned by VIGC of the Garcia Group. Abovant has a 44% stake in Cebu Energy, while Global Formosa owns the remaining 56% stake. Consequently, Aboitiz Power holds 26.4% effective interest in Cebu Energy.

### **Redondo Peninsula Energy, Inc.**

Incorporated on May 30, 2007, RP Energy is the project company that will construct, own, and operate the 2x300-MW (net) coal-fired power plant located in Redondo Peninsula of Subic Bay within the SBFZ, Subic, Zambales.

In July 2012, a Petition for Writ of Kalikasan and Environmental Protection Order was filed against the project with the Supreme Court. The Petition was remanded to the Court of Appeals (CA) for a hearing. The CA denied the issuance of Writ of Kalikasan for lack of merit, but nonetheless, nullified RP Energy's ECC and land lease with SBMA on the grounds of DENR's non-compliance with procedural requirements and SBMA's failure to secure approvals and endorsements from relevant Local Government Units (LGUs). The CA decision became the subject of three Petitions for Review on Certiorari filed by RP Energy, DENR, and SBMA with the Supreme Court. In view of this legal dispute, the commercial operations of the power plant became dependent on the final resolution of the petitions filed with the Supreme Court.

On February 3, 2015, the Supreme Court dismissed the Writ of Kalikasan for insufficiency of evidence and upheld the validity of the December 22, 2008 ECC issued by the DENR in favor of RP Energy, its July 8, 2010 first amendment, and the May 26, 2011 second amendment. The Supreme Court also upheld the validity of the company's Lease and Development Agreement with SBMA.

RP Energy was originally a joint venture between AboitizPower and TCIC. MPGC acquired a majority interest in RP Energy by virtue of a share purchase agreement with TPI on July 22, 2011. AboitizPower, through TPI, and TCIC retained an equal ownership interest in RP Energy of 25% (less one share each).

On April 20, 2016, RP Energy entered into a Power Service Agreement (PSA) with Manila Electric Company (Meralco) for a contracted capacity of 225 MW within a 20-year term. This PSA was filed for approval with the Energy Regulatory Commission (ERC) on April 29, 2016. Public hearings were subsequently held, and were concluded on January 6, 2017. On April 10, 2018, RP Energy and Meralco agreed to extend the longstop date of the PSA for a period of six (6) months or from April 29, 2018 to October 29, 2018. If the ERC does not approve the PSA by October 29, 2018, RP Energy would then have the option to terminate the PSA. To date, RP Energy is still awaiting the ERC's PSA approval.

### **STEAG State Power Inc.**

Incorporated on 19 December 1995, STEAG Power is the owner and operator of a 232-MW (gross) coal-fired power plant located in PHIVIDEC Industrial Estate in Misamis Oriental, Northern Mindanao. The plant was built under a BOT arrangement and started commercial operations on November 15, 2006. STEAG Power has a 25-year PPA with the NPC, which is backed by a Performance Undertaking issued by the Republic of the Philippines.

On 15 November 2007, AboitizPower closed the sale and purchase of 34% equity ownership in STEAG Power from Evonik Steag GmbH (now STEAG GmbH or STEAG), Germany's fifth largest power generator. STEAG and La Filipina Uy Gongco Corporation (LFUGC) currently hold the remaining 51% and 15% equity, respectively, in STEAG Power.

STEAG Power was registered with the BOI as a pioneer enterprise with a six-year ITH incentive. The incentive expired on 14 November 2012. STEAG Power's COC, on the other hand, was renewed by the ERC and is effective until August 2021.

AboitizPower has 34% equity interest in STEAG Power.

### **GNPower Mariveles Coal Plant Ltd. Co.**

GNPower-Mariveles is a private limited partnership organized and established to undertake the development, construction, operation, and ownership of an approximately 2x316MW (net) pulverized coal -fired power plant located in Mariveles, Bataan, Philippines (Mariveles Project).

The Mariveles Project is located within an industrial zone on a 60-hectare coastal site near the port of Mariveles on the Bataan Peninsula of Luzon. The Project site lies near the northern entrance to Manila Bay, providing easy and safe shipping access from the West Philippine Sea.

The Mariveles Project commenced construction after execution of the equity and financing documentation, approval by the relevant government authorities and the initial drawdown under the non-recourse loan on 29 January 2010. It was declared commercially available in the market in 2013 and currently helps alleviate the severe electric capacity shortage in Luzon and Visayas.

The electricity produced by the Mariveles Project is exported through a newly-built high voltage transmission line owned and operated by the NGCP.

Substantially all of the capacity of the Mariveles Project is contracted under long-term power purchase agreements with highly-rated distribution utilities and Contestable Customers.

In October 2016, TPI, a wholly-owned Subsidiary of AboitizPower, entered into Purchase and Sale Agreements for the acquisition of partnership interests held by affiliated investment funds of The Blackstone Group L.P. in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). Following the receipt of approvals from the BOI and the PCC, TPI completed the acquisition of GNPower Mariveles and GNPower Dinginin on December 27, 2016. Effective October 13, 2017, AboitizPower's, through its general and limited partners, sharing percentage on: (i) profits and losses and (ii) distributions, including net distributable liquidation proceeds, in GNPower Mariveles is 66.0749%. In 2018, AboitizPower, through TPI, is restructuring its share ownership structure in GNPower Mariveles. The restructuring involves the transfer of direct ownership of GNPower Mariveles from the offshore subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary subsidiaries that own the GNPower Mariveles shares. After the restructuring, TPI directly owns 66.01% partnership interest in GNPower Mariveles.

Effectively, the partnership interests in GNPower Mariveles are owned by TPI, AC Energy Holdings, Inc. (ACEHI), a wholly- owned Subsidiary of Ayala Corporation, and Power Partners Ltd. Co. (Power Partners).

As of March 31, 2018, AboitizPower, through TPI, effectively owns 66.07% partnership interest in GNPower Mariveles. Upon the closing of the Transaction with AC Energy, the Company's beneficial ownership in the Mariveles Project will increase to 78.325%. Please see discussion of the Transaction under "*Developments in the Past Three (3) Years - Ownership Interests in GMCP and GNPD*" on page 79 of the Prospectus.

### **GNPower Dinginin Ltd. Co. (GNPower Dinginin or GNPD)**

GNPower Dinginin is a limited partnership organized and established on May 21, 2014 with the primary purpose of: (a) developing, constructing, operating, and owning a 1x668 MW (net) supercritical coal-fired power plant to be located at Mariveles, Province of Bataan, with a one-time expansion option of undertaking the development, construction, operation, and ownership of an additional 1x668 MW Unit; (b) generating, selling and trading of electric power, importing machines, equipment, motor vehicles, tools, appurtenant spare parts, coal for fuel, lubricants, cleansing substances, and other necessary and related materials or chemicals; and (c) obtaining, entering into and performing any and all contracts and engaging in any and all transactions consistent with the foregoing purpose.

GNPower Dinginin successfully achieved financial close and started the construction of Unit 1 in September



2016, with target delivery in the first half of 2019. The company also proceeded with the expansion of the power plant last year and successfully achieved its financial closing for Unit 2 in December 2017. To date, GNPowr Dinginin has already signed Power Purchase and Sale Agreements with highly-rated distribution utilities and RES.

GNPowr Dinginin will be constructed in two phases: (i) the first phase is for one 668MW (net) unit (Unit 1) and associated ancillary facilities supporting the full operations of Unit 1; and (ii) the second phase is for an additional identical 668MW (net) unit (Unit 2) and associated ancillary facilities required to support the full operations of Unit 2. The electricity that will be produced by Unit 1 of GNPowr Dinginin will be exported through the existing 230kV high voltage transmission line owned and operated by NGCP. Eventually, energy from Unit 1 and Unit 2 will be exported through NGCP's 500kV high voltage transmission line once completed.

On December 27, 2016, TPI completed the acquisition of the partnership interests held by affiliated investment funds of The Blackstone Group, L.P. in World Power Holdings, L.P. (currently registered as Therma Mariveles Holdings L.P.) and Sithe Global Power, L.P. (currently registered as Therma Dinginin L.P.). The sharing percentage on (i) profits and losses and (ii) distributions of AboitizPower in GNPowr Dinginin, through its general and limited partners, will eventually be reduced to 40%.

In 2018, AboitizPower, through TPI, began restructuring its share ownership structure in GNPowr Dinginin. The restructuring involves the transfer of direct ownership of GNPowr Dinginin from the offshore subsidiaries of TPI to TPI itself, and the eventual dissolution and liquidation of the offshore intermediary subsidiaries that own the GNPowr Dinginin shares. After the restructuring, TPI directly owns a 50% partnership interest in GNPowr Dinginin.

GNPowr Dinginin is co-developed by Power Partners, ACEHI, and TPI. AboitizPower, through TPI, effectively owns a 50% partnership interest in GNPowr Dinginin, as of March 31, 2018. Upon the closing of the Transaction with AC Energy, the Company's beneficial ownership in the Dinginin Project will increase to 70%. Please see discussion of the Transaction under "*Developments in the Past Three (3) Years - Ownership Interests in GMCP and GNPD*" on page 79 of the Prospectus.

## **Oil Group**

### **Therma Marine, Inc.**

TMI owns and operates Power Barges Mobile 1 (previously known as PB 118) and Mobile 2 (previously known as PB 117), which have a total generating capacity of 200 MW. Mobile 1 is currently moored at Barangay San Roque, Maco, Compostela Valley, while Mobile 2 is moored at Barangay Sta. Ana, Nasipit, Agusan del Norte.

TMI assumed ownership of Mobile 1 and Mobile 2 from PSALM on 6 February 2010 and 1 March 2010, respectively, after the successful conclusion of the US\$30 mn negotiated bid for the barges on 31 July 2009. After acquisition, TMI signed a one-year ASPA with NGCP with respect to each barge for the supply of AS consisting of contingency reserve, dispatchable reserve, reactive power support and blackstart capacity for the Mindanao grid. The ASPA involving the power barges is for the supply of 50-MW firm ancillary power to NGCP. The contracts were extended for another year and expired on February 5, 2012 and 1 March 2012 for Mobile 1 and Mobile 2, respectively. The 192.2-MW dependable capacities of TMI are currently being fully contracted and sold to various cooperatives, industrial and commercial customers in Mindanao under Energy Supply Agreements (ESAs), all of which were approved by the ERC. The ESAs were extended with different expiry dates ranging from 2016 to 2018.

TMI was registered with BOI effective May 28, 2010 with a four-year ITH. The ITH validity expired last 27 May 2014. Upon the expiration of the BOI registration, all benefits granted to TMI expired, thus making TMI subject to regular tax rates.

AboitizPower and its wholly-owned Subsidiary, TPI, effectively own 100% of TMI.

## **Therma Mobile, Inc.**

Incorporated on October 20, 2008, TMO owns and operates four barge-mounted power plants located at the Navotas Fish Port, Manila, with an installed generating capacity of 242 MW.

On 27 May 2011, TMO acquired four barge-mounted power plants located at the Navotas Fish Port, Manila. The barge-mounted power plants have an installed generating capacity of 242 MW. AboitizPower together with its wholly owned Subsidiary, TPI, effectively owns 100% of TMO.

The barges have undergone rehabilitation starting July 2011, and on 12 November 2013, have started commercial operations at a capacity of 100 MW. The current dependable capacity of 204 MW of the barges was attained and proven in a successful capacity test in April 2015.

TMO has a pending case with the Philippine Electricity Market Corporation (PEMC) for alleged violation of the Must-Offer Rule of the WESM. It also has a pending case with the ERC for alleged economic and physical withholding of capacity for the months of November and December 2013.

TMO maintains that it did not withhold any capacity for the period covered, as it was physically impossible for TMO to transmit more than 100 MW to MERALCO. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of the limitations of its engines and the 115-Kv transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 25, 2013.

## **East Asia Utilities Corporation**

EAUC is the owner and operator of a Bunker C-fired power plant within Mactan Economic Processing Zone I (MEPZ I), Lapu-Lapu City, Cebu. It has been operating the plant since 1997. The company was formed on 18 February 1993 and began supplying power through the WESM on 26 December 2010. On 26 April 2011, EAUC entered into an Electric Power Purchase Agreement (EPPA) with the Philippine Economic Zone Authority (PEZA) to purchase 22 MW electric power from EAUC.

AboitizPower acquired its 50% ownership interest in EAUC from El Paso Philippines on 20 April 2007. On 14 June 2016, AboitizPower, through TPI, acquired the remaining 50% interest in EAUC from El Paso Philippines through a Share Purchase Agreement.

## **Therma Power Visayas, Inc. (TPVI)**

Incorporated on October 8, 2007, TPVI is the project company that was awarded the winning bid for the privatization of the NPPC 55-MW land-based gas turbine power plant located in Colon, Naga City, Cebu.

In 2009, SPC Power Corporation (SPC) acquired the NPPC through a negotiated bid. In the same year, it entered into a Land Lease Agreement with PSALM, which includes SPC's right to top the price of the winning bidder for the sale of any property in the vicinity of the leased premises.

PSALM subsequently bid out the NPPC located on 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 NPPC. SPC wrote to PSALM of its intent to exercise its right-to-top the winning bid, on the condition that the Land Lease Agreement would be a term of 25 years from closing date. PSALM then awarded the contract to SPC, despite TPVI's objections that SPC did not validly exercise its right-to-top because of its qualified offer.

Senator Sergio R. Osmeña III filed a petition for certiorari and prohibition and to enjoin PSALM from implementing SPC's right to top in connection with the NPPC bidding and to have said right-to-top null and void. PSALM, NPC, and TPVI were impleaded as respondents. In its September 28, 2015 Decision, the Supreme Court cancelled the award to SPC on the finding that SPC's right-to-top is void for lack of interest or right to the object over which the right to top is to be exercised. On March 16, 2016, TPVI filed a Manifestation and Motion before the Supreme Court praying that a resolution be issued by the Supreme Court declaring that the Notice of Award dated April 30, 2014 issued by PSALM in favor of TPVI as the highest bidder of the NPPC be

reinstated and be of full force and effect. This was granted by the Supreme Court.

Subsequently, SPC filed several motions, including a Motion for Leave to File and Admit the attached Motion for Reconsideration dated December 9, 2016, Motion for Reconsideration dated December 9, 2016, and Supplemental Motion/Petition for Referral to the En Banc dated January 16, 2017. These were denied by the Supreme Court in a Resolution dated April 26, 2017.

TPVI is a wholly-owned Subsidiary of AboitizPower.

### **Cebu Private Power Corporation**

Incorporated on 13 July 1994, CPPC owns and operates a 70-MW Bunker C-fired power plant located in the Old VECO Compound, Cebu City. It is one of the largest diesel powered plants on the island of Cebu. Commissioned in 1998, the CPPC plant was constructed pursuant to a BOT contract to supply 62 MW of power to VECO.

On 20 April 2007, AboitizPower acquired 60% of the outstanding common shares of CPPC from EAUC. VEC owns the remaining 40% of the outstanding common shares. VEC and AboitizPower are the major shareholders of VECO. CPPC is imbedded inside the franchise area of VECO.

On 16 July 2013, CPPC and VECO filed an application for a new PSA with the ERC which contemplates a slightly lower electricity rate than its existing rate. It shall take effect upon approval by the ERC and shall expire ten years thereafter.

### **Southern Philippines Power Corporation**

SPPC is a joint venture company between AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore) Pte. Ltd. AboitizPower has 20% equity interest in SPPC, which owns and operates a 55- MW Bunker C-fired power plant (SPPC Plant) in Alabel, Sarangani, a town located outside General Santos City in Southern Mindanao.

The SPPC Plant was developed by SPPC on a build-own-operate basis under the terms found in its Energy Conversion Agreement (ECA) with NPC, which ended in 2016. SPPC currently supplies power to electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay SPPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

### **Western Mindanao Power Corporation**

WMPC is a joint venture company between AboitizPower, Alsing Power Holdings, Inc. and Tomen Power (Singapore) Pte. Ltd. AboitizPower has 20% equity interest in WMPC, which owns and operates a 100- MW Bunker C-fired power station (WMPC Plant) located in Zamboanga City, Zamboanga Peninsula in Western Mindanao.

The WMPC Plant was developed by WMPC on a build-own-operate basis under the terms found in its ECA with NPC, which ended in 2015. WMPC currently supplies power electric utilities and cooperatives pursuant to PSAs approved by the ERC. These utilities and cooperatives pay WMPC on a monthly basis for the fuel costs, capital recovery, energy, and fixed and variable operations and maintenance fees as specified in the PSAs.

### **Other Generation Assets**

Two of AboitizPower's Distribution Utilities have their own standby power plants. Davao Light currently maintains the 58.7-MW Bunker C-fired Bajada standby power plant, which is capable of supplying approximately 8% of Davao Light's requirements. Cotabato Light maintains a stand-by 9.927-MW Bunker C-fired power plant capable of supplying approximately 22% of its requirements.

## **Distribution of Electricity**

The Aboitiz Group has more than 85 years of experience in the Philippine power distribution sector and has been known for innovation and efficient operations.

With ownership interests in eight Distribution Utilities, AboitizPower is currently one of the largest electricity distributors in the Philippines. AboitizPower's Distribution Utilities collectively supply electricity to franchise areas covering a total of 18 cities and municipalities in Luzon, Visayas and Mindanao.

As of 31 December 2017, the power distribution business' earnings contribution from AboitizPower's business segments is equivalent to 20%. The Distribution Utilities had a total customer base of 954,300 in 2017, 916,876 in 2016, and 881,944 in 2015.

The table below summarizes the key operating statistics of the Distribution Utilities for 2017 and the previous two years.

Company	Electricity Sold (MWh)			Peak Demand (MW)			No. of Customers		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
Davao Light	2,317,985	2,173,373	2,069,127	404	380	354	384,434	367,782	351,079
Cotabato Light	153,973	146,678	131,975	29	27	25	41,110	38,924	37,697
VECO	2,938,532	2,922,950	2,585,704	522	524	475	422,814	408,586	395,689
SFELAPCO	623,607	588,985	548,365	116	117	102	101,942	97,847	94,227
SEZ	517,558	535,010	506,539	106	103	102	3,267	3,151	3,040
MEZ	114,272	111,486	120,491	21	21	22	83	82	80
BEZ	91,273	102,208	113,800	27	30	30	31	32	33
LEZ	197,908	165,481	149,770	33	28	26	619	472	99
<b>TOTAL</b>	<b>6,955,108</b>	<b>6,746,171</b>	<b>6,225,771</b>	<b>1,258</b>	<b>1,230</b>	<b>1,136</b>	<b>954,300</b>	<b>916,876</b>	<b>881,944</b>

### **Visayan Electric Company, Inc.**

Incorporated on February 22, 1961, VECO is the second largest privately-owned distribution utility in the Philippines in terms of customers and annual MWh sales. VECO supplies electricity to a region covering 674 square kilometers in the island of Cebu with a population of approximately 1.7 mn. To date, VECO has 19 power substations and one mobile substation that serve the electrical power needs of the cities of Cebu, Mandaue, Talisay, and Naga, the municipalities of Minglanilla, San Fernando, Consolacion, and Liloan, and the 238 barangays in the island and province of Cebu. As of December 2017, VECO's peak demand was recorded at 504 MW and is serving a total of 422,814 customers.

VECO, directly and through its predecessors-in-interest, has been in the business of distributing electricity in Cebu since 1905. Currently, AboitizPower holds 55.26% ownership interest in VECO.

In 1928, Visayan Electric Company, S.A. was granted a 50-year distribution franchise by the Philippine Legislature. The term of this franchise was extended by Republic Act (RA) 6454 for an additional 25 years, starting 1978 and was conditionally renewed for another 25 years from December 2003. In September 2005, the Philippine Congress passed RA 9339, which extended VECO's franchise to September 2030. VECO's application for the extension of its Certificate of Public Convenience and Necessity (CPCN) was approved by the ERC on January 26, 2009.

VECO is part of the third group (Group C) of private distribution utilities to shift to performance-based-rate-setting regulation (PBR). On May 2010, the ERC issued its final determination on VECO's application for approval of its annual revenue requirements and Performance Incentive Scheme (PIS) under the PBR for the regulatory period July 1, 2010 to June 30, 2014.

In 2017, VECO's systems loss is at 6.51%, below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

## **Davao Light & Power Company, Inc.**

Incorporated on 11 October 1929, Davao Light is the third largest privately-owned electric distribution utility in the country in terms of customers and annual kWh sales. It was acquired by the Aboitiz Group in 1946 and is currently owned 99.93% by AboitizPower.

Davao Light's original 50-year franchise, covering Davao City, was granted on November 1930 by the Philippine Legislature. On September 2000, RA 8960 granted Davao Light a franchise for a period of 25 years, or until September 2025, covering Davao City, areas of Panabo City, and the municipalities of Carmen, Dujali and Santo Tomas in Davao del Norte, with a population of approximately 1.8 mn and a total area of 3,561 square kilometers. As of December 2017, Davao Light's average peak demand was recorded at 404,196 kW, and it is serving a total of 384,434 customers.

On February 2007, Davao Light awarded a 12-year supply contract of new capacity to Hedcor Consortium, the consortium composed of ARI, Hedcor, Hedcor Sibulan and Hedcor Tamugan. There was a notable price differential between Hedcor Consortium's winning bid price of ₱4.09 per kWh and the next lowest bid price of ₱5.10 per kWh. Over the life of the supply contract, the differential will amount to approximately ₱4.9 bn at current peso value, representing significant savings for Davao Light customers. Davao Light decided to secure the new supply contract in anticipation of the full utilization of the existing contracted energy supply under the ten-year contract with NPC for 1,363,375 MWh and the 12-year contract with Hedcor Consortium.

On December 2016, Davao Light inaugurated its 33-MVA Maa Substation, adding to the 26 substations and two sub-transmission substations, to meet the increasing demand for power of its franchise area, particularly in Davao City. This growth reflected a total sales of 2,173,373,488 kWh as of December 2016.

Davao Light utilizes contingencies such as tapping of embedded generators directly connected to the distribution facilities synchronized to the grid. In the event of a power crisis, Davao Light's Bunker C- fired standby plant, with an initial installed capacity of 63.4 MW, can provide an average of 40 MW on a sustaining basis, although its capacity has since decreased to 58.7 MW as a result of derating. The standby plant is capable of supplying 8% of Davao Light's electricity requirement.

Davao Light also activates the Interruptible Load Program (ILP), wherein customers run their own generating sets instead of drawing power from the distribution line during a power crisis. Available power is distributed to residential and commercial customers.

The growth in demand resulted in total sales of 2,298,361,482 kWh as of December 2017. Davao Light recorded a total growth in energy sales for 2017 of 5.75% and increase of demand of 6.37%.

Davao Light's systems loss at 7.32% remains below the government-mandated cap of 8.5%. Systems loss below the mandated caps translates to reduced power costs, resulting in customer savings.

Davao Light is part of Group C of private distribution utilities to enter the PBR. The reset process for the next regulatory period is put on hold by the ERC.

The company is currently owned 99.93% by AboitizPower.

## **Cotabato Light and Power Company**

Cotabato Light supplies electricity to Cotabato City and portions of the municipalities of Datu Odin Sinsuat and Sultan Kudarat, both in Maguindanao, with a land area of 191 square kilometers. As of December 2016, Cotabato Light's peak demand was recorded at 26.83 MW and it is serving a total of 38,924 customers.

Incorporated in April 1938, Cotabato Light's original 25-year franchise was granted by the Philippine Legislature through RA 3341 in June 1939. Its franchise was extended until June 1989 through RA 3217 in 1961, and for another 25 years or until August 2014. Cotabato Light's current franchise was granted under RA 10637, signed into law by then President Benigno C. Aquino III on 16 June 2014, for another 25 years or until

2039.

As of year-end 2017, Cotabato Light has three substations - 10 MVA, 12 MVA, and 15 MVA - backed up by a 10 MVA power transformer. Cotabato Light is served by one 69-kV transmission line with a distribution voltage of 13.8 kV. These lines can be remotely controlled using the Supervisory Control and Data Acquisition (SCADA).

Cotabato Light maintains a standby Bunker C-fired plant with dependable capacity of 5.85-MW, capable of supplying approximately 22% of its franchise area requirements. The standby plant is capable of supplying electricity in case of power supply problems with PSALM or NGCP and to stabilize voltage when necessary.

To sustain a below cap systems loss, Cotabato Light is continuously innovating its systems and processes. As of December 2017, its systems loss stands at 8.84%, lower than the systems loss cap of 8.5%, as implemented by the ERC.

Cotabato Light is part of the second batch (Group B) of private utilities to enter PBR and is currently under the second regulatory period from 1 April 2013 to 1 March 2017. The reset process for the next regulatory period is put on hold by the ERC.

The company utilizes modern systems such as the Customer Care and Billing, Enterprise Resource Planning (ERP) and soon, the Work and Asset Management (WAM). Cotabato Light constantly searches for ways to provide its customers with safe and reliable power while operating as a low cost service provider. Although a relatively small distribution utility, it benefits from the technology and systems innovation and developments of its Affiliate, Davao Light. Davao Light likewise readily provides technical assistance to Cotabato Light whenever necessary.

AboitizPower directly owns 99.94% of Cotabato Light.

#### **San Fernando Electric Light & Power Co., Inc.**

SFELAPCO was incorporated on May 17, 1927 and was granted a municipal franchise in 1927. In 1961, RA 3207 was passed by the Philippine Congress granting SFELAPCO a legislative franchise to distribute electricity for a period of 50 years or until June 2011. SFELAPCO's current legislative franchise is granted through RA 9967, for another 25 years commencing on March 24, 2010. As of December 2017, SFELAPCO's peak demand was recorded at 116,477 kW, and it is serving a total of 101,423 customers.

SFELAPCO's franchise in the City of San Fernando, Pampanga covers an area of 78.514 square kilometers and includes 402.92 and 662.74 circuit-kilometers on its 13.8-kV and 240-volt distribution lines, respectively. SFELAPCO supplies 35 barangays in the City of San Fernando, Barangays San Isidro and Cabalantian in Bacolor, Pampanga, 25 barangays in the municipality of Floridablanca, and one barangay in Guagua, Pampanga.

SFELAPCO is part of the fourth batch (Group D) of private utilities to enter PBR and is currently under the four-year regulatory period starting 1 October 2011 until September 2015. The reset process for the next regulatory period is put on hold by the ERC.

SFELAPCO's systems loss at 4.97% remains below the government-mandated cap of 8.5%. Systems loss below the mandated caps translates to reduced power costs resulting in customer savings.

AboitizPower has an effective interest of 43.78% in SFELAPCO.

#### **Subic Enerzone Corporation**

In May 2003, the consortium of AEV and Davao Light won the competitive bid to provide distribution management services to SBMA and to operate the SBFZ power distribution utility for a period of 25 years. On June 3, 2003, SEZ was incorporated as a joint venture company owned by a consortium comprised of Davao Light, AEV, SFELAPCO, Team Philippines, Okeelanta and PASUDECO to undertake the management and operation of the SBFZ power distribution utility. On October 25, 2003, SEZ was formally awarded the contract to manage SBFZ's power distribution utility, and took over operations. As of December 2017, SEZ's peak

demand was recorded at 102,272 kW and it is serving a total of 3,267 customers.

SEZ's authority to operate SBFZ's power distribution utility was granted by SBMA pursuant to the terms of RA 7227 or The Bases Conversion and Development Act of 1992, as amended. As a company operating within the SBFZ, SEZ enjoys a preferential tax of 5% on its gross income in lieu of all other national and local taxes.

Following the acquisition by AboitizPower in January 2007 of AEV's 64.3% effective ownership interest in SEZ, AboitizPower entered into another agreement on June 8, 2007 to acquire the combined 25% equity stake in SEZ of AEV, SFELAPCO, Okeelanta and PASUDECO. On December 17, 2007, AboitizPower bought the 20% equity of Team Philippines in SEZ for ₱92 mn. Together with Davao Light's 35% equity in SEZ, this acquisition brought AboitizPower's total equity in SEZ to 100%.

SEZ has seen a smooth transition in implementing new PBR power rates in 2012. In July 2012, ERC certified SEZ as a Local RES. For SEZ's second regulatory year covering 1 October 2012 to September 30, 2013, it was able to implement the new rate schedule starting January 2013. Consequently, the resulting under-recoveries from the lag starting from 1 October 2012 were included by SEZ as under-recoveries in its rate filing in the third regulatory year. The reset process for the next regulatory period is put on hold by the ERC.

SEZ's systems loss at 3.77% remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower, together with Davao Light, owns 100% of SEZ.

### **Mactan Enerzone Corporation**

MEZ was incorporated in January 2007 when AboitizLand spun off the power distribution system of its Mactan Export Processing Zone II (MEPZ II) project. The MEPZ II project, which was launched in 1995, was operated by AboitizLand under a BOT agreement entered into with the Mactan-Cebu International Airport Authority (MCIAA).

On 8 June 2007, AboitizPower entered into an agreement to acquire AboitizLand's 100% equity stake in MEZ, representing 8,754,443 common shares. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in MEZ valued at ₱609.5 mn, in exchange for AboitizPower's common shares issued at the IPO price of ₱5.80 per share.

MEZ sources its power from NPC pursuant to a CSEE. Under the said contract, NPC is required to provide power to MEZ up to the amount of contracted load, which is based on the projections provided by MEPZ II locators under their respective PSCs with MEZ. As of December 2017, MEZ's peak demand was recorded at 221.12 MW and is serving a total of 83 customers.

MEZ sources its power from SN Aboitiz Power-Magat and GCGI pursuant to a CSEE. Under the said contract, GCGI is required to provide 10 MW to MEZ base load. SN AboitizPower-Magat is required to supply at least 7 MW during peak hours, as based on projections provided by MEPZ II locators under their respective PSCs with MEZ.

MEZ's systems loss at 0.93% remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of MEZ.

### **Balamban Enerzone Corporation**

BEZ was incorporated in January 2007 when Cebu Industrial Park Developers, Inc. (CIPDI), a joint venture between AboitizLand and Tsuneishi Holdings (Cebu), Inc. (THC), spun off the power distribution system of the West Cebu Industrial Park – Special Economic Zone (WCIP-SEZ). WCIP-SEZ is a special economic zone for light and heavy industries owned and operated by CIPDI. CIPDI, located in Balamban, Cebu, is home to the shipbuilding and ship repair facilities of THC, as well as to the modular fabrication facility of Meta phil

International, Inc. and recently, to Austal Philippines Pty. Limited.

On 4 May 2007, CIPDI declared property dividends to its stockholders in the form of equity in BEZ. On 8 June 2007, AboitizPower entered into an agreement to acquire AboitizLand's 60% equity stake in BEZ, represented by 4,301,766 common shares of BEZ. Pursuant to the agreement, AboitizPower acquired AboitizLand's ownership interest in BEZ valued at ₱266.9 mn, in exchange for AboitizPower's common shares issued at the IPO price of ₱5.80 per share.

On 7 March 2008, AboitizPower purchased THI's 40% equity in BEZ. The acquisition brought AboitizPower's total equity in BEZ to 100%.

In January 2011, BEZ secured firm contracts from various power suppliers such as GCGI, Cebu Energy and EAUC to ensure sufficient power supply to the different industries within the WCIP-SEZ. As of February 2017, only the firm contract with Cebu Energy remained, since its other Contestable Customers have switched to RES. BEZ became a direct member of the PEMC to be eligible to participate in the WESM. As of December 2017, BEZ's peak demand was recorded at 26.517 MW and is serving a total of 31 customers composed of 14 captive industrial customers, 11 captive commercial customers, and six contestable industrial customers .

BEZ's systems loss at 0.50% remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of BEZ.

### **LIMA UTILITIES CORPORATION (LUC)**

LEZ was incorporated as Lima Utilities Corporation on 5 June 1997 to serve and provide locators within the Lima Technology Center (LTC) with a reliable and stable power supply. It is a wholly owned Subsidiary of Lima Land. With the acquisition by AboitizLand of the interests of the Alsons and Marubeni groups in Lima Land in 2013 and 2014, respectively, the company became a wholly owned subsidiary of AboitizLand.

Subsequently, in mid 2014, AboitizLand divested its interests in Lima Utilities Corporation through the sale of its shares to AboitizPower. The acquisition was completed on July 7, 2014. Following the change of ownership of the company, the new shareholder of the company, AboitizPower, then sought approval to change its corporate name to Lima Enerzone Corporation, which was approved by the SEC on October 14, 2014.

LEZ' responsive interface ensures that customers receive power that fully meets their business requirements. As the asset manager of the electrical infrastructure constructed at the LTC, LEZ has the sole responsibility of providing clean, reliable and uninterrupted power supply to enable the multinational manufacturing companies to produce quality products at international standards. As such, LEZ has an ongoing project of an additional 50-MVA power transformer to serve the increasing demand for future locators and expansions. This project will also provide power supply reliability and flexibility at the LTC.

As of December 2017, Lima Enerzone's peak demand was recorded at 35 MW. The company is currently serving 101 industrial and commercial customers, and 527 residential customers.

LEZ's systems loss at 0.94% remains below the government-mandated cap of 8.5%. Systems loss below the mandated cap translates to reduced power costs resulting in customer savings.

AboitizPower directly owns 100% of LEZ.

### **RETAIL ELECTRICITY AND OTHER RELATED SERVICES**

One of the objectives of electricity reform in the Philippines is to ensure the competitive supply of electricity at the retail level. With the start of commercial operations of Open Access, large-scale customers will be allowed to obtain electricity from Retail Electricity Suppliers (RES) licensed by the ERC. As of 31 December 2017, the following RES companies of the Company services a total of 247 customers, with a total contracted capacity of 802 MW.



### **Aboitiz Energy Solutions, Inc.**

On 9 November 2009, AESI, a wholly owned Subsidiary of AboitizPower, was granted a license to act as a RES, which license was renewed on 29 October 2012 for another five years.

In December 2014, PSALM formally turned-over the management and dispatch for the 40 MW strips of energy from the ULGPP which AESI won in the November 2013 IPPA bid.

AboitizPower owns a 100% equity interest in AESI.

### **Prism Energy, Inc.**

Prism Energy was incorporated on 24 March 2009 as a joint venture between AboitizPower (60%) and Vivant Corporation (40%). It was granted a five-year RES license by the ERC on 22 May 2012, and its application for renewal of RES license has been duly filed and is currently pending with the ERC.

AboitizPower owns a 60% equity interest in Prism Energy.

### **AdventEnergy, Inc.**

Incorporated on 14 August 2008, AdventEnergy is a licensed RES, duly authorized by the ERC to sell, broker, market, or aggregate electricity to end-users including those within economic zones. AdventEnergy's RES license was renewed by the ERC on June 18, 2012. Its application for renewal of RES license has been duly filed on April 18, 2017, and is currently pending with the ERC. The company was specifically formed to serve Contestable Customers who are located in economic zones.

AdventEnergy differentiates itself from competition by sourcing electricity from a 100% renewable source. With this competitive advantage, more and more companies are opting to source a part, if not the majority, of their electricity supply from AdventEnergy as an environmental initiative.

AboitizPower owns 100% equity interest in AdventEnergy.

### **SN Aboitiz Power – RES, Inc.**

SN Aboitiz Power-RES, Inc. (SN Aboitiz Power-RES) is the RES arm of the SN Aboitiz Power Group, the group of companies formed out of the strategic partnership between AboitizPower and SN Power. SN Aboitiz Power-RES caters to the Contestable Customer sector and electricity consumers using an average of at least 1 MW in the last 12 months across all industries under Open Access. It offers energy supply packages tailored to the customers' needs and preferences.

The company's vision is to become the leading RES in the country through profitable growth, excellence in business processes and innovative ideas. It also aims to supply the energy requirements of its customers in a fair and equitable manner and to contribute to the vibrant local power market that supports the country's development. SN Aboitiz Power-RES harnesses the synergy from the partnership of SN Power Group, an international hydropower expert, and AboitizPower.

In 2014, SN Power Holding Singapore Pte. Ltd., the 40% owner of the issued and outstanding shares of SN Aboitiz Power-RES, transferred its interest to an affiliate, SN Power Invest Netherlands B.V. pursuant to the restructuring of the SN Power group.

## **DISTRIBUTION METHODS OF THE PRODUCTS OR SERVICES**

The Generation Companies sell their capacities and energy through bilateral PSAs with NPC, private distribution utilities, electric cooperatives, retail electricity suppliers or other large end-users, and through the WESM. There are also Subsidiaries and Affiliates selling ancillary services through ASPAs with NGCP. Majority of

AboitizPower’s Generation Companies have transmission service agreements with NGCP for transmission of electricity to the grid.

On the other hand, AboitizPower’s Distribution Utilities have exclusive distribution franchises in the areas where they operate. Each Distribution Utility has a distribution network consisting of a widespread network of predominantly overhead lines and substations. Customers are classified according to voltage levels based on their electricity consumption and demand. Large industrial and commercial consumers receive electricity at distribution voltages of 13.8 kV, 23 kV and 69 kV, while smaller industrial, commercial and residential customers receive electricity at 240 V or 480 V.

All of AboitizPower’s Distribution Utilities have entered into transmission service contracts with the NGCP for the use of the NGCP’s transmission facilities to receive power from their respective Independent Power Producer (IPP), the NPC or PSALM for distribution to their respective customers. VECO owns a 138-kV tie-line that connects to Cebu Energy’s power plant. All customers that connect to the Distribution Utilities’ distribution lines are required to pay a tariff approved by the ERC.

AboitizPower’s wholly owned RES companies, AdventEnergy and AESI, have existing electricity supply contracts to ensure continuous supply of power to their customers.

AdventEnergy and AESI follow a pricing strategy which allows customer flexibility. The power rates are calculated using a fixed formula pricing arrangement based on customer load curves, resulting in either a peak-off-peak or capacity load-based competitive rate.

### ***New Products and Services***

Other than the ongoing Greenfield and/or rehabilitation projects undertaken by AboitizPower’s Generation Companies, AboitizPower and its Subsidiaries do not have any publicly announced new product or service to date.

### ***System Performance***

The following table sets forth certain information concerning the performance of the Distribution Companies as of December 2017:

<b>Business Unit</b>	<b>SAIFI (frequency)</b>	<b>SAIDI (minutes)</b>
VECO	1.07	28.86
DLPC	4.44	315.26
CLPC	2.49	294.07
SEZ	3.12	114.36
MEZ	2.51	180.29
BEZ	2.34	48.20
LEZ	6.85	357.55
SFELAPCO	9.46	696.83

### ***Electricity Losses***

The Distribution Companies experience two types of electricity losses: technical losses and non-technical losses. Technical losses are those that occur in the ordinary course of distribution of electricity, such as losses that occur when electricity is converted from high voltage to medium voltage. Non-technical losses are those that result from illegal connections, fraud or billing errors.

Total electricity losses in 2017 were 6.51% for VECO, 7.32% for Davao Light, 8.84% for Cotabato Light, 3.77% for SEZ, 0.93% for MEZ, 0.50% for BEZ, 0.94% for LEZ, and 4.97% for SFELAPCO. The current system loss cap approved by the ERC is 6.5% feeder loss plus actual subtransmission and substation losses for private

distribution utilities and 12.0% for electric cooperatives.

The Distribution Companies are also actively engaged in efforts to reduce electricity losses, particularly non-technical losses. To achieve this, the Distribution Companies, particularly VECO and Davao Light, have deployed teams to conduct inspections, enhanced monitoring for irregular consumption, increased replacements for obsolete measuring equipment and developed a computer program to discover and analyze irregular invoicing.

The Distribution Companies continue to find ways to reduce systems losses in any economically viable manner.

### ***Power Outages***

The Distribution Companies seek to improve the quality and reliability of their power supply, as measured by the frequency and duration of power outages. The number of sustained outages (>5mins) per year in 2016 averaged 1.29 interruptions per customer at VECO, 1.94 interruptions per customer at Davao Light, 2.06 interruptions per customer at Cotabato Light, 1.83 interruptions per customer at SEZ, 0.71 interruptions per customer at MEZ, 1.80 interruptions per customer at BEZ, 2.82 interruptions per customer at LEZ, and 15.08 interruptions per customer at SFELAPCO. For 2016, the number of minutes of sustained outages was 34.78 hours per customer at VECO, 92.35 minutes per customer at Davao Light, 82.27 minutes per customer at Cotabato Light, 76.14 minutes per customer at SEZ, 57.61 minutes per customer at MEZ, 64.55 minutes per customer at BEZ, 33.00 minutes per customer at LEZ, and 543.87 minutes per customer at SFELAPCO.

The Distribution Companies each have “hotline” equipment that allows construction, maintenance and repairs to be conducted with only minimal interruption in electricity service. This reduces the number of service interruptions that the Distribution Companies have to schedule. Unscheduled interruptions due to accidents or natural causes, including typhoons, heavy rains and floods, represented the remainder of the Distribution Companies’ total interruptions.

## **SOURCES OF RAW MATERIALS AND SUPPLIES**

### **Generation Business**

The Generation Companies generate energy using the following fuel types: hydropower, geothermal, solar, biomass, coal and oil. Renewable fuel sources comprised 32% of its production in 2017, while fossil fuel accounted for 68%.

The hydropower facilities of some of the Generation Companies harness the energy from the flow of water from neighboring rivers to generate electricity. Some of these facilities have impounding dams allowing the storage of water for later use. The hydroelectric companies on their own, or through the NPC as in the case of LHC, possess water permits issued by National Water Resources Board (NWRB), which allow them to utilize the energy from a certain volume of water from the applicable source of the water flow.

APRI’s steam requirement for its geothermal power generation is supplied by the PGPC. The terms of the steam supply are governed by a Geothermal Resource Sales Contract (GRSC) under which price of steam is ultimately indexed to the Newcastle Coal Index and the Japanese Public Utilities coal price. The GRSC took effect on 26 May 2013. An interim agreement supplementing the GRSC was signed to make generation cost more competitive in the market.

AboitizPower’s oil-fired plants use Bunker-C fuel to generate electricity. SPPC and WMPC source fuel from the NPC pursuant to the terms of their respective ECAs with the NPC. Each of EAUC, CPPC, TMI, and TMO has a fuel supply agreement with Shell. The fuel prices under these agreements are pegged to the Mean of Platts Singapore (MOPS) index.

### **Distribution Business**

The rates at which Davao Light and SFELAPCO purchase electricity from AboitizPower's Generation Companies are established pursuant to the bilateral agreements. These agreements are executed after the relevant Generation Company has successfully bid for the right to enter into a PSA with the Distribution Utility. These agreements are entered into on an arm's-length basis, on commercially reasonable terms, and are approved by the ERC. The ERC's regulations currently restrict AboitizPower's Distribution Utilities from purchasing more than 50% of their electricity requirements from Affiliated Generation Companies. Hedcor Sibulan supplies Davao Light with electricity generated from its Hedcor Sibulan plants pursuant to the Hedcor Consortium's 12-year PSA. To add to its power reserve capacity, Davao Light has entered into a three-year power supply contract with TMI for 15 MW on 21 March 2011, which was provisionally approved by the ERC on May 30, 2011. On 29 February 2012, Davao Light and TMI filed a Joint Manifestation with the ERC stating that they agreed to supplement and modify their supply contract to 30 MW. In 1 March 2012, TMI has supplied the contract energy of 30 MW to Davao Light. Davao Light and Cotabato Light entered into 25-year power supply contracts with TSI for 100 MW and 5 MW, respectively. On September 2015, Davao Light and Cotabato Light started drawing the first half of their contracted capacity, or 50 MW and 2.5 MW respectively, from TSI. Starting February 2016, the full 100 MW and 5MW contracted capacity was supplied by TSI.

On 25 December 2015, the CSEEs of Davao Light and Cotabato Light with PSALM expired. Following negotiations, on 23 December 2015, Davao Light and Cotabato Light entered into PSAs with WMPC for the supply of 18 MW and 2 MW, respectively, for a period of four months from January to April 2016. These PSAs were provisionally approved by the ERC on 1 March 2016. On April 2016, the PSALM CSEEs of Davao Light and Cotabato Light were renewed for an annual term with a lower contracted capacity. Due to significant reduction of the contracted capacity of the PSALM CSEEs, Davao Light and Cotabato Light entered into a PSA with SPPC for a supply of 50MW and 5MW, respectively, on 28 April 2016 for a period of two years. These were provisionally approved by the ERC on 11 July 2016.

In anticipation of higher demand and lower allocation from PSALM, Davao Light entered into a PSC with San Miguel Consolidated Power Corporation (SMCPC) in November 28, 2016 for a supply of 60MW for a period of ten (10) years. This was provisionally approved by ERC on June 20, 2017.

Due to the increasing load demand and decreasing power allocation from PSALM, Cotabato Light renewed its 1 MW PSC with TMI for another year, and entered into a PSC with San Miguel Consolidated Power Corporation (SMCPC) on November 28, 2016 for a supply of 5 MW for a period of ten (10) years. These contracts are pending ERC approval for the Provisional Authority.

VECO entered into a PPA for the purchase of electric energy from CPPC for a period of 15 years starting from the commercial operation date of the latter. In 2013, the PPA was extended for another 10 years.

To address VECO's long-term power supply requirement, VECO entered into an EPPA with Cebu Energy on 16 October 2009 for the supply of 105 MW for 25 years. The contracted capacity with Cebu Energy was subsequently increased to 121 MW in 2014, and further increased by 20MW starting March 2015 to cover the increase in demand within its franchise area. However, the 20MW contract was terminated in 2016 due to the inability of the transmission grid to wheel the power from the plant to VECO.

On 26 December 2010, VECO signed a five-year PSA with GCGI for the supply of 60 MW at 100% load factor. On October 23, 2014, VECO and GCGI amended the PSA, extending the term for another ten years at a reduced price. VECO entered into additional PPAs with GCGI for the supply of 15 MW starting 25 December 2011 and an additional 15 MW starting 25 December 2012. This addressed NPC's reduced power supply under its contract with VECO. The first and second 15MW contracts with GCGI expired last 26 December 2016. On December 25, 2014, the CSEE between VECO and PSALM expired. Consequently, VECO entered into PSAs with AESI, Vivant Energy Solutions and ULGEI for 40 MW, 17 MW, and 5 MW baseload supply, respectively. The 5MW contract with ULGEI was also terminated in 2016 upon failure to secure ERC approval after the one year cooling-off period.

To partially source its peaking requirement, VECO entered into an agreement with 1590 Energy Corporation for the supply of 30 MW for six months starting December 2014. For its long term capacity requirement, VECO entered into a 15-year PSA with TVI for the supply of 150 MW beginning in 2018. To reduce WESM exposure in 2016 until TVI's commercial operations, the company entered into a PSA with SLPGC for 50 MW in 2016.

Starting 26 December 2016, the contract with SLPGC was reduced to 47.79 MW as there were Contestable Customers who migrated to Open Access. VECO will continue to renegotiate the reduction of its bilateral contract to account for the continued migration of contestable customers. VECO's PSAs with TVI is pending with the ERC for approval.

On 25 September 2015, MEZ entered into PSAs with its new suppliers, SN Aboitiz Power-Magat and GCGI for contracted energy per year of 43,920 Mwh and 87,840 Mwh, respectively. On February 26, 2017, this was reduced to 21,652 MWh and 43,304 MWh per year, respectively. The decrease was due to the transfer of some of MEZ's customers to RES.

The provisions of the Distribution Utilities' PPAs are governed by the ERC regulations. The main provisions of each contract relate to the amount of electricity purchased, the price, including adjustments for various factors such as inflation indexes, and the duration of the contract.

### ***Transmission Charges***

Five (5) of AboitizPower's Distribution Utilities have existing Transmission Service Agreements (TSAs) with the NGCP for the use of the latter's transmission facilities in the distribution of electric power from the Grid to its customers, which are valid until the dates specified below:

<b>Distribution Utility</b>	<b>Valid until</b>
Davao Light	January 25, 2019
Lima Enerzone	July 25, 2022
Mactan Enerzone	January 25, 2020
Balamban Enerzone	January 25, 2020
SFELAPCO	December 25, 2018

Cotabato Light and Subic Enerzone are both in the process of securing their respective TSAs with NGCP. VECO has signed the renewal of its TSA and is awaiting NGCP's execution of the document. The Distribution Utilities have negotiated agreements with the NGCP in connection with the security deposit to secure their obligations to the NGCP under the TSAs.

## **CUSTOMERS, ANALYSIS OF DEMAND AND RATES**

### **Customers**

#### **Power Generation Business**

Out of the total electricity sold by AboitizPower's Generation Companies, approximately 94% are covered by bilateral contracts with, among others, private distribution utilities, electric cooperatives, NPC, industrial and commercial companies. The remaining approximately 6% is sold by the Generation Companies through the WESM.

#### **Retail Electricity Supply Business**

The Company's RES business has nearly 300 Contestable Customers from a wide number of industries, including property development, meat processing, semiconductors, steel, and cement. AboitizPower thus believes that this diversity will insulate its RES business from downturns in any one industry.

#### **Distribution Utilities Business**

Most of AboitizPower's Distribution Utilities, on the other hand, have wide and diverse customer bases. As such, the loss of any one customer will have no material adverse impact on AboitizPower. The Distribution Companies' customers are categorized into four principal categories:

1. Industrial customers. Industrial customers generally consist of large-scale consumers of electricity within a franchise area, such as factories, plantations and shopping malls;
2. Residential customers. Residential customers are those who are supplied electricity for use in a structure utilized for residential purposes;
3. Commercial customers. Commercial customers include service-oriented businesses, universities and hospitals; and
4. Other customers.

Government accounts for various government offices and facilities are categorized as either commercial or industrial depending on their load. Each Distribution Utility monitors government accounts separately and further classifies them to local government accounts, national government account, special government accounts like military camps. Streetlights have a different rate category and are thus monitored independently.

### **Rates**

Rates charged for sales of electricity to final customers are determined pursuant to regulations established by ERC. These ERC regulations establish a cap on rates that provide for annual, periodic, and extraordinary adjustments. Under EPIRA, the distribution utilities such as the Distribution Companies have been required to “unbundle” the electricity rates charged to customers in order to provide transparency in disclosing to customers the components of their monthly bills and to segregate (consistent with the mandate of the EPIRA) the components of the distribution business which will become competitive once the EPIRA is fully implemented (such as supply and metering services) and those which will remain monopolized (such as transmission and wheeling). As a result, the Distribution Companies are required to identify and separately disclose to customers each individual charge that forms part of the cost of providing electricity, including generation, transmission, systems loss, distribution, metering, and supply charges.

Each of the Distribution Companies classifies customers based on factors such as voltage level and demand level at which the electricity is supplied to such customers. Each customer is placed in a certain tariff level determined by the Distribution Companies within the guidelines provided by the ERC and is charged for electricity based on customer classification. Typically, industrial customers pay lower rates relative to the cost of providing services to them, while residential customers pay higher rates relative to the cost of providing services to them.

The following sets forth the material components of each Distribution Companies’ monthly charges to customers:

**Distribution charges.** Previously, the distribution charges that the Distribution Companies collected from customers were computed with reference to the RORB rate-setting system. Under this system, distribution charges were determined based on the appraised value of a distribution utility’s historical costs, with the maximum rate of return set at 12.0%. Rate-setting under this system had historically resulted in prolonged review periods by regulators before a final rate was approved, and often resulted in interested parties, such as consumer advocacy groups, contesting rates approved by Government regulators in court. In addition, the determination of the components of a utility’s cost base was subject to revision by regulators, with certain material expenses, such as those for income tax, being excluded from the base.

To address the inefficiencies and legal controversies caused by the RORB rate-setting system, the ERC issued the RDWR in 2006, which sets out the manner in which PBR is to be implemented. Under PBR, the distribution-related charges that a distribution utility collects from customers will be fixed by reference to the utility’s projected revenues over a four-year regulatory period, which are reviewed and approved by the ERC and thereafter used to determine the utility’s efficiency factor. For each year during the regulatory period, the distribution-related charges are adjusted upwards or downwards taking into consideration the utility’s efficiency factor set and changes in overall consumer prices in the Philippines. As part of the implementation of PBR, the ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to

provide connections to customers and the average time to respond to customer calls, with utilities being penalized for failing to meet these performance targets. During the 18 months prior to the PBR start date for each Distribution Company, each of them will undergo a regulatory reset process through which the PBR rate control arrangements are established based on documents submitted by each Distribution Company with the ERC, ERC resolutions, and consultations with the Distribution Company and the general public.

**Transmission charges.** These charges are the amounts paid by the Distribution Companies to the National Transmission Corporation (Transco) for the use of Transco's facilities to transmit electricity from each Distribution Companies' electricity suppliers to the Distribution Companies' own transmission lines. Current ERC regulations allow the Distribution Companies to pass on to and recover from their customers the transmission charges paid by the Distribution Companies.

Under applicable laws and regulations, the Distribution Companies are required to allow use of their high-voltage distribution lines by others, including consumers within their franchise areas that are supplied by third parties. All users of the Distribution Companies' respective distribution lines must pay a wheeling fee for such use.

In anticipation of the full implementation of the Open Access System mandated by the EPIRA, which allows large customers to connect directly with electricity suppliers, each of the Distribution Companies has entered into agreements with the Transco to acquire all of Transco's subtransmission assets within each Distribution Company's franchise area. This will allow each Distribution Company to charge a distribution wheeling fee to consumers within its franchise area that elect to purchase electricity from third parties but need to wheel electricity using these subtransmission assets. These agreements to acquire Transco's subtransmission assets have been submitted to the ERC for approval. The ERC has approved the purchase by SFELAPCO of Transco's subtransmission assets within SFELAPCO's franchise area.

**Generation charges.** ERC regulations allow distribution utilities to pass through to their customers the full cost of electricity purchased from power generators, such as NPC and IPPs (including the Generation Companies).

**Supply and metering charges.** The Distribution Companies are currently allowed to charge their customers a fixed monthly amount that is meant to cover customer service-related costs, such as customer billing and collection services, and metering-related costs, such as meter installation, monitoring and reading. Customers are also required to provide deposits on meters that are installed to monitor their electric consumption. The ERC is currently contemplating opening supply and metering services to competition.

**Line loss charges.** These charges relate to the electricity losses that each Distribution Company is allowed to recover from customers. Originally, ERC regulations allowed distribution companies to charge customers for electricity losses so long as electricity losses do not exceed 9.50% of the total electricity distributed by these companies. If a Distribution Company's electricity losses exceed 9.50%, the Distribution Company will be unable to pass on to its customers the loss charges relating to losses in excess of the 9.50% ceiling.

In response to the directives of the then President Gloria M. Arroyo to lower the costs of electricity, the ERC proposed new regulations for the maximum recoverable systems loss caps for all distribution utilities and electric cooperatives. Under ERC Resolution No. 17, Series of 2008, which amended the systems loss caps adopted by Republic Act No. 7832 (Anti-Pilferage of Electricity and Theft of Electric Transmission Lines/Materials Act of 1994), the actual recoverable system losses of distribution utilities was reduced from 9.5% to 8.5%. The new system loss caps were implemented in January 2010.

Under ERC Resolution No. 17, Series of 2008, actual company use of electricity shall be treated as an expense of the distribution utilities in accordance with the following rules: for distribution utilities that are yet to enter PBR, the actual use shall be treated as Operation and Maintenance (O&M) in their PBR applications; for distribution utilities that are already under PBR, the actual use shall be treated as O&M in their respective subsequent reset; and for electric cooperatives, actual company use shall be treated as O&M in the benchmarking methodology.

**Others.** Other charges collected from customers include: the universal charge, which is meant to cover Stranded Debt and Stranded Costs in accordance with the requirements of the EPIRA; a foreign currency

adjustment rate, which is designed to address fluctuations in the foreign currency component of charges to customers, principally generation charges; and the lifeline subsidy rate, which is an amount collected from end-users to cover subsidies granted to low-consumption, low-income customers.

### **Customer Deposits**

The 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. These deposits are refundable, together with the accrued interest, upon termination of the contract. If the deposits and the related accrued interest already exceed the customer's current monthly bills, a refund of the excess can also be made.

Both the Magna Carta and Distribution Services and Open Access Rules (DSOAR) 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 now 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.

With regard to the interest rate on customer deposits, while the Implementing Guidelines of the Magna Carta provided that the interest rate on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the Energy Resolution Board (ERB) Resolution No. 95-21, it was silent on the corresponding interest rate for bill deposits of residential customers for the same period. ERB Resolution No. 95-21 was issued by the then ERB on August 3, 1995 adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta, the rate of interest on bill deposit shall be equivalent to the interest incorporated in the Company's weighted average cost of capital, otherwise, the rate shall be "based on the prevailing interest rate on savings deposit as approved by the Bangko Sentral ng Pilipinas (BSP). In the case of non-residential customers, the DSOAR likewise provides that the Company shall pay interest on bill deposits at the rate equivalent to the prevailing interest rate for savings deposits as approved by the BSP. The DSOAR superseded ERB Resolution No. 95-21, as amended, in its entirety.

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.

Transformer and lines and poles deposits are obtained from certain customers principally as cash bond for the 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 the related contract is terminated and the assets are returned to the Company in their proper condition and all obligations and every account of the customer due to the Company shall have been paid.

### **Billing Procedures**

The procedures used for billing and payment for electricity supplied to customers is determined by customer category. The length of the collection process varies slightly among the Distribution Companies. Meter readings and invoicing take place on a monthly basis. Bills are prepared from meter readings or on the basis of estimated usage. Low voltage customers are billed within one to two days after the meter reading, with payment required within 9 days after the delivery date. In case of non-payment, a notification of non-payment accompanied by the next month's invoice, is sent to the customer and a period of two days is provided to pay the amount owed to the relevant Distribution Company. If payment is not received within two days, the customers' electricity supply is suspended.

Each of VECO, Davao Light and Cotabato Light has policies in place that require a visit to a customer that has failed to make any required payments to try to collect any unpaid amounts before service to such customer is



discontinued. Third-party contractors are retained by VECO, Davao Light and Cotabato Light to conduct such customer visits. Service to a defaulting customer cannot be discontinued in the absence of such a customer visit. In order to reduce operating costs, both VECO and Davao Light have outsourced to independent contractors several billing-related functions, including meter reading, bill printing, bill delivery and disconnections.

## **COMPETITION**

### **Power Generation Business**

The Open Access regime and the additional capacities from new power plants have led to a steady but significant increase in competition over the last three (3) years. The mandatory switching to Open Access of customers with demand of at least 1 MW and the supposed reductions of this threshold to 750 kW and 500 kW are still on hold due to a legal challenge pending at the Supreme Court. Nonetheless, competition among RES companies have intensified. Generation companies or their affiliates are also allowed to act as RES based on ERC regulations. AboitizPower now considers these as opportunities that will allow expansion of its contracting base while having the flexibility of supply sources.

The acquisition by AboitizPower, through its Subsidiary, TPI, of the beneficial ownership of 66.1% in GNPow Mariveles brought a considerable increase in its capacity in 2017. Furthermore, its simultaneous acquisition of 40% beneficial ownership in GNPow Dinginin also augments its project pipeline.

In 2018, AboitizPower expects to further add some 500 MW to its attributable capacity through its ongoing projects. With this project pipeline, the Company is pushing closer to its target of 4,000 MW net attributable capacity in 2020. This target already includes its 40% beneficial share in the Bataan project of GNPow Dinginin.

AboitizPower's portfolio, consisting of a mix of renewable and non-renewable energy sources and a mix of baseload and peaking power plants, allows for flexibility in pricing and reliability of supply, thus enhancing competitiveness.

#### *Geographic Area*

AboitizPower operates all over the Philippines, with existing power plants in Luzon, Visayas, and Mindanao.

#### *Principal Methods of Competition*

The means by how AboitizPower can effectively compete with its competitors are set forth in the section entitled "Competitive Strengths and Business Strategy" on page 79 of this Prospectus. AboitizPower addresses its competition using a holistic approach and does not address it on a per company basis.

#### *Principal Competitors*

With the privatization of the NPC-owned power generation facilities, the establishment of the WESM and the implementation of retail competition and Open Access, AboitizPower's generation facilities located in Luzon, Visayas and Mindanao will face competition from other power generation plants that supply electricity to the Luzon, Visayas and Mindanao grids.

In particular, AboitizPower is expected to face competition from leading multinationals such as AES Corporation, TeaM Energy and Korea Electric Power Corporation, as well as power generation facilities owned or controlled by Filipino-owned companies such as Global Business Power Corporation, Trans-Asia Power Generation Corporation, AC Energy Holdings Corporation, First Gen Corporation, DMCI Holdings, Inc., and San Miguel Energy Corporation. Following ERC's control test to determine market share, and supplemented with DOE's information (based on Luzon-Visayas-Mindanao Power Outlook released July 2016) for capacity coming online, SMC Global Power Holdings Corporation is projected to have the largest market share of the national

grid's installed generating capacity by end of 2017. The main strength of this largest player is its diversified portfolio of plants utilizing a mix of three (3) fuel types - coal, natural gas and hydro.

With the commencement of retail competition and Open Access, these foreign and local generation companies have already set up their own Retail Electricity Supply business, which include Direct Power RES, Ecozone Power Management Inc. RES, and MPower RES. Of these, the largest player in terms of number of registered contestable customers is MPower RES, based on the PEMC Retail Report released May 2017. The main strength of this largest player is its association with the country's largest distribution utility, MERALCO, and the goodwill that comes from its size and dominance.

Aggressive competition from those with existing licenses is still expected. Additional competition for Open Access customers can come from entities that may not generate power but have RES operations by acting as demand aggregators.

AboitizPower will face competition in both the development of new power generation facilities and the acquisition of existing power plants, as well as competition for financing these activities. The continued robust economic growth of the Philippine economy, the presence of a market to sell, such as the WESM, and the country's growing energy needs have attracted many competitors, including multinational development groups and equipment suppliers, to explore opportunities in electric power generation projects in the Philippines. Accordingly, competition for and from new power projects may increase in line with the expected long-term economic growth of the Philippines.

### **Retail Electricity Supply Business**

Based on ERC's Competitive Retail Electricity Market Monthly Statistical Data as of December 2017, there are thirty (30) licensed RES companies and twenty five (25) Local RES companies participating in the Open Access market in Luzon and Visayas. The Meralco group, through its RES companies, has the largest market share, at 32.29%. The AboitizPower Group, through its RES companies, has the second-largest market share, at 24.29%.

From December 2016 through early 2017, RES companies geared up in anticipation of the reduction of the threshold for contestability of 1 MW to 750 kW, and further down to 500 kW. At that point in time, switching to the Open Access regime was mandatory for captive customers with levels of demand at those thresholds. A TRO on the mandatory switching was executed, however, in the first quarter of 2017, which also put a halt to the lowering of the contestability thresholds. With the execution of the TRO, the switch of Contestable Customers continues to be allowed by the DOE, through Department Circular No. 2017-12-0013 published on December 12, 2017, on a voluntary basis. This substantially reduced the pool of customers that the numerous RES companies can vie for, and thus intensifying the level of competition.

The increase in the number of power plants, the number of RES companies, and volatile oil and coal prices have also increased the level of competition in the Open Access market. RES companies have resorted to both aggressive pricing and contractual concessions.

AboitizPower believes that its portfolio, consisting of different types of energy sources with a mix of renewables and non-renewables, allows it to be flexible in both pricing and reliability of supply, thus enhancing its competitiveness.

### **Distribution Business**

Each of AboitizPower's Distribution Utilities currently has an exclusive franchise to distribute electricity in the areas covered by its franchise.

Under Philippine law, the franchises of the Distribution Utilities may be renewed by the Congress of the Philippines (Congress) provided that certain requirements related to the rendering of public services are met. Each Distribution Utility intends to apply for the extension of its franchise upon expiration. Distribution Utilities may face competition or opposition from third parties in connection with the renewal of their franchises. It should be noted that under Philippine law, a party wishing to secure a franchise to distribute

electricity must first obtain a CPCN from the ERC, which requires that such party proves that it has the technical and financial competence to operate a distribution franchise, and that there is a need for such franchise. Ultimately, Congress has absolute discretion in determining whether to issue new franchises or to renew existing franchises. Further, as provided under the Philippine Constitution, franchise are subject to amendment, alteration, or repeal by the Congress when the common good so requires.

The acquisition by competitors of any of the Distribution Utilities' franchises could adversely affect the results of the Company's operations. However, with the commencement of Open Access in Luzon and Visayas, the supply segment of the distribution business has become a contestable market, initially for customers with at least an average of 1 MW monthly demand.

Pursuant to DOE Circular No. DC2015-06-0010 entitled Providing Policies to Facilitate the Full Implementation of Retail Competition and Open Access (RCOA) in the Philippine Electric Power Industry, all Contestable Customers which are currently being served by their franchised distribution utilities are mandated to secure their respective Retail Supply Contracts (RSCs) no later than 25 June 2016 with any of the following: (i) any licensed RES; (ii) any generating company with a COC and a RES license; or (iii) any prospective generation company whose power generation project is undergoing construction or planned and has been included in the DOE's Power Development Plan.

All Contestable Customers with an average demand ranging from 750 kW and 999 kW for the preceding 12-month period are mandated to secure their RSCs with a RES no later than 25 June 2016. Also, Aggregators shall be allowed to compete with RES, generation companies and prospective generation companies. In the case of retail aggregation, any Contestable Customer within a contiguous area may individually or collectively aggregate their electricity supply requirements to an Aggregator, duly licensed by the ERC. The aggregated demand shall in no case be lower than 750 kW.

All electricity end users with an average demand ranging from 501 kW to below 750 kW for the preceding 12 months may be allowed to choose their respective RES effective 26 June 2018, subject to the determination of the ERC on the basis of its evaluation on the performance of the retail electricity market.

Voluntary contestability for end users with average demand of 500 kW and below for the preceding twelve months shall be based on the continuing evaluation and assessment by the ERC.

On November 29, 2017, the DOE promulgated Department Circular No. 2017-12-0013 entitled "Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Contestable Customers in the Philippine Electric Power Industry." The circular provides, inter alia, that: (i) upon its effectivity, all Contestable Customers with a monthly average peak demand of 750 kW and above, for the preceding twelve months, may participate in the Contestable Market; (ii) by June 26, 2018 or on an earlier date specified by the ERC, all eligible electricity end-users to become Contestable Customers with a monthly average peak demand of 500 kW to 749 kW for the preceding twelve months may voluntarily participate in the Contestable Market; and (iii) by December 26, 2018 or on an earlier date specified by the ERC, electricity end-users within a contiguous area whose aggregate average peak demand is not less than 500 kW for the preceding twelve-month period may aggregate their demand to be part of the Contestable Market and may voluntarily enter into RSC with the Aggregators. The circular also provides the list of entities that may become Retail Electricity Suppliers, and stipulates that distribution utilities may provide electricity services to Contestable Customers within its franchise area as a local RES upon authorization from the ERC.

## **TRANSACTIONS WITH AND/OR DEPENDENCE ON RELATED PARTIES**

AboitizPower and its Subsidiaries, in their regular conduct of business, have entered into transactions with Associates and other related parties principally consisting of professional and technical services, power sales and purchases, advances, various guarantees, construction contracts, aviation services, and rental fees. These are made on an arm's length basis and at current market prices at the time of the transactions.

AEV, the parent company of AboitizPower, and certain Associates have Service Level Agreements (SLAs) with AboitizPower for corporate center services rendered, such as human resources, internal audit, legal, treasury

and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are priced on an arm's length basis, and covered with SLAs to ensure quality of service.

AboitizPower and its Subsidiaries enter into transactions with its parent, associates and other related parties.

Details of the significant account balances of the foregoing related party transactions, retirement fund and compensation of the Board and key management personnel of the Group can be found in the section entitled "Financial And Other Information" on page 236 of this Prospectus, particularly Note 32 of the 2017 AFS.

## **GOVERNMENT APPROVALS, PATENTS, COPYRIGHTS, FRANCHISES**

AboitizPower and its Subsidiaries have secured all material permits required to operate its businesses. These are further discussed below.

### **Generation Business**

Power generation is not considered a public utility operation under RA 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA). Thus, a national franchise is not needed to engage in the business of power generation. Nonetheless, no person or entity may engage in the generation of electricity unless such person or entity has secured a Certificate of Compliance (COC) from the ERC to operate a generation facility and has complied with the standards, requirements and other terms and conditions set forth in the said COC.

Additionally, a generation company must meet the minimum financial capability standards set out in the Guidelines for the Financial Standards of Generation Companies issued by the ERC. Under the said guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Philippine Grid Code and Philippine Distribution Code.

AboitizPower's Distribution Utilities, Davao Light and Cotabato Light, have their own generation facilities and are required under the EPIRA to obtain a COC from the ERC for its generation facilities.

An IPPA such as TLI is not required to obtain a COC. It is nevertheless required, along with all entities owning and operating generation facilities, to comply with technical, financial and environmental standards provided by existing laws and regulations for their operations.

AboitizPower's Generation Companies, which operate hydroelectric facilities, are also required to obtain water permits from the NWRB for the water flow used to run their respective hydroelectric facilities. These permits specify the source of the water flow that the Generation Companies can use for their hydroelectric generation facilities, as well as the allowable volume of water that can be used from the source of the water flow. Water permits have no expiration date and generally are not terminated by the Government as long as the holder of the permit complies with the terms of the permit regarding the use of the water flow and the allowable volume.

AboitizPower, together with its Subsidiaries and Affiliates, is in various stages of project development. Some of its projects have been awarded renewable energy service contracts by the DOE.

The Generation Companies and the Distribution Utilities, Davao Light and Cotabato Light, which own stand-by power plants, possess COCs for their generation businesses, details of which are as follows:

Title of Document	Issued under	Power Plant	Date of
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	the Name of	Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	Issuance/ Validity Period
COC No. 13-11-GN 330- 20029L	Hedcor, Inc.	Irisan 3	Hydroelectric Power Plant	Tadiangan, Tuba, Benguet	1.20 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 331- 20030L	Hedcor, Inc.	Bineng 1	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	3.20 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 332- 20031L	Hedcor, Inc.	Bineng 2	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	2.00 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 333- 20032L	Hedcor, Inc.	Bineng 2b	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	750 kW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 334- 20033L	Hedcor, Inc.	Bineng 3	Hydroelectric Power Plant	Bineng, La Trinidad, Benguet	5.625 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 329- 20028L	Hedcor, Inc.	Ampohaw	Hydroelectric Power Plant	Banengbeng, Sablan, Benguet	8.00 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 336- 20035L	Hedcor, Inc.	Sal-angan	Hydroelectric Power Plant	Ampucaao, Itogon, Benguet	2.40 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 16-01-M-00032L	Hedcor, Inc.	Irisan 1	Hydroelectric Power Plant	Tuba, Benguet	3.8 MW	Hydro	25	January 27, 2016
COC No. 16-05-M-00061M	Hedcor, Inc.	Talomo 1 – Unit 1	Hydroelectric Power Plant	Calinan, Davao City	500 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 1 – Unit2			500 kW			
COC No. 16-05-M-00062M	Hedcor, Inc.	Talomo 2 – Unit 1	Hydroelectric Power Plant	Mintal Proper, Davao City	200 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 2 – Unit 2			200 kW			
		Talomo 2 – Unit 3			200 kW			
COC No. 16-05-M-00063M	Hedcor, Inc.	Talomo 2A – Unit 1	Hydroelectric Power Plant	Upper Mintal, Davao City	450 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 2A – Unit 2			200 kW			
COC No. 16-05-M-00064M	Hedcor, Inc.	Talomo 2B	Hydroelectric Power Plant	Upper Mintal, Davao City	300 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
COC No. 16-05-M-00065M	Hedcor, Inc.	Talomo 3 – Unit 1	Hydroelectric Power Plant	Catalunan, Pequeño, Davao City	960 kW	Hydro	February 15, 2015 - February 14, 2020	May 4, 2016
		Talomo 3 – Unit 2			960 kW			
COC No. 16-03-M-00052L	Hedcor, Inc.	FLS Plant Unit 1	Hydroelectric Power Plant	Bakun Central, Bakun, Benguet	2.0 MW	Hydro	25	March 10, 2016 - November 10, 2018
		FLS Plant Unit 2			2.0 MW			

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
COC No. 13-11-GN 327-20026L	Hedcor, Inc.	FLS Plant	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	5.90 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 335-20034L	Hedcor, Inc.	Lower Labay	Hydroelectric Power Plant	Ampusongan, Bakun, Benguet	2.40 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 13-11-GN 328-20027L	Hedcor, Inc.	Lon-oy	Hydroelectric Power Plant	Poblacion, Bakun, Benguet	3.60 MW	Hydro	25	November 11, 2013 - November 5, 2018
COC No. 16-03-S-17273M	Hedcor Sibulan, Inc.	Sibulan B (Darong)	Diesel	Sibulan B, Brgy. Darong, Sta. Cruz, Davao del Sur	345.60 kW	Diesel	25	March 2, 2016 - March 1, 2021
COC No. 16-03-S-17272M	Hedcor Sibulan, Inc.	Sibulan A (Tibolo)	Diesel	Sibulan A, Brgy. Tibolo, Sta. Cruz, Davao del Sur	306 kW	Diesel	25	March 2, 2016 - March 1, 2021
COC No. 16-03-S-17269M	Hedcor, Inc.	Talomo 2	Diesel	Talomo 2 HEPP, Mintal, Davao City	20 kW	Diesel	25	March 2, 2016 - March 1, 2021
COC No. 16-03-S-17271L	Hedcor, Inc.	La Trinidad (Beckel)	Diesel	214 Ambuklao Road, Beckel, La Trinidad, Benguet	216 kW	Diesel	25	March 2, 2016 - March 1, 2021
COC No. 16-03-S-17270M	Hedcor, Inc.	Talomo 3	Diesel	Talomo 3 HEPP, Mintal, Davao City	20 kW	Diesel	25	March 2, 2016 - March 1, 2021
COC No. 15-04-S-00027L	Hedcor Sabangan, Inc.	N/A	Diesel Engine	Namatec, Sabangan, Mountain Province	80 kW	Diesel	25	April 28, 2015 - April 28, 2020
COC No. 14-1-GXT-19483-20053M	Hedcor Sibulan, Inc.	N/A	Diesel	Brgy. Tudaya, Sta. Cruz, Davao Del Sur	80 kW	Diesel	15	January 14, 2014 - January 14, 2019
COC No. 14-02-GXT-19525-20099M	Hedcor Tudaya, Inc.	N/A	Diesel	Brgy. Sibulan, Sta. Cruz, Davao del Sur	140.00 kW	Diesel	25	February 21, 2014 - February 21, 2019
COC No. 17-09-S-19345L	Luzon Hydro Corporation - Alilem	Alilem	Diesel	Amilongan, Alilem, Ilocos Sur	572 kW	Diesel	September 15, 2017 - September 14, 2022	September 15, 2017
COC No. 17-09-S-19346L	Hedcor Inc. - Beckel	Beckel	Diesel	214 Ambuklao Road, Beckel, La Trinidad, Benguet	188 kW	Diesel	September 15, 2017 - September 14, 2022	September 15, 2017
COC No. 15-05-M-56M	Hedcor Sibulan, Inc.	Sibulan A – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del	8.164 MW	Hydro	25	May 18, 2015 -

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
		Sibulan A – Unit 2		Sur	8.164 MW			August 9, 2020
COC No. 15-05-M-54M	Hedcor Sibulan, Inc.	Sibulan B – Unit 1	Hydroelectric Power Plant	Brgy. Sibulan, Sta. Cruz, Davao del Sur	13.128 MW	Hydro	25	May 18, 2015 - May 24, 2020
		Sibulan B – Unit 2			13.128 MW			
COC No. 14-03-GN 346-20102M	Hedcor Sibulan, Inc.	Tudaya 1	Hydroelectric Power Plant	Sitio Tudaya, Brgy. Sibulan, Sta. Cruz, Davao del Sur	6.65 MW	Hydro	15	March 10, 2014 - March 10, 2019
COC No. 13-07-GXT 17-0017L	Luzon Hydro Corporation	Bakun AC	Hydroelectric Power Plant	Pilipil, Amilongan, Alilem, Ilocos Sur	74.80 MW	Hydro	25	July 22, 2013 - July 29, 2018
COC No. 15-06-M-00013M	Hedcor Tudaya, Inc.	Tudaya 2	Hydroelectric Power Plant	Sta. Cruz, Davao del Sur	8.13 MW	Hydro	25	June 15, 2015
COC No. 15-09-M-00023L	Hedcor Sabangan, Inc.	Sabangan	Hydroelectric Power Plant	Brgy. Namatec, Sabangan, Mountain Province	14.96 MW	Hydro	25	September 29, 2015
COC No. 15-11-M-13701M	Davao Light & Power, Co.	Bajada Diesel Power Plant	Diesel Power Plant	J.P. Laurel Ave., Bajada, Davao City	58.70 MW	Diesel	20	November 26, 2015 - December 7, 2020
			Blackstart		483.20 kW	Diesel	20	
COC No. 17-04-M-15911M	Cotabato Light and Power Company, Inc.	N/A	Bunker C-Fired Diesel Engine	CLPC Compound, Sinsuat Ave., Rosary Heights I, Cotabato City	9.927 MW	Diesel / Bunker C	January 10, 2017 - January 9, 2022	April 19, 2017
			Blackstart		10 kW	Diesel		
COC No. 13-06-GXT 2-0002V	East Asia Utilities Corporation	N/A	Bunker C-Fired Power Plant	Barrio Ibo, Mactan Export Processing Zone 1 (MEPZ 1), Lapu-Lapu City, Cebu	49.60 MW	Bunker C	16	June 10, 2013 - June 10, 2018
COC No. 13-05-GXT 1-0001V	Cebu Private Power Corporation	N/A	Bunker C-Fired Power Plant	Old VECCO Compound, Ermita, Cebu City	70.65 MW	Bunker C	25	May 27, 2013 - June 3, 2018
COC No. 13-08-GXT 20-0020M	Western Mindanao Power Corporation	N/A	Bunker C- Fired Power Plant	Malasugat, Sangali, Zamboanga City	112.0 MW	Bunker C	24	August 5, 2013 - August 7, 2018
		N/A	Blackstart		160 kW	Diesel	24	
COC No. 13-08-GXT 21-0021M	Southern Philippines Power Corporation	N/A	Bunker C- Fired Diesel Power Plant	Brgy. Baluntay, Alabel, Sarangani Province	61.72 MW	Bunker C/ Diesel	18	August 5, 2013 - August 7, 2018
COC No. 15-11-M-2860L	SN Aboitiz Power – Magat, Inc. (Magat Hydroelectric Power Plant)	Magat Hydroelectric Power Plant – Unit 1	Hydroelectric Power Plant	Ramon, Isabela and A. Lista, Ifugao	90 MW	Hydro	25	November 11, 2015 - November 28, 2020
		Magat Hydroelectric Power Plant – Unit 2			90 MW			

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
		Magat Hydroelectric Power Plant – Unit 3			90 MW			
		Magat Hydroelectric Power Plant – Unit 4			90 MW			
		Magat Hydroelectric Power Plant	Blackstart		600 kW	Diesel	25	
COC No. 17-03-M-00309L	SN Aboitiz Power – Benguet, Inc. (Binga Hydroelectric Power Plant)	Binga – Unit 1	Hydroelectric Power Plant	Brgy. Tinongdan, Itogon, Benguet	35.02 MW	Hydro	March 12, 2017 - March 11, 2022	March 9, 2017
		Binga – Unit 2	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 3	Hydroelectric Power Plant		35.02 MW			
		Binga – Unit 4	Hydroelectric Power Plant		35.02 MW			
		Binga Hydroelectric Power Plant	Blackstart Generator Set		320 KW	Diesel		
		Binga Hydroelectric Power Plant	Auxiliary Generator Set		330.40 KW	Diesel		
COC No. 16-08-M-00087L	SN Aboitiz Power – Benguet, Inc. (Ambuklao Hydroelectric Power Plant)	Ambuklao – Unit 1	Hydroelectric Power Plant	Brgy. Ambuklao, Bokod, Benguet	34.85 MW	Hydro	August 31, 2016 - August 30, 2021	August 18, 2016
		Ambuklao – Unit 2			34.85 MW			
		Ambuklao – Unit 3			34.85 MW			
		Ambuklao Hydroelectric Power Plant	Auxiliary Generator Set		320 KW	Diesel		
		Ambuklao Hydroelectric Power Plant	Blackstart Generator Set		314 KW	Diesel		
COC No. 16-06-M-00016M	STEAG State Power, Inc.	N/A	Coal Fired	Phividec Industrial Estate, Balascanas, Villanueva, Misamis Oriental	232 MW	Coal	August 30, 2016 - August 29, 2021	June 13, 2016
			Emergency Generating Set		1.25 MW	Diesel		
COC No. 15-03-S-00013M	STEAG State Power, Inc.	N/A	Diesel Engine	Phividec Industrial Estate, Villanueva, Misamis Oriental	400 kW	Diesel	25	March 25, 2015 - March 25, 2020
COC No. 15-05-M-00007L	AP Renewables, Inc.	Makban – Bay, Plant A	Geothermal Power Plant	Brgy. Bitin, Bay, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Bay, Plant A			63.2 MW			
		Makban – Bay, Plant D			20.0 MW			



Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
		Makban – Bay, Plant D			20.0 MW			
COC No. 15-05-M-00008L	AP Renewables, Inc.	Makban – Calauan, Plant B	Geothermal Power Plant	Brgy. Limao, Calauan, Laguna	63.2 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Calauan, Plant B			63.2 MW			
		Makban – Calauan, Plant C			55.0 MW			
		Makban – Calauan, Plant C			55.0 MW			
COC No. 15-05-M-00009L	AP Renewables, Inc.	Makban – Sto. Tomas, Plant E	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	20.0 MW	Geo-thermal Steam	23	May 4, 2015 - May 31, 2020
		Makban – Sto. Tomas, Plant E			20.0 MW			
COC No. 15-11-M-00028L	AP Renewables, Inc.	Plant A, Unit 1	Geothermal Power Plant	Brgy. Naga, Tiwi, Albay	60 MW	Geo-thermal Steam	25	November 26, 2015 - December 2, 2020
		Plant A, Unit 2			60 MW			
COC No. 15-11-M-286rL	AP Renewables, Inc.	Plant C, Unit 5	Geothermal Power Plant	Brgy. Cale, Tiwi, Albay	57 MW	Geo-thermal Steam	25	November 26, 2015 - December 12, 2020
		Plant C, Unit 6			57 MW			
COC No. 17-05-M-00105L	AP Renewables, Inc.	MakBan Binary 1 Geothermal Power Plant	Geothermal Power Plant	Brgy. Sta. Elena, Sto. Tomas, Batangas	7.0 MW	Brine	November 7, 2016 - November 6, 2021	November 7, 2016 - May 6, 2021
COC No. 16-03-M-00286ggM	Therma Marine, Inc.	Mobile 1	Diesel Power Plant	Brgy. San Roque, MACO, Compostela Valley	100.33 MW	Diesel	25	March 30, 2016 - April 18, 2021
			Blackstart		1.68 MW	Diesel	5	
COC No. 16-03-M-00286bbM	Therma Marine, Inc.	Mobile 2	Diesel Power Plant	Brgy. Nasipit, Agusan del Norte	100.33 MW	Diesel	25	March 30, 2016 - April 5, 2021
			Blackstart		1.68 MW	Diesel	5	
COC No. 17-07-M-00305L	Therma Mobile, Inc.	Barge 1/ Mobile 3	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	66 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00306L	Therma Mobile, Inc.	Barge 2/ Mobile 4	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	56 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00307L	Therma Mobile, Inc.	Barge 3/ Mobile 5	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	57 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 17-07-M-00308L	Therma Mobile, Inc.	Barge 4/ Mobile 6	Bunker C-Fired Diesel Power Plant	Navotas Fish Port Complex, Navotas, Metro Manila	52 MW	Bunker C/ Diesel	July 9, 2017 - July 8, 2022	June 22, 2017
COC No. 15-09-M-00022M	Therma South, Inc.	Unit 1	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25	September 1, 2015 - August 31, 2020

Title of Document	Issued under the Name of	Power Plant						Date of Issuance/ Validity Period
		Name	Type	Location	Capacity	Fuel	Years of Service/ Term of COC	
		Unit 2	Coal Fired Power Plant	Brgy. Binugao, Toril District, Davao City	150 MW	Coal	25	January 19, 2016 - August 31, 2020

### **Distribution Business**

Under the EPIRA, the business of electricity distribution is a regulated public utility business that requires a national franchise that can be granted only by Congress. In addition to the legislative franchise, a CPCN from the ERC is also required to operate as a public utility. Except for Distribution Utilities operating within ecozones, all Distribution Utilities possess franchises granted by Congress.

All Distribution Utilities are required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems) and the performance standards set out in the implementing rules and regulations of the EPIRA.

Shown below are the respective expiration periods of the Distribution Utilities' legislative franchises:

Distribution Utility	Expiration Date
VECO	2030
Davao Light	2025
Cotabato Light	2039
SFELAPCO	2035
SEZ <sup>5</sup>	2028

MEZ, BEZ and LEZ, which operate the power distribution utilities in MEPZ II, WCIP and LTC, respectively, are duly registered with PEZA as Ecozone Utilities Enterprises. Cotabato Light's franchise was renewed for another 25 years upon the signing of RA 10637 on 16 June 2014, by then President Benigno C. Aquino III.

### **Supply Business**

For a time, the business of supplying electricity was being undertaken solely by franchised distribution utilities. On 26 July 2013, the implementation of Open Access commenced in Luzon and Visayas. Like power generation, the business of supplying electricity is not considered a public utility operation under the EPIRA. It is, however, considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to end-users in the contestable market, other than distribution utilities within their franchise areas, to obtain a license from the ERC in accordance with the ERC's rules and regulations. With the implementation of Open Access, AboitizPower's Subsidiaries, AESI, AdventEnergy and Prism Energy, obtained separate licenses to act as RES and Wholesale Aggregator.

### **New Projects**

**300-MW CFB Coal-Fired Project in Toledo City, Cebu.** This project is undertaken by Therma Visayas, Inc. (TVI), a partnership between AboitizPower and the Vivant group. The 2x170-MW coal-fired power plant is in the testing and commissioning phase, but is experiencing technical issues with turbines that will delay commercial operation date (COD) of the first unit to December 2018 and the second unit to first quarter of 2019.

<sup>5</sup> Pursuant to the Distribution Management Service Agreement (DMSA) with the Subic Bay Metropolitan Authority.

ECC-CO-1301-0003 was issued on 20 May 2013.

68-MW Manolo Fortich Hydropower Plant in Bukidnon. The project is undertaken by Hedcor Bukidnon, Inc. The COD of Plant 1 (43.4-MW) was achieved in early July, and Plant 2 (25.4-MW) is expected to reach COD in September 2018 once the final tunnel lining works are completed. The plant is expected to operate under the Feed-in-Tariff (FIT).

ECC-R10-1402-0036 was issued on March 7, 2014, while the Project also was also issued an NWRB Water Permit Nos. 23960, 23961, 23962 and 23963 on March 11, 2016.

2x668-MW Supercritical Coal-Fired GN Power Dinginin in Bataan. This project is undertaken by GNPowder Dinginin Ltd. Co., a partnership composed of Therma Power, Inc. (TPI), AC Energy Holdings, Inc., a wholly-owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. Both Unit 1 and Unit 2, each of 668-MW, are under construction, with targeted commercial operations expected to commence in 2019 and 2020, respectively.

ECC-CO-1406-0012 was issued on November 10, 2015, which was then issued to GNPowder Mariveles Coal Plant Ltd. Co. On July 26, 2016, the DENR granted the request of GNPowder Mariveles Coal Plant Ltd. Co. to transfer said ECC to GNPD.

600-MW CFB Coal-Fired Power Plant in Subic. This project is undertaken by Redondo Peninsula Energy, Inc. (RP Energy), a joint venture among Meralco PowerGen Corporation (MPGC), Aboitiz subsidiary Therma Power, Inc. (TPI) and Taiwan Cogeneration International Corporation (TCIC). The project involves the construction and operation of a 2 x 300 MW (net) circulating-fluidized-bed (CFB) coal-fired power plant. On April 20, 2016, RP Energy entered into a Power Service Agreement (PSA) with Manila Electric Company (Meralco) for a contracted capacity of 225 MW within a 20-year term. This PSA was filed for approval with the Energy Regulatory Commission (ERC) on April 29, 2016. Public hearings were subsequently held, and were concluded on January 6, 2017. On April 10, 2018, RP Energy and Meralco agreed to extend the longstop date of the PSA for a period of six (6) months or from April 29, 2018 to October 29, 2018. If the ERC does not approve the PSA by October 29, 2018, RP Energy would then have the option to terminate the PSA. To date, RP Energy is still awaiting the ERC's PSA approval.

ECC No. 0804-011-4021 was issued on December 22, 2008.

390-MW Alimit Hydropower Complex in Ifugao. SN Aboitiz Power-Ifugao, Inc. (SN AboitizPower-Ifugao), is in the process of developing the Alimit Hydro Power Complex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility, and the 20-MW Olilicon hydropower. The affected municipalities are Aguinaldo, Lagawe, Lamut, and Mayoyao. The development is still in the feasibility study phase, including the permitting process. Due to market constraints, the technical studies of the pumped storage facility have been temporarily suspended. An important component of the feasibility review is the Free Prior and Informed Consent from the indigenous peoples. SN AboitizPower-Ifugao will continue working with the government, indigenous peoples' representatives, and industry partners.

Naga Power Plant Complex. On April 30, 2014, Power Sector Assets and Liabilities Management (PSALM) issued a Notice of Award to AboitizPower subsidiary, Therma Power Visayas, Inc. (TPVI), for submitting the highest bid amounting to P1.08 bn. TPVI received the Certificate of Effectivity (COE) from PSALM last May 24, 2018. Thereafter, on July 16 2018, TPVI took possession of the power plant complex.

## **Trademarks**

AboitizPower and its Subsidiaries own, or have pending applications for the registration of intellectual property rights for various trademarks associated with their corporate names and logos. The following table sets out information regarding the trademark applications the Company and its Subsidiaries have filed with the Philippine Intellectual Property Office (IP Office).

Trademarks	Applicant	Date Filed	Registration	Certificate of	Status
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			No./Date Issued	Description	
A Better Future (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004383  November 11, 2010	Application for the word mark "A Better Future".	Original Certificate of Registration was issued on November 11, 2010.  The 3rd year Anniversary Declaration of Actual Use (DAU) was filed on April 23, 2013 with the IP Office.  The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
Better Solutions (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004384  November 11, 2010	Application for the word mark "A Better Solutions".	Original Certificate of Registration was issued on November 11, 2010.  The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office.  The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
AboitizPower word mark (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004385  November 11, 2010	Application for the word mark "AboitizPower".	Original Certificate of Registration was issued on November 11, 2010.  The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office.  The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
AboitizPower Spiral Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004380  February 10, 2011	Application for the device mark "AboitizPower Spiral and Device". The representation of a	Original Certificate of Registration was issued on February 10, 2011.  The 3rd year Anniversary Declaration of Actual Use (DAU)

				spiral rendered in blue.	<p>was filed on April 23, 2013 with the IP Office.</p> <p>The 5th year Anniversary DAU was filed on February 3, 2017 with the IP Office.</p> <p>The 10th year Anniversary DAU and application for renewal are due for filing on February 10, 2021.</p>
Cleanergy (Class No. 42)	Aboitiz Power Corporation	October 19, 2001	4-2001-07900 January 13, 2006	Application for the word mark "Cleanergy".	<p>Original Certificate of Registration for the mark CLEANERGY was issued on January 13, 2006.</p> <p>The 3rd year Anniversary Declaration of Actual Use (DAU) was filed on November 11, 2004 with the IP Office.</p> <p>The 5th year Anniversary DAU was filed on December 27, 2011 with the IP Office.</p> <p>The 10th year Anniversary DAU and renewal of registration were filed with the IP Office on January 13, 2016.</p> <p>The 15th DAU is due on January 13, 2021.</p>
Cleanergy and Device (Class No. 42)	Aboitiz Power Corporation	July 30, 2002	4-2002-006293 July 16, 2007	Application for the device mark "Cleanergy and Device" with the representation of a light with bulb with three leaves attached to it, with the words "CLEANERGY" and a small "ABOITIZ" diamond logo below it.	<p>Original Certificate of Registration No. 4-2002-06293 was issued on July 16, 2007.</p> <p>The 3rd year Anniversary DAU was filed on June 28, 2005.</p> <p>The 5th year Anniversary DAU was filed on July 15, 2013 with the IP Office.</p> <p>The 10th year Anniversary DAU and application for renewal of registration were filed on July 16, 2017 with the IP Office.</p> <p>The Renewal DAU due on July 16, 2018 was not filed due to lack of proof of use.</p>
Cleanergy Get It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004381 November 11, 2010	Application for the device mark "Cleanergy Get it and Device". The word "Cleanergy" with the phrase "get	<p>Original Certificate of Registration was issued on November 11, 2010.</p> <p>The 3rd year Anniversary DAU was filed on April 23, 2013 with</p>

				it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	the IP Office.  The 5th year Anniversary DAU was filed on October 16, 2017 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
Cleanergy Got It and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004382  November 11, 2010	Application for the device mark "Cleanergy got it and device". The word "Cleanergy" with the phrase "got it" below it with both words endorsed by representation of a thumbs up sign. The whole mark is rendered in two shades of green.	Original Certificate of Registration was issued on November 11, 2010.  The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office.  The 5th year Anniversary DAU was filed on October 26, 2016 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on November 11, 2020.
AboitizPower and Device (Class Nos. 39, 40 and 42)	Aboitiz Power Corporation	April 23, 2010	4-2010-004379  February 10, 2011	Application for the device mark "AboitizPower and Device", with color claim.	Original Certificate of Registration was issued on February 10, 2011.  The 3rd year Anniversary DAU was filed on April 23, 2013 with the IP Office.  The 5th year Anniversary DAU was filed on February 3, 2017 with the IP Office.  The 10th year Anniversary DAU and application for renewal are due for filing on February 10, 2021.
Alterspace (Class Nos. 9, 39 and 40)	Aboitiz Power Corporation	April 6, 2011	4-2011-003968  February 24, 2012	Application for the word mark "ALTERSPACE".	Original Certificate of Registration was issued on February 24, 2012.  The 3rd year Anniversary DAU was filed on May 20, 2014 with the IP Office.  The 5th DAU was due on February 24, 2018 but was not filed due to non-use.
Alterspace and Device (Class Nos. 9, 39 and 40)	Aboitiz Power Corporation	May 31, 2011	4-2011-006291  December 22, 2011	Application for the device mark "Alterspace and Device".	Original Certificate of Registration was issued on December 22, 2011.  The 3rd year Anniversary DAU

				A globe with the words "alter" and "space" inside an arrow circling the globe and separating the words. The globe is rendered in forest green, while the words and arrow are rendered in lime green.	was filed on May 20, 2014 with the IP Office.  The 5th DAU was due on December 22, 2017 but was not filed due to non-use.
Subic EnerZone Corporation and Logo (with color claim) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007306  August 20, 2007	Trademark application for Subic EnerZone Corporation and Logo (blue and yellow). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, rendered in cobalt medium blue color, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words. The logo is likewise rendered in the cobalt medium blue color in a yellow background.	Original Certificate of Registration was issued on August 20, 2007.  The mark was renewed on August 20, 2017.  The renewal DAU was filed on August 20, 2018, with the IP Office.
Subic EnerZone Corporation and Logo (plain only) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007305  August 20, 2007	Trademark Application for Subic EnerZone Corporation wordmark and logo (gray). The mark consists of the words "SUBIC ENERZONE" in fujiyama extra bold font with the word "CORPORATION" below it, also in fujiyama font, and a representation of the letter "S" taking the shape of a flame (the company logo) above the words.	Original Certificate of Registration was issued on August 20, 2007.  The mark was renewed on August 20, 2017.  The renewal DAU was filed on August 20, 2018, with the IP Office.
Subic EnerZone Corporation (wordmark) (Class No. 39)	Subic EnerZone Corporation	July 6, 2006	4-2006-007304  June 4, 2007	Trademark Application for Subic EnerZone Corporation (wordmark).	Original Certificate of Registration was issued on June 4, 2007.  The mark was renewed on June 4,

					2017. The renewal DAU was filed on June 4, 2018, with the IP Office.
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## EFFECT OF EXISTING OR PROBABLE GOVERNMENT REGULATIONS ON THE BUSINESS

Since the enactment of the EPIRA in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Among the provisions of the EPIRA that have had or will have considerable impact on AboitizPower's businesses relate to the following:

### 1. The Tax Reform for Acceleration and Inclusion (TRAIN Law)

The TRAIN Law was signed into law by President Rodrigo Roa Duterte on December 19, 2017, and took effect on January 1, 2018. Its declared policies are: (a) to enhance the progressivity of the tax system through the rationalization of the Philippine internal revenue tax system, thereby promoting sustainable and inclusive economic growth; (b) to provide, as much as possible, an equitable relief to a greater number of taxpayers and their families in order to improve levels of disposable income and increase economic activity; and (c) to ensure that the government is able to provide for the needs of those under its jurisdiction and care through the provision of better infrastructure, health, education, jobs, and social protection for the people.

One of the major provisions of the tax reform is the staggered increase in oil and coal excise taxes. Under the TRAIN Law, rates will be adjusted gradually between 2018 and 2020. For coal, the rates will increase from ₱10 per metric ton to ₱50, ₱100, and ₱150 per metric ton, respectively, in 2018, 2019, and 2020, covering both domestic and imported coal.

Further, with the repeal of Section 9 of Republic Act No. 9511 or the National Grid Corporation of the Philippines Act which removes VAT exemptions on transmission charges and sale of electricity by cooperatives duly registered under the Cooperative Development Authority (CDA), the estimated impact on the cost of electricity are as follows:

#### Additional cost

All figures in ₱

	kWh consumption	Current cost per kWh	Current Total Cost	Generation Coal	Generation Diesel/Bunker	Transmission	Distribution	UCME <sup>6</sup>	Total	Estimated new total cost	Percent increase
Grid (Meralco)	100	7.80	780.00	2.00	4.40	8.18	0.00	0.38	14.96	794.96	1.92
Grid (non-Meralco, NEA)	100	8.80	880.00	2.00	4.40	5.91	0.00	0.38	12.69	892.69	0.44
Grid (non-Meralco, CDA)	00	8.80	880.00	2.00	4.40	5.91	7.18	0.38	19.87	899.87	2.26
SPUG <sup>7</sup> (NEA <sup>8</sup> , coal powered)	00	11.30	1,130.00	4.00	0.00	0.00	0.00	0.38	4.38	1,134.38	0.39
SPUG (CDA, coal powered)	00	11.30	1,130.00	4.00	0.00	0.00	10.17	0.38	14.55	1,144.55	1.29
SPUG (NEA, diesel/bunker powered, full pass-through)	00	11.30	1,130.00	0.00	7.1.00	0.00	0.00	0.00	71.00	1,201.00	6.28
SPUG (CDA, diesel/bunker powered, full pass-through)	00	11.30	1,130.00	0.00	7.1.00	0.00	10.17	0.00	8.7	2.70	7.8
SPUG (NEA, diesel/bunker powered, subsidized)	00	11.30	1,130.00	0.00	0.00	0.00	0.00	0.38	0.38	30.38	0.03

<sup>6</sup> Universal Charge of Missionary Electrification

<sup>7</sup> Small Power Utilities Group

<sup>8</sup> National Electrification Administration



SPUG (CDA, diesel/bunker powered, subsidized)	00	11.30	1,130.00	0.00	0.00	0.00	10.17	0.38	0.55	40.55	0.93
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Sources: Department of Energy (DOE), Kuryente.org, and Department of Finance (DOF) staff estimates

Notes: Estimates are based on the following assumptions:

- i) An additional ₱2.50 per liter increase in the excise tax of diesel and bunker fuel.
- ii) An average increase to ₱1.00 in excise tax per metric ton of coal

Another major change introduced by the TRAIN Law is the refund mechanism of zero-rated sales and services under the enhanced VAT refund system. Upon the successful establishment and implementation of an enhanced VAT refund system, refunds of creditable input tax shall be granted by the BIR within ninety (90) days from filing of the VAT refund application, provided that all pending VAT refund claims of the taxpayer as of December 31, 2017 shall be fully paid in cash by December 31, 2019. The following shall no longer be considered as zero-rated transactions and consequently shall be subject to 12% VAT upon the establishment of said refund system:

1. Sale of raw materials or packaging materials to a nonresident buyer for delivery to a resident local export to be used in manufacturing, processing, packing or repacking in the Philippines of the said buyer's goods and paid for in acceptable foreign currency and accounted for in accordance with the rules and regulations of the BSP;
2. Sale of raw materials or packaging materials to export-oriented enterprise whose export sales exceed seventy percent (70%) of total annual production;
3. Those considered export sales under Executive Order No. 226, otherwise known as the Omnibus Investment Code of 1987, and other special laws;

Finally, the TRAIN Law doubled the documentary stamp tax (DST) on almost all covered instruments, except debt instruments where the increase is 50%. Only the DST on instruments pertaining to property insurance, fidelity bonds, other insurance, indemnity bonds, and deeds of sale and conveyance remain unchanged.

## **2. Electric Power Industry Reform Act of 2001 (EPIRA)**

Since the enactment of the Electric Power Industry Reform Act of 2001 (EPIRA), the Philippine power industry has undergone and continues to undergo significant restructuring. Among the provisions of the EPIRA which have had or will have considerable impact on AboitizPower's businesses relate to the following:

### **(a) Wholesale Electricity Spot Market (WESM)**

The WESM is a mechanism established by the EPIRA to facilitate competition in the production and consumption of electricity. It aims to provide the mechanism for identifying and setting the price of actual variations from the quantities transacted under contracts between sellers and purchasers of electricity by: (a) establishing the merit order dispatch instructions for specific time periods; (b) determining the market clearing price for such time periods; (c) reflecting accepted economic principles; and (d) providing a level playing field to all electric power industry participants.

The WESM provides an avenue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. Where there are such bilateral contracts, these contracts are nevertheless declared in the market but only to determine the appropriate merit order of generators. Settlement for bilateral contracts between the contracting parties will, however, occur outside the market. Traded electricity not covered by bilateral contracts will be settled through the market on the basis of the market clearing prices for each of the trading periods.

An amended Joint Resolution No. 2 was issued by the DOE, ERC, and PEMC on 27 December 2013, adjusting the WESM Offer Price Cap. In this resolution, the Offer Price Ceiling of ₱62,000.00 per MWh as set by the WESM Tripartite Committee was reduced to ₱32,000.00 per MWh. This price cap is provisional in nature and shall be subject to public consultations and review by the WESM Tripartite Committee.

In May 2014, the ERC issued an urgent resolution that established a mechanism to impose an interim secondary price cap of ₱6,245.00 per MWh in the WESM. In December 2014, the ERC adopted a permanent pre-emptive mitigation measure, where the price cap of ₱6,245.00 per MWh would be imposed in the event the average spot price in WESM would exceed ₱9,000.00 per MWh over a rolling seven-day period.

The Philippine Independent Power Producers Association, Inc. (PIPPA) filed a petition for declaratory relief with the Regional Trial Court (RTC) of Pasig City on the ground that the resolutions establishing the interim secondary price cap and the permanent pre-emptive mitigation measure are invalid and void.

In 2015, DOE Circular 2015-10-0015 entitled “Providing Policies for Further Enhancement of the Wholesale Electricity Spot Market (WESM) Design and Operations” was issued. The enhancements to the WESM Design are summarized below:

1. Removal of Pmin constraint in the Market Dispatch Optimization Model (MDOM);
2. Five minutes dispatch intervals from one hour;
3. Ex-ante pricing only;
4. Maintaining the one-hour settlement interval for settlement purposes;
5. Automated pricing corrections;
6. Mandatory integration of distribution utilities' sub-transmission network (with material effect) into the Market Network Model (MNM);
7. Changing the values and priorities of some of the Constraint Violation Coefficients (CVCs);
8. Imposition of WESM offer cap and floor for energy and reserve as determined through joint study by the DOE, ERC and PEMC;
9. Implementation of hourly Day-Ahead Projection (DAP) with sensitivities and Hour-Ahead Dispatch (HAD);
10. Implementation of nodal-based short-term demand forecasting;
11. Enhanced training of WESM participants; and
12. Any other enhancements as may be deemed necessary and issued by the DOE.

On May 17, 2017, PEMC filed an application docketed as ERC Case No. 2017-042 RC for the approval of the Price Determination Methodology for the WESM, which includes, inter alia, (i) scheduling and pricing of energy and reserves, and (ii) revised settlement formula. The application was last heard for expository presentation on November 22, 2017. No Order or pronouncement from the ERC as to the next incident of this case was released as of August 23, 2018.

On August 6, 2018, the ERC issued Department Circular No. DC2018-08-0022 amending WESM Rules and its Market Manuals. This aims to provide the framework for the participation of Non-Generator Resources and Pumped-Storage Units in the WESM with respect to registration, dispatch protocol and modeling in the market network model.

### **(b) Interim Mindanao Electricity Market (IMEM) and WESM Mindanao**

On 9 January 2013, the DOE issued Department Circular No. 2013-01-0001 establishing the Interim Mindanao Electricity Market (IMEM). The IMEM intends to address the supply shortage in Mindanao through transparent and efficient utilization of available capacities. However, there were some deficiencies on the processes of the IMEM that led to its inability to collect from customers and to pay the generators. Though the IMEM started in December 2013, it has been suspended indefinitely after three months of operation.

Under DOE's draft Department Circular, “Declaring the Launch of the WESM in Mindanao and Providing for Transition Agreements,” the initial target launch of the WESM in Mindanao was 26 June 2017. However, the DOE encountered difficulties and is expected to launch the WESM in Mindanao before the end of 2018.

### **(c) Retail Competition and Open Access (Open Access)**

The EPIRA provides for a system of Open Access to transmission and distribution wires, whereby Transco, its

concessionaire, the NGCP, and any distribution utility may not refuse the use of their wires by qualified persons, subject to the payment of transmission and distribution retail wheeling charges. Conditions for the commencement of Open Access are as follows:

1. Establishment of the WESM;
2. Approval of unbundled transmission and distribution wheeling charges;
3. Initial implementation of the cross subsidy removal scheme;
4. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
5. Transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

As provided in the EPIRA, Open Access shall be implemented in phases. The WESM began operations in Luzon in June 2006 and in Visayas in December 2010.

In 2011, the ERC *motu proprio* initiated proceedings to determine whether Open Access may already be declared in Luzon and Visayas. Following various public hearings, the ERC declared 26 December 2011 as the Open Access Date when full operations of the Competitive Retail Electricity Market in Luzon and Visayas should commence. All electricity end-users with an average monthly peak demand of 1MW for the 12 months preceding 26 December 2011, as certified by the ERC to be Contestable Customers, were given the right to choose their own electricity suppliers. However, on 24 October 2011, upon the request of MERALCO, Private Electric Power Operators Association and Philippine Rural Electric Cooperatives Association, Inc. for re-evaluation of the feasibility of the 26 December 2011 Open Access Date, the ERC declared the deferment of the implementation of Open Access in Luzon and Visayas by reason of the inadequacy of rules, systems, preparations and infrastructure required therefor.

In 2012, the ERC, together with the DOE and PEMC, worked on the development of the Transitory Rules to govern the initial implementation of Open Access, which rules were finalized and issued by the ERC in December 2012. Under the said rules, the ERC declared 26 December 2012 as the Open Access Date, while the period from 26 December 2012 to 25 June 2013 was declared as the Transition Period during which the required systems, processes and information technology structure relating to Open Access would be developed and finalized, and registration of retail electricity suppliers and Contestable Customers into the WESM database would be instituted. The period from 26 June 2013 to 25 December 2013 would cover the initial commercial operation of Open Access. From 26 December 2013 onwards, full retail competition was implemented, with PEMC assigned to perform the functions of the Central Registration Body tasked to undertake the development and management of the required systems, processes and information technology structure and the settlement of transactions in the WESM relating to Open Access.

In Mindanao, a truly competitive environment required by Open Access is not expected in the near future because the largest generating asset owned by NPC in Mindanao has yet to be privatized. In December 2013, however, the IMEM commenced operations to address the supply shortfall in the grid through the utilization of available resources such that all registered generating facilities are mandated to fully account for their capacities in the market.

In December 2013, ERC issued revised licensing regulations for RES operating in the retail supply segment. In the ERC revised rules, no RES licenses would be issued to generating companies, IPPA and affiliates of distribution utilities during a transition period or until the ERC deems appropriate in consideration of market conditions. Additional restrictions were provided such as: (1) including the contracted capacity of the RES in the grid limitations imposed on the total capacity controlled by its affiliate generation companies; (2) limiting the supply by a RES to its affiliate end-users up to 50% of the RES' capacity; and (3) limiting the supply by a generation company to its affiliate RES up to 50% of the generation requirements of such RES. The Retail Electricity Suppliers Association of the Philippines, Inc. has filed in the RTC of Pasig City a petition for declaratory relief with an urgent application for an injunction on the ground that the revised rules are unconstitutional and invalid.

On 22 October 2014, the ERC issued Resolution No. 17, Series of 2014 that held in abeyance the evaluation of RES license applications and suspends the issuance of RES licenses pending the ERC's promulgation of the

amended RES License Rules.

On 12 May 2016, the ERC issued Resolution No. 11, Series of 2016 (ERC Resolution No. 11-16), which disallowed distribution utilities from engaging in the supply of electricity to end-users in the contestable market unless it is a Supplier of Last Resort. Local RES are also mandated to wind down business within three years from the effectivity of ERC Resolution No. 11-16. Retail Supply Contracts (RSC) executed by Local RES shall remain valid until their expiration, but no new RSCs can be signed or executed. ERC Resolution No. 11-16 further provides that no RES are allowed to supply more than 30% of the total average monthly peak demand of all Contestable Customers in the CREM. RES are also not allowed to transact more than 50% of the total energy transactions of its supply business with its affiliate Contestable Customers.

In its Resolution No. 10, Series of 2016, the ERC approved the Revised Rules of Contestability that establishes the conditions and eligibility requirements for end-users to be part of the contestable market.

On 27 May 2016, MERALCO filed a Petition for Declaratory Relief, docketed as SCA No.4149-PSG, with a prayer for the issuance of a Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction to (a) enjoin the DOE and the ERC from enforcing and implementing: (i) DOE Circular No. DC2015-06-0010 in connection with the full implementation of RCOA, (ii) Article 1, Sections 2 and 3 of ERC Resolution No. 5, Series of 2016, (iii) ERC Resolution No. 10, Series of 2016 on the revised rules for contestability, and (iv) ERC Resolution No. 11, Series of 2016 regarding restrictions imposed on the operations of DUs and RES in the CREM; and (b) declare the said DOE Circular and ERC Resolutions void.

On 13 July 2016, a Writ of Preliminary Injunction enjoining the implementation of the issuances of the ERC was granted by Branch 157, RTC of Pasig City. The ERC and the DOE, assailing the jurisdiction of the RTC, separately filed Petitions for Certiorari and Prohibition before the Supreme Court, on 5 July 2016 (G.R. No. 225141) and on 27 September 2016 (G.R. No. 226800), respectively.

On 10 October 2016, the Supreme Court, acting on the Petition filed by DOE, issued a TRO enjoining Branch 157, RTC of Pasig City from continuing with the proceedings in SCA No. 4149-PSG and from enforcing all orders, resolutions and decisions rendered in SCA No. 4149-PSG.

In December 2016, the Philippine Chamber of Commerce and Industry, San Beda College Alabang, Inc., Ateneo De Manila University, and Riverbanks Development Corporation filed a new petition before the Supreme Court to enjoin the ERC and the DOE from implementing DOE Circular No. 2015-06-0010, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC Resolution No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

On 21 February 2017, the Supreme Court issued a TRO (hereinafter the "2017 TRO"), effective immediately, enjoining the DOE and the ERC from implementing DOE Circular No. DC2015-06-0010, Series of 2015, ERC Resolution No. 5, Series of 2016, ERC Resolution No. 10, Series of 2016, ERC No. 11, Series of 2016, and ERC Resolution No. 28, Series of 2016.

In a letter to MEZ dated November 7, 2017, the ERC through Commissioner Alfredo J. Non, stated that:

"Distribution Utilities are reminded to facilitate the switch of contestable customers as the said TRO did not operate to suspend the implementation of RCOA. The RCOA scheme is still effective and the rules governing the same, except for those covered by the TRO, are valid and enforceable."

In this letter, the ERC also reminded MEZ to refrain from any action which would prevent the implementation of the contestability of 1 MW and above in the CREM and the voluntary switch of Contestable Customers to and/or from RES.

On November 29, 2017, the DOE promulgated DC2017-12-0013 entitled "Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Contestable Customers in the Philippine Electric Power Industry." The circular provides, inter alia, that (i) upon the effectivity of Circular, all Contestable Customers with a monthly average peak demand of 750 kW and above, for the preceding twelve months, may participate in the Contestable Market; (ii) by June 26, 2018 or on an earlier date specified by the

ERC, all eligible electricity end-users to become Contestable Customers with a monthly average peak demand of 500 kW to 749 kW for the preceding twelve months may voluntarily participate in the Contestable Market; and (iii) by December 26, 2018 or on an earlier date specified by the ERC, electricity end-users within a contiguous area whose aggregate average peak demand is not less than 500 kW for the preceding twelve-month period may aggregate their demand to be part of the Contestable Market and may voluntarily enter into RSC with the Aggregators.

On November 29, 2017, the DOE promulgated DC2017-12-0014 entitled "Providing Policies on the Implementation of Retail Competition and Open Access (RCOA) for Retail Electricity Suppliers (RES) Philippine Electric Power Industry." The circular provides the list of entities that may become Retail Electricity Suppliers. The circular also stipulates that distribution utilities may provide electricity services to Contestable Customers within its franchise area as a Local RES upon authorization from the ERC.

In a petition, former legislator Neri J. Colmenares asked the Supreme Court to lift the 2017 TRO and open up the power market to RES. According to Colmenares, the sweeping nature of the TRO unduly favors monopolies like Meralco to the detriment of energy consumers.

Bayan Muna has filed an intervention in the Supreme Court, seeking to clarify whether the TRO covered portions of Department Circular No. DC2017-12-0013.

#### **(d) Unbundling of Rates and Removal of Subsidies**

The EPIRA mandated the unbundling of distribution and wheeling charges from retail rates, with such unbundled rates reflecting the respective costs of providing each service. It also mandated the removal of cross subsidies other than the lifeline rate for marginalized end-users which shall subsist for a period of 20 years, unless extended by law. The lifeline rate is a socialized pricing mechanism set by ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity.

#### **(e) Reduction of Taxes and Royalties on Indigenous Energy Resources**

EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel, and other imported fuels. Following the promulgation of the implementing rules and regulations, former President Gloria Macapagal-Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation.

#### **(f) Proposed Amendments to the EPIRA**

Since the enactment of the EPIRA, members of Congress have proposed various amendments to the law and its implementing rules and regulations. A summary of the significant proposed amendments are as follows:

1. Classification of power projects as one of national significance and imbued with public interest;
2. Exemption from VAT on the sale of electricity by generation companies;
3. Modification of the definition of the term "Aggregator," which is proposed to refer to a person or entity engaged in consolidating electric power demands of end-users of electricity in the contestable market, for the purpose of purchasing, reselling, managing for optimum utilization of the aggregated demand, or simply pooling the tendering process in looking for a supply of electricity on a group basis;
4. Requirement for distribution utilities to conduct public and competitive selection processes or Swiss challenges for the supply of electricity and to fully or adequately contract their future and current energy and demand requirements;
5. Grant of access to electric cooperatives over the missionary electrification fund collected through universal charges;
6. Exclusion of the following items from the rate base charged by Transco and distribution utilities to the public: corporate income tax, value of the franchise, value of real or personal property held for possible future growth, costs of over-adequate assets and facilities, and amount of all deposits as a

- condition for rendition and continuation of service;
7. Regulation of generation, transmission, distribution, and supply rates to allow RORB up to 12%;
  8. Classification of power generation and supply sectors as public utilities, which would be required to secure legislative franchises;
  9. Prohibition of cross-ownership between generation companies and distribution utilities or any of their subsidiaries, affiliates, stockholders, officials or directors, or the officials, directors, or other stockholders of such subsidiaries or affiliates, including the relatives of such stockholders, officials or directors within the fourth civil degree of consanguinity;
  10. Prohibition against or restriction on distribution utilities from sourcing electric power supply requirements, under bilateral electric power supply contracts, from a single generation company or from a group of generating companies wholly-owned or controlled by the same interests;
  11. Lowering of the allowable extent of ownership, operation and control of a company or related groups as determined from the installed generating capacity of the grid and/or nationally installed generating capacity;
  12. Exemption or deferral of the privatization of some assets of NPC, such as the Unified Leyte (Tongonan) Geothermal Complexes, Agus and Polangui Complexes, and Angat Dam;
  13. Expansion of the definition of host communities to include all barangays, municipalities, cities and provinces or regions where hydro generation facilities are located and where waterways or water systems that supply water to the dam or hydroelectric power generating facility are located;
  14. Prohibition on distribution utilities, except rural electric cooperatives to recover systems losses and placing a 5% cap on recoverable system loss;
  15. Imposition of a uniform franchise tax for distribution utilities equivalent to 3% of gross income in lieu of all taxes;
  16. Grant of authority for NPC to generate and sell electricity from remaining assets;
  17. Removal of the requirement of a joint congressional resolution before the President may establish additional power generating capacity in case of imminent shortage of supply of electricity; and
  18. Creation of a consumer advocacy office under the organizational structure of the ERC.

### **3. Implementation of the Performance-based Rating-setting Regulation (PBR)**

On 13 December 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates (RSDWR) for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the Return-On-Rate Base (RORB) mechanism, which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by ERC and used by ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by ERC, such as the: (1) average duration of power outages; (2) average time of restoration to customers; and (3) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

The second regulatory period of Cotabato Light ended on March 31, 2013, while that of VECO and Davao Light ended on 30 June 2014. In addition, the second regulatory period of SEZ and SFELAPCO ended on 30 September 2015. A reset process should have been initiated 18 months prior to the start of the third regulatory period of 1 April 2013 to 31 March 2017 for Cotabato Light, 1 July 2014 to 30 June 2018 for VECO and Davao Light, and 1 October 2015 to 30 September 2019 for SEZ and SFELAPCO.

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 RSDWR. Said paper aims 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 12 July 2016, the ERC adopted the Resolution Modifying the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR). Based on said Resolution, the Fourth Regulatory Period shall be as follows:

1. Cotabato Light: 1 April 2017 to 31 March 2021
2. Davao Light and VECO: 1 July 2018 to 30 June 2022
3. SEZ and SFELAPCO: 1 October 2019 to 30 September 2023

On 21 November 2016, the ERC posted for comments the draft Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities. Public consultations were conducted on 6 and 9 January 2017 in Cebu and Manila, respectively.

On December 22, 2015, Matuwid na Singil sa Kuryente Consumer Alliance, Inc. (MSK) filed a petition proposing a modified RORB methodology or a modified PBR methodology, wherein the distribution utilities' capital expenditures and rate recovery thereon are approved in advance but the charges to the customers will only commence after the investments have actually been made and validated by ERC auditors. Public consultations were set by the ERC on March 17 and April 10 in its main office, and on March 22 and 24 in its field offices in Cebu and Davao, respectively.

The reset process for the fourth regulatory period has not yet started for all private distribution utilities as the abovementioned ERC rules have not been published yet for its effectivity. Due to the rules change on PBR, all AboitizPower Distribution Utilities have not undergone the third regulatory period.

#### **4. Compliance with the Philippine Distribution Code and the Philippine Grid Code**

Each of AboitizPower's Distribution Utilities has submitted to ERC a Compliance Monitoring Report based on a self-assessment of a distribution utility's compliance with the Philippine Distribution Code. These Compliance Monitoring Reports were accompanied by Compliance Plans, which outline the activities and projects to be undertaken by a distribution utility to fully comply with the prescribed technical, performance and financial standards of the Philippine Distribution Code.

Similarly, APRI, TMI and Hedcor have submitted to the ERC their respective Grid Compliance Monitoring Reports based on self-assessments of their compliance with all prescribed technical specifications and performance standards of the Philippine Grid Code. Reliable and attainable Compliance Plans accompanied these reports to outline the activities and projects that will cause compliance by a generation company with the requirements of the Philippine Grid Code.

On 5 October 2016, the ERC approved the 2016 Edition of the Philippine Grid Code in Resolution No. 22, Series of 2016. Pertinent revisions are as follows:

1. Redefinition of various reserves;
2. Inclusion of Run-of-River power plants requirements;
3. Amendments to Variable Renewable Energy (VRE) requirements;
4. Changes on definition of Large Generating Plant; and
5. Inclusion of Must-Run Unit (MRU), Constrained Off and Constrained On.

#### **5. The Renewable Energy Act of 2008 (RE Law)**

The RE Law was signed into law by former President Gloria Macapagal-Arroyo on December 16, 2008 and became effective in January 2009. Among the RE Law's declared policies is to accelerate and develop the use of the country's renewable energy (RE) resources to (a) reduce the country's dependence on fossil fuels, thereby minimizing exposure to price fluctuations in the international markets, and (b) reduce or prevent harmful emissions and promote a healthy and sustainable environment.

The RE Law imposes a government share on existing and new RE development projects at a rate of 1% of the gross income from the sale of renewable energy and other incidental income from generation, transmission and sale of electric power, except for indigenous geothermal energy which shall be at a rate of 1.50% of gross income. Proceeds from micro-scale projects for communal purposes and non-commercial operations, not exceeding 100 kW, and proceeds from the development of biomass resources will not be subject to the said government share.

The RE Law offers fiscal and non-fiscal incentives to RE developers, including developers of hybrid systems, subject to certification by the DOE in consultation with the BOI. These incentives include an ITH for the first seven years of commercial operations; duty-free importations of RE machinery, equipment and materials effective within ten years upon issuance of certification, provided, said machinery, equipment and materials are directly and actually needed and exclusively used in RE facilities; special realty tax rates on civil works, equipment, machinery and other improvements of a registered RE developer not exceeding 1.50% of the net book value; net operating loss carry-over; corporate tax rate of 10% after the seventh year; accelerated depreciation; zero-percent VAT on sale of fuel or power generated from RE sources and other emerging sources using technologies such as fuel cells and hydrogen fuels and on purchases of local supply of goods, properties and services needed for the development, construction and installation of RE facilities; cash incentives for missionary electrification; tax exemption on the sale of carbon emission credits; and tax credit on domestic purchases of capital equipment and services.

All fiscal incentives apply to all RE capacities upon the effectivity of the RE Law. RE producers from intermittent RE resources are given the option to pay transmission and wheeling charges on a per kilowatt-hour basis at a cost equivalent to the average per kilowatt-hour rate of all other electricity transmitted through the grid. Qualified and registered RE generators with intermittent RE resources shall be considered “must dispatch” based on available energy and shall enjoy the benefit of priority dispatch. Electricity generated from RE resources for the generator’s own consumption and/or for free distribution to off-grid areas is exempt from the universal charge. The RE Law further provides financial assistance from government financial institutions for the development, utilization and commercialization of renewable energy projects, as may be recommended and endorsed by the DOE.

Pursuant to Department Circular No. DO2009-05-008 dated 25 May 2009 (Rules and Regulations Implementing the Renewable Energy Act of 2008), the DOE, the BIR and the Department of Finance shall, within six months from its issuance, formulate the necessary mechanism and/or guidelines to implement the entitlement to the general incentives and privileges of qualified RE developers. However, as of this date, no specific guidelines or regulations have been issued by the relevant implementing agencies. Such being the case, the RE companies of AboitizPower, such as APRI, LHC, Hedcor Sibulan, Hedcor Tamugan, SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet, filed on 6 August 2010 a request before the BIR Law Division for a ruling on the application of zero-rated VAT on all its local purchases of goods and services needed for the development of RE plant facilities, exploration and development of RE sources and their conversion into power. To date, the said request is still pending with the BIR Law Division.

In Resolution No. 10, Series of 2012, the ERC adopted the following FIT and degression rates for electricity generated from biomass, run-of-river hydropower, solar and wind resources:

Renewable Energy Source	FIT Rate (₱/kWh)	Degression Rate
Wind	8.53	0.5% after year 2 from effectivity of FIT
Biomass	6.63	0.5% after year 2 from effectivity of FIT
Solar	9.68	6% after year 1 from effectivity of FIT
Hydro	5.90	0.5% after year 2 from effectivity of FIT

In line with the increase in installation target for solar energy from 50 MW to 500 MW and wind energy from 200 MW to 400 MW, the ERC issued Resolution No. 6 Series of 2015 approving the Solar FIT2 rate of ₱8.69/kWh for the second set of installation target. On 6 October 2015, the ERC issued Resolution No. 14,



Series of 2015 adopting the Wind FIT2 rate of ₱7.40/kWh. On 29 September 2016, a Petition for Rule Making was filed by Alternergy Wind One Corporation, Petrowind Energy, Inc. and Trans-Asia Renewable Energy Corporation seeking to amend Resolution No. 14, Series of 2015, and praying to increase the Wind FIT2 rate of ₱7.40/kWh to ₱7.93/kWh. A public consultation was held on the Petition for Rule Making on 6 January 2017.

Acting upon the application of Transco as Fund Administrator of the FIT Allowance (FIT-All), the ERC issued its final approval for the FIT-All of ₱0.0406 per kWh, for calendar years 2014 and 2015. Subsequently, Transco filed an application for approval of the FIT-All for calendar year 2016. In an Order dated 16 February 2016, the ERC provisionally approved a FIT-All of ₱0.1240 per kWh.

In 2013, the ERC had issued the rules enabling the net metering program for RE. The rules, among others, seek to encourage end-users to participate in RE generation by requiring distribution utilities, upon the request of a distribution end-user with an installed RE system, to enter into a net metering agreement with such end-user, subject to technical considerations and without discrimination.

In early 2014, the ERC issued the guidelines on the collection of the FIT-All and the disbursement of the FIT-All Fund by Transco. The FIT-All shall be a uniform charge to be collected for the guaranteed payment of the FIT for electricity generator from emerging renewable energy technologies and actually delivered to the transmission and/or distribution network by RE developers. The distribution utilities and RES entities started collecting the FIT-All from their respective customers in February 2015.

On December 22, 2017, the DOE promulgated the "Rules and Guidelines Governing the Establishment of the Renewable Portfolio Standards for On-Grid Areas" or the "RPS On-Grid Rules," which: (i) requires mandated electric power industry participants to source or produce portion of their electricity requirements from eligible renewable energy resources, establishes a minimum annual incremental RE percentage, (ii) prescribes the eligible renewable energy facilities and the compliance mechanism, (iii) monitor the compliance of mandated electric power industry participants, and (iv) provide penalties for non-compliance.

On January 15, 2018, the DOE released a draft circular prescribing the guidelines to govern the establishment of the Green Energy Option Program (GEOP). Under the RE Law, the GEOP will provide end-users the option to choose renewable energy resources as their sources of energy. The DOE is still in the process of finalizing the DOE circular establishing the GEOP.

#### 6. ERC Regulation on Systems Loss Cap Reduction

Under ERC Resolution No. 17, Series of 2008, the actual recoverable systems losses of distribution utilities was reduced from 9.50% to 8.50%. The new systems loss cap was implemented in January 2010. Under this regulation, actual company use of electricity shall be treated as an expense of the distribution utilities, particularly, as an operations and maintenance expense in the PBR applications.

On December 5, 2017, the ERC issued the Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency. These rules adjusted the manner on which system losses shall be set by private distribution utilities and electric cooperatives. Public consultations were held on various dates in different locations in the country. Also, there are proposed Senate and House bills seeking to revisit the level of allowable system losses passed on to end-users.

### **7. Power Supply Agreement (PSA) Rules**

In October 2013, ERC introduced the draft "Rules Governing the Execution, Review and Evaluation of Power Supply Agreements Entered into by Distribution Utilities for the Supply of Electricity to their Captive Market". In the proposed rules, a distribution utility is required to undertake a competitive selection process before contracting for supply of electricity to its captive market, and ERC shall establish a benchmark rate that shall serve as reference price to assess the price that a generation Company may offer. The draft rules also provide that the ERC's decision on a power supply agreement shall be binding on the parties and any termination or "walk-away" clause shall not be allowed. AboitizPower submitted its position paper to the ERC stating that the proposed rules will violate the equal protection clause of the 1987 Philippine Constitution and the mandate and intent of the EPIRA in connection with the ERC's regulatory power. As of date, public consultations on the

proposed rules were concluded and the Company is still awaiting the final rules from the ERC.

On 20 October 2015, ERC issued Resolution No. 13, Series of 2015, entitled, "A Resolution Directing All Distribution Utilities (DUs) to conduct a Competitive Selection Process (CSP) in the Procurement of their Supply to the Captive Market." This resolution provides that a PSA shall be awarded to a winning Generation Company following a competitive selection process or by direct negotiation, after at least two failed CSPs. This Resolution was restated in ERC Resolution No. 1, Series of 2016, entitled, "A Resolution Clarifying the Effectivity of ERC Resolution No. 13, Series of 2015."

ERC Resolution No. 1, Series of 2016 further clarified that automatic renewal clauses or extension of PSAs will no longer be permitted. However, PSAs approved by the ERC or filed with the ERC before the effectivity of this Resolution may have one automatic renewal or extension for a period of one year from the end of their respective terms.

## **8. Pricing and Cost Recovery Mechanism (PCRM)**

Reserves are forms of ancillary services that are essential to the management of power system security. The provision of reserves facilitates the orderly trading, and ensures the quality of electricity.

As provided in the WESM Rules, when reasonably feasible, the Market Operator, in coordination with the System Operator, shall establish and administer a spot market for the purchase of certain reserve categories. The reserve categories that shall be traded in the WESM are regulating, contingency and dispatchable reserves as well as interruptible loads in lieu of reserves.

The WESM Reserve PCRM is intended to supplement the WESM Price Determination Methodology for purposes of providing the details of formula and procedures by which reserve trading amounts and reserve cost recovery charges for the categories of reserve that will be traded in the WESM are calculated. Once approved by the ERC, this Reserve PCRM will apply to all reserve categories traded in the WESM and will supersede, to this extent, the Ancillary Services Cost Recovery Mechanism of the Transco.

The Reserve PCRM covers the determination of (1) reserve trading amounts of reserve providers; (2) reserve cost recovery charges; and (3) administered reserve prices and reserve cost recovery charges. As of date, the Reserve PCRM is the subject of an application by the Market Operator, which is pending the approval of the ERC.

On 2 December 2014, DOE Circular No. 2014-12-0022, otherwise known as the Central Scheduling and Dispatch of Energy and Contracted Reserves, was issued. The Circular aims to prepare the market participants in the integration of ancillary reserves into the WESM. The ancillary service providers will be paid based on their respective ASPAs with NGCP, while the scheduling of capacity and energy will be based on market results.

## **9. Proposed Joint Resolution for the Establishment of Additional Generating Capacity**

On 12 September 2014, former President Benigno C. Aquino III requested the House of Representatives and the Senate for authority to establish additional generating capacity. The President cited the DOE's report and projection of a critical electricity situation in the summer of 2015 in Luzon arising from the expected effects of the El Niño phenomenon, the 2015 Malampaya turnaround, increased and continuing outages of power plants, and anticipated delays in the commissioning of committed power projects.

After due deliberation, the Philippine House of Representatives ("House") approved House Joint Resolution No. 21, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Provide for the Establishment of Additional Generating Capacity as Mandated by Republic Act No. 9136, also known as the 'Electric Power Industry Reform Act (EPIRA)', to Effectively Address the Projected Electricity Shortage in the Luzon Grid from March 1, 2015 to July 31, 2015." On the other hand, the Philippine Senate ("Senate") approved Senate Joint Resolution No.12, entitled "A Joint Resolution Authorizing the President of the Philippines, His Excellency Benigno S. Aquino III, to Address the Projected Electricity Imbalance in the Luzon Grid and Providing the Terms and Conditions Therefor." A bicameral conference

committee was constituted to reconcile the provisions of said House and Senate versions of the Joint Resolution. No bicameral conference committee version has been approved as of the date of submission of this Information Statement.

The Joint Resolution aims to address the projected critical power supply situation in Luzon through the expansion of the ILP, acceleration of power projects and implementation of energy efficiency programs.

On the other hand, the ERC has issued its Resolution No. 5, Series of 2015, which would enable the implementation of the ILP with respect to Contestable Customers, customers directly-connected to the grid, ecozone locators, and ecozone utility enterprises. Prior to Resolution No. 5, the ILP could only be implemented by distribution utilities which enter into an agreement with their captive customers.

**10. DOE Circular Directing All Power Generation Companies, the Transmission Service Provider, and All Distribution Utilities to Ensure Adequate and Reliable Electric Power Supply in the Country**

Under DOE Department Circular No. 2010-03-0003 dated 26 February 2010, generation companies are enjoined to ensure the availability of its generation facilities at all times subject only to technical constraints duly communicated to the system operator in accordance with existing rules and procedures. For this purpose, generation companies shall have, among others, the following responsibilities:

1. All generation companies shall operate in accordance with their maximum available capacity which shall be equal to the registered maximum capacity of the (aggregate) unit less: (1) forced unit outages, (2) scheduled unit outages, and (3) de-rated capacity due to technical constraints which include: (i) plant equipment related failure and ambient temperature, (ii) hydro constraints which pertain to limitation on the water elevation/ turbine discharge and megawatt output of the plant, and (iii) geothermal constraints which pertain to capacity limitation due to steam quality, steam pressure and temperature variation, well blockage and limitation on steam and brine collection and disposal system;
2. Oil-based generation companies shall maintain an adequate in-country stocks of fuel equivalent to at least 15 days of running inventory which includes shipments in transit;
3. Coal power plants shall ensure the required 30-day coal running inventory which includes shipments in transit;
4. During scheduled maintenance of the Malampaya natural gas facilities, all affected generation companies shall maintain at least 15 days of running inventory of alternative fuel and shall operate at full capacity;
5. All generation companies with natural gas-fired, geothermal and hydroelectric generating plants shall submit to the DOE a monthly report on the current status and forecast of the energy sources of its generating plants;
6. All generation companies must notify and coordinate with the system operator of any planned activity such as the shutdown of its equipment;
7. All generation companies must immediately inform the DOE of any unexpected shutdown or de-rating of the generating facility or unit thereof; and
8. Generation companies shall seek prior clearance from the DOE regarding any plans for deactivation or mothballing of existing generating units or facilities critical to the reliable operation of the grid.

**ESTIMATE OF AMOUNT SPENT FOR RESEARCH AND DEVELOPMENT ACTIVITIES**

AboitizPower and its Subsidiaries do not allocate specific amounts or fixed percentages for research and development. All research and developmental activities are done by AboitizPower's Subsidiaries and Affiliates on a per project basis. The allocation for such activities varies according to the nature of the project.

## **COSTS AND EFFECTS OF COMPLIANCE WITH ENVIRONMENTAL LAWS**

AboitizPower's generation and distribution operations are subject to extensive, evolving, and increasingly stringent environment, safety and health laws and regulations. These laws and regulations address concerns relating to, among other things, air emissions; wastewater discharges; the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste; workplace conditions; and employee's exposure to hazardous substances. Laws and regulations that govern business operations include, among others, the Clean Air Act (RA 8749), Ecological Solid Waste Management Act (RA 9003), Clean Water Act (RA 9275), Toxic Chemical Substances and Hazardous and Nuclear Wastes Control Act (RA 6969), and Philippine Environmental Impact Statement System (Presidential Decree No. 1586). The RE Law added new and evolving measures that must be complied with. These laws usher in new opportunities for the Company and set competitive challenges for businesses covered by these laws. Additional regulations such as ERC Regulation No. 1-94 require companies to allocate funds for the benefit of host communities for the protection of the natural environment and also for the benefit of the people living within the area. Further, funds are set for the management of carbon sinks and watershed areas through a nationwide reforestation program.

AboitizPower and its Subsidiaries have allocated budgets for environmental expenditures covering costs for waste disposal, remediation, pollution control, environmental initiatives and programs in 2017, as follows: ₱3,427,174.00 for APRI's environmental management programs; ₱11,404,498.00 for the Hedcor Group to environmentally manage its renewable energy operations; ₱4,871,565.00 for TSI; ₱4,528,714 for the Oil Group; and ₱4,696,684 for the SN Aboitiz Power Group, representing a fourfold increase of program cost from previous years.

The environmental footprint of all AboitizPower facilities is compliant to standards, thus noting zero expenditure for remediation costs.

The alignment to international best practices in all power plants is exemplified with a 100% achievement of ISO certification for the management systems of Quality, Environment, Occupational Health and Safety. To edge even further, Hedcor continues to maintain its ISO certification for Information Security and Asset Management Systems.

DENR-EMB Region IV-A conferred a Plaque of Recognition to APRI's Makban Plant for its best practice in the implementation of Solid Waste Management and participation to Adopt-a-River Program. APRI's Tiwi Plant received the Special Environmental Achievement Award from EMB-Region V; while TMI's Mobile 2 Plant received a Certificate of Appreciation as a Partner Private Stakeholder of Philippine Coast Guard – Northern Mindanao.

DOE's Safety & Health Association of the Philippines Energy Sector (SHAPES) Inc. has recognized APRI's Tiwi Plant, and the SN Aboitiz Power Group's Ambuklao and Binga Plants as 2017 Hall of Famers for Corporate Safety and Health Excellence Award, with their respective focal points: Hollis Fernandez, Jessie Palma, Clifford Dailay, Rachele Severo, Jillan Jacinto, Eliseo Ingles, Cesar Vicente, and Cheryl Ragsac individually receiving awards for Outstanding Safety Professionals.

The Safety Organization of the Philippines, Inc. (SOPH) awarded APRI's Makban and Tiwi Plants with the Award of Excellence for their continued no lost time injury for the past five years. In addition, Workplace Advocates on Safety in the Philippines Inc. (WASPH) recognized TSI as a Safety Excellence Awardee.

In 2017, AboitizPower and its Subsidiaries did not incur any major sanctions for violation of environmental standards and law. Moreover, AboitizPower continues to be cognizant of new opportunities to comply with regulatory requirements and improvement of systems to promote safety and prevent adverse impacts to the environment or affected ecosystems.

## EMPLOYEES

On the parent company level, AboitizPower has a total of 357 employees as of 31 March 2018 composed of executive, supervisory, rank and file staff, and contractual employees. There is no existing Collective Bargaining Agreement (CBA) covering AboitizPower employees.

The following table provides a breakdown of total employee headcount on a per Company basis, according to employees' function, as of 31 March 2018:

Business Group	Number of Employees						Unionized Employees	Expiry of Collective Bargaining Agreement (CBA)
	Total	Executives	Managers	Supervisors	Rank & File	Fixed Term Contracts		
<b>Aboitiz Power</b>	357	71	54	56	174	2	N/A	N/A
<b>Generation Companies</b>								
Run-of-River Hydros	622	10	18	71	467	55	133	September 18, 2018 (Hedcor)
Large Hydros	189	14	30	41	104	0	N/A	N/A
Geothermal	286	6	17	47	216	0	38	February 28, 2022 (APRI)
Solar	5	0	0	2	3	0	N/A	N/A
Oil	463	10	37	180	236	0	N/A	N/A
Coal	1067	21	67	242	734	127	124	December 31, 2018 (GMCP)
<b>RES</b>	6	0	2	0	4	0	N/A	N/A
<b>Distribution Utilities</b>	840	18	68	136	511	16	327	December 31, 2016 (VECO)* June 30, 2019 (Cotabato Light) June 15, 2021 (Davao Light) May 9, 2019 (SFELAPCO)
<b>Total No. of Employees</b>	<b>3,835</b>	<b>150</b>	<b>293</b>	<b>775</b>	<b>2,449</b>	<b>200</b>	<b>622</b>	

\*Under negotiation

The Company does not anticipate any increase in manpower within the next twelve months unless new development projects and acquisitions would materially require an increase.

On October 28, 2010, the Visayan Electric Company Employees Union-ALU-TUCP (the "Union") filed a Notice of

Strike against VECO on grounds of unfair labor practice for alleged illegal dismissal of the union president and officers and alleged failure to observe the grievance procedure in the CBA. The Secretary of Labor assumed jurisdiction over the strike and remanded the illegal dismissal case of the union president to the National Labor Relations Commission (NLRC) for compulsory arbitration.

On June 30, 2011, the NLRC dismissed the charge of unfair labor practice against VECO for lack of merit, and declared the dismissal from employment of the Union president as legal. The Union moved to reconsider the adverse decision of the NLRC, but the motion was denied. Consequently, on October 18, 2011, the Union filed a petition for certiorari, which was dismissed by the Court of Appeals (CA) for being filed out of time. On March 14, 2013, the Union filed a petition for certiorari before the Supreme Court questioning the decision of the CA.

VECO filed its comments to the petition last July 1, 2013. The Union was ordered to file its reply pursuant to a resolution by the Supreme Court dated September 16, 2013. Despite the aforementioned Supreme Court resolution, no reply has been filed by the Union. On July 22, 2015, the Supreme Court denied the petition for certiorari filed by the Union. In a Resolution dated October 12, 2015, the Supreme Court likewise denied the Union's Motion for Reconsideration and directed that an entry of judgment be made.

## **INSURANCE**

It is the Company's policy to obtain and maintain insurance coverage for its operating assets and employees that is in line with industry standards and good business practices. The Company ensures that all insurance policies are updated, renewed and provides best-fit coverage for the Company's insurance requirements.

### **Power Generation Companies**

#### ***Group Insurance Program – Industrial All Risks.***

To maximize the coverage and competitiveness of insurance terms and conditions, the Company had grouped the insurance coverage of the following generating companies:

Group IAR Program 1:

- San Carlos Sun Power (Sacasan)
- Hedcor Sibulan, Inc. (HIS)
- Hedcor Tudaya, Inc. (HTI)
- Hedcor Sabangan Inc. (HSI)
- Luzon Hydro Corporation (LHC)

This program has a policy period of 31 May 2018 to 31 May 2019, procured through Malayan Insurance Co., Inc.

Group IAR Program 2:

- SN Aboitiz Power (SNAP)
- Therma Luzon, Inc. (TLI)
- Therma South, Inc. (TSI)
- AP Renewables, Inc. (APRI)

This program that will respond to losses and/or damages to (a) declared properties including machinery breakdown; and (b) business interruption exposures.

Noting the uniqueness of the power barges, the Company has decided to engaged separate program for the following business units to ensure that the insurance coverage is aligned with the risk exposures of the power barges:

- Therma Mobile, Inc. (TMO)
- Therma Marine, Inc. (TMI)

This program has a policy period of 31 May 2018 to 30 November 2019, procured through Pioneer Insurance and Surety Corporation.

*Group Property and Electronic Equipment Insurance.* Noting that office-based properties have lesser risk exposure compared to the generating plants, the Company has procured a separate policy to cover properties which are considered as office-based. This was procured from PNB General Insurers with policy period of 31 July 2018 to 31 July 2019.

*Group Comprehensive General Liability Insurance.* To mitigate risks related to Third Party Liability for bodily injury and/or property damage, the Company procured group cover for the following business units through Starr International Insurance Philippines with policy period of 30 November 2018 to 30 November 2019.

<b>BU</b>	<b>Limit per Occurrence (in US\$)</b>
Hedcor Sibulan	2,000,000
AP Renewables	2,000,000
SNAP – Benguet	10,000,000
SNAP – Magat	200,000
Therma South, Inc.	5,000,000
Luzon Hydro Corporation	5,000,000

*Stand-alone Program.* On a per business unit basis, stand-alone insurance programs were procured to ensure that unique risk exposures of particular business unit are mitigated.

Hedcor, Inc. – Industrial All Risks. Properties of Hedcor, Inc. are insured through PNB General Insurers as the lead insurer with total declared value of ₱5.7 billion for all properties located in Benguet and Davao including business interruption exposures. Policy period is from November 30, 2017 to November 30, 2018.

East Asia Utilities Corporation (EAUC) – Industrial All Risks. Properties of EAUC are insured through Malayan Insurance Co., Inc. with total declared value of US\$ 67.3 Million including business interruption exposures with policy period of December 30, 2018 to December 30, 2019

Cebu Private Power Corporation (CPPC) – Industrial All Risks. Properties of CPPC are insured through Malayan Insurance Co., Inc. with total declared value of US\$ 94.5 Million including business interruption exposures with policy period of December 30, 2017 to December 30, 2018

Therma Luzon, Inc (TLI) – Property Damage / Business Interruption Insurance. Protection of revenue streams as IPPA is a risk exposure of TLI in relation to power generation of Pagbilao Coal -Powered plant. In relation to this, the Company has procured business interruption cover through Pioneer Insurance and Surety Corporation with a limit of US\$200 Million. The policy period is from May 31, 2018 to May 31, 2019

Shipment of Coal Policies for Therma Luzon (TLI) and Therma South (TSI). Both business units have a Marine Open Policy that covers its import shipments of Coal from Indonesia to the Plant site. Limit of liability per any one shipment is at ₱400 million. The policy has open-ended expiration date but being reviewed annually.

#### **Power Distribution Companies**

*Group Insurance Program.* Seeing the benefits of grouping the insurance coverage, the Company has procured

group cover for the following distribution companies:

- Visayan Electric Company
- Davao Light and Power Company
- Cotabato Light and Power Company
- Mactan Enerzone
- Balamban Enerzone
- Subic Enerzone
- Lima Enerzone

The Group Policy covers Industrial All Risks (IAR) insurance that will respond for losses and/or damages to declared properties through PNB General Insurers as lead insurer and Malayan Insurance Co., In., Pioneer Insurance Company Ltd., Charter Ping An Insurance Corporation and MAA General Assurance Phils., Inc., as co-insurers, with policy period of 30 November 2018 to 30 November 2019. Total declared value of the properties is ₱10.8 billion, broken down as follows:

BU	Declared Values (in ₱)
Visayan Electric Company	₱4.299 billion
Davao Light	₱4.301 billion
Cotabato Light	₱0.516 billion
Mactan Enerzone	₱0.133 billion
Balamban Enerzone	₱0.145 billion
Subic Enerzone	₱0.894 billion
Lima Enerzone	₱0.535 billion

*Group Comprehensive General Liability Insurance.* The operations of Distribution Companies comes with Third Party Liability exposures. The Company has procured a Comprehensive General Liability insurance from Pioneer Insurance and Surety Corporation with combined single limit for bodily injury and/or property damage of ₱5 million per occurrence and in the aggregate with sub-limit of ₱1 million for losses related to transmission and distribution. Policy period is from 30 November 2018 to 30 November 2019.

*Group Money Insurance.* To ensure that cash exposures of the distribution companies are protected, the Company has procured Money Insurance from PNB General Insurers for the following units to respond for losses/damages in relation to cash inside and outside premises with extension to payroll robbery with policy period of 31 July 2018 to 31 July 2019. Limit of Liabilities are as follows:

BU	Limit per Occurrence (in ₱)
Visayan Electric Company	₱817,000
Davao Light	₱9,500,000
Cotabato Light	₱3,200,000

*Insurance Program for Transmission & Distribution Lines.* Seeing the need to mitigate major exposure on Transmission and Distribution lines, an insurance program for Visayan Electric Company (VECO) and Davao Light & Power Company (DLPC) in relation to loss of or damage to said properties including loss of gross profit was procured through Pioneer Insurance and Surety Corporation with a limit of US\$30,000,000 each



occurrence and policy period of 1 March 2018 to 1 March 2019.

#### **Applicable to Both Generation & Distribution Companies**

*Group Comprehensive Motor Vehicle Insurance.* As motor vehicle is an integral part of operation, all registered motor vehicles of Aboitiz Power are covered under the Aboitiz Group's Motor Vehicle insurance through Mapfre Insular Insurance Corporation with policy period of December 31, 2017 to December 31, 2018.

*Directors and Officers' Liability Insurance.* In order to protect the balance sheet of the Company as well as the personal assets of the Company's directors and officers, a Directors and Officers Liability Insurance was procured. The coverage includes all subsidiaries of AEV. The policy has a total limit of US\$25,000,000 issued by AIG Philippines Insurance, Inc with policy period of February 28, 2018 and expiring on February 28, 2019.

*Group Insurance Program – Political Violence.* The Company has procured Political Violence insurance, which is a broader form of Sabotage and Terrorism that covers property damage and business interruption caused by any acts of sabotage and/or terrorism and/or political violence for AEV Group including power generation and distribution units. This is a group policy with shared limit of US\$250 million for any acts of sabotage and/or terrorism and/or political violence. This program has a policy period of November 30, 2018 to November 30, 2019 insured through PNB General Insurers.

## **CORPORATE SOCIAL RESPONSIBILITY**

The Company strongly believes that business sustainability can be achieved by balancing the interests of people, planet, and profit. To ensure a profitable enterprise that will last for generations, it is imperative for every business to operate with a strong social component amid a healthy environment, while practicing the core principles of good governance and transparency.

The Company recognizes that its operations have an impact on society and on the environment. Along with operational efficiency in its generation and distribution facilities and compliance to Government's environmental standards, the Company ensures that the communities where it operates also benefit and develop together with the Company. To this end, the Company has sponsored community development projects in partnership with local government units and other stakeholders to help address the economic, socio-cultural, health, education and environmental concerns of these communities.

The Company contributes to social development programs implemented by the Aboitiz Group. In partnership with the Aboitiz Foundation, Inc., the Group's social development arm, the Company identified three major areas of focus, namely Education, Enterprise Development, and Environment. The Company also continues to address the health care and childcare needs of its host communities, and to offer assistance to disaster-stricken areas.

In 2014, the Aboitiz Foundation launched CSR 2.0, a set of parameters that could measure the significance and impact of projects implemented by the different companies of the Aboitiz Group. These projects are measured based on sustainability, inclusiveness, and alignment to the Group's core competencies. About 53% of groupwide CSR programs reached 2.0 status in 2017.

### **Education**

The Company invests in numerous initiatives that aim to nurture and enlighten the minds of students. These are primarily done through scholarship grants for high school, college and technical-vocational students. As of 2017, the Company has a total of 1,887 scholars, including 632 technical-vocational high school student beneficiaries.

The Company also provides infrastructure projects for educational institutions such as the construction of classrooms, rewiring of electricals, and library revitalization. The Company has also put effort in providing for the basic educational needs of the host communities by donating armchairs, desks, computers and school supplies. In 2017, the Company rewired 1,199 classrooms, donated 380 thin client computer systems, and

turned over 200 arm chairs, among others.

### ***Enterprise Development***

The Company recognizes that to empower the host communities, there is a need to widen the livelihood options of the community members. With this, the Company provides opportunities for skills training under its enterprise development program.

In its thrust to build green and sustainable communities as well as to create meaningful employment, Therma South launched toward the end of 2017 the “Fly Ash Brick Project.” The project aims to organize a community-based enterprise in Binugao, Toril, Davao City, which shall manufacture high-quality bricks and pervious pavers using TSI’s fly ash. Together with its partners, TSI targets to train and organize a pool of brick producers and local bricklayers from its host communities, barangays Binugao and Inawayan.

Capability building efforts were also done through several business units in 2016. These include Project BELT.COM of Cotabato Light and Davao Light, wherein both distribution units conducted basic electrical lineman’s trainings. A similar training was conducted by Davao Light entitled, “Project Best”. Project Best aimed to equip citizens of host barangays with the skills needed to become their own resident electricians. Hedcor also conducted trainings that utilized the agriculture of the communities, including community food livelihood development projects, cacao farming lectures and the Gulayan sa Barangay 2016 project.

### ***Environment***

The Aboitiz Group, driven by its passion for a better world, is committed to the highest standards of environmental management and performance. One of the notable greening initiatives of the Group is the A-Park program. As of 2017, the Group has already planted 5.7 million seedlings across the country under the program, of which the Company planted 3.15 million, well in advance of its goal to plant 9 million trees by 2020.

Furthermore, the Company has actively pushed for the establishment of the Carbon Sink Management Program (CSMP), which aims to reforest 1,000 hectares of land within the Matigsalug Indigenous People’s ancestral domain in Marilog and Paquibato, Davao City. As of 2017, Therma South and its partners in the community have planted 421,708 seedlings, which is 38% of the target. By the end of 2017, the CSMP has sequestered as much as 62,350 tons of carbon dioxide, which is 43% of TSI’s commitment to sequester 145,000 tons of carbon dioxide emissions by 2023.

The Company is also involved in seedling nursery, waste management, adopt-a-river, and coastal or river clean-up programs. Moreover, the Company has been taking care of watershed forests that are vital to the business. For instance, Hedcor completed its pledge in 2015 to manage 1,000 hectares of watershed within the protected areas of Mt. Apo Natural Park, where more than half a million trees were planted for reforestation, roadside rehabilitation, riverbank stabilization and agro-forestry.

The Company also features the Aboitiz Cleanergy Park as one of its environmental programs. Located in Davao City, the eight-hectare Park showcases a mangrove reforestation site, nursery, and botanical garden for the propagation of 29 native tree species and is home to 55 species of birds. Aside from helping reduce carbon emissions, the Park is also actively promoting habitat conservation and biodiversity management in an urban setting. Most importantly, the Park serves as a sanctuary and safe nesting ground for the hawksbill sea turtles, commonly called pawikan. From 2014 to 2017, the Park released more than 3,326 hawksbill hatchlings.

### ***Other Initiatives***

In 2017, the Philippines was hit with multiple calamities and disasters, affecting some of the Company’s host communities. In the aftermath of typhoons Crising and Nina, tropical storms Urduja and Vinta, a number of fire and flooding incidents, as well as the Marawi siege, the Aboitiz Group and Aboitiz Foundation immediately extended assistance to affected communities nationwide by providing relief packs to 77,384 families. Four of the Company’s business units also launched direct initiatives to help more than 30,000 beneficiaries affected

by various tragedies in Cotabato, Isabela, and Marawi.

The Company is also working with donors from the private sector to support the Philippine Government's efforts in reducing weather-related disaster risks through WeatherPhilippines Foundation. WeatherPhilippines operates a premiere weather forecasting system through the installation of automated weather stations (AWS) across the country. The system delivers free, accurate and localized weather information to help local governments and communities prepare for severe weather conditions. As of December 2016, WeatherPhilippines has completed the deployment of 826 AWS across the country.

In 2013, the Company launched its Cleanergy Center at the MakBan Geothermal Complex in Bay, Laguna to firm up its longstanding commitment to responsible energy development and education. The Cleanergy Center—taken from the words “clean energy” and named after AboitizPower’s brand for clean and renewable energy—is the country’s first renewable energy learning facility. Since it opened, the Cleanergy Center has accommodated close to 42,810 visitors.

In 2017, the Aboitiz Group invested a total of ₱412.32 mn to assist its host communities and committed ₱43.34 mn for its environmental programs, consistent with its commitment to protect and enrich our planet and uplift the well-being of its communities. Through responsible operations and the implementation of various sustainability and CSR projects, the Company is constantly finding better solutions to ensure that its entire value chain continues to be environmentally friendly and remains consistent in promoting sustainable development for A Better Future.

## PROPERTIES

The Company’s head office is located at the 32<sup>nd</sup> Street, Bonifacio Global City, Taguig City, Metro Manila, Philippines. The office space occupied by the Company is leased from a third party.

As of the date of this Prospectus, there are no definite acquisitions of properties. Nonetheless, the Company plans to continually participate in future biddings and projects that become available to it and will disclose the same in accordance with the applicable disclosure rules under the SRC.

On a consolidated basis, AboitizPower’s Property, Plant and Equipment were valued at around ₱204.03 bn in 2017, as compared to ₱192.98 bn for 2016. The breakdown of the Company’s Property, Plant and Equipment as of December 31, 2017 and December 31, 2016 is as follows:

<b>PROPERTY, PLANT AND EQUIPMENT AS OF DECEMBER 31</b>	<b>2017</b>	<b>2016</b>
Land	₱1,596,788	₱1,436,461
Buildings, Warehouses and Improvements	21,495,721	21,361,116
Powerplant Equipment and Stream Field Assets	141,380,362	137,570,972
Transmission, Distribution and Substation Equipment	17,401,054	16,005,968
Transportation Equipment	1,405,923	1,359,708
Office Furniture, Fixtures and Equipment	924,894	826,632
Leasehold Improvements	2,762,709	2,735,378
Electrical Equipment	5,500,971	3,516,283
Meter and Laboratory Equipment	1,551,939	1,345,439
Tools and Others	1,252,071	1,152,427
Construction in Progress	56,262,403	42,900,110
Less: Accumulated Depreciation and Amortization	44,861,372	37,234,106
Less: Impairment	2,648,160	-
<b>TOTAL</b>	<b>₱204,025,303</b>	<b>₱192,976,388</b>

*Note: Values for the above table are in thousand Philippine Pesos.*

Locations of Principal Properties and Equipment of the Company's Subsidiaries are as follows:

Subsidiary / Lessee	Lessor	Property	Location/Address	Rental Fees	Term / Renewal Option
APRI	PSALM	Land	Sto. Tomas, Batangas, Bay Laguna, Calauan Laguna, Tiwi Albay	₱492 million (paid in full on beginning of lease)	25 years from May 2009; renewable for another 25 years or the remaining corporate life of PSALM, whichever is shorter
GMCP	Authority of the Freeport Area of Bataan	Land	Bataan Economic Zone	USD2 million rent expense annually	25 years from August 2007; renewable upon mutual agreement by the parties
TMO	Philippine Fisheries Development Authority	Breakwater area	Navotas Fishport Complex, Navotas City	₱10 million rent expense annually	10 years from April 2014; renewable upon mutual agreement by the parties
TMO	Philippine Fisheries Development Authority	Ground floor of NFPC's administrative building	Navotas Fishport Complex, Navotas City	₱2.7 million rent expense annually	10 years from December 2014; renewable upon mutual agreement by the parties
EAUC	PEZA	Land	Mactan Economic Zone, Lapu-Lapu City, Cebu	₱ 7.2 million rent expense annually	25 years from 1996; renewable at the option of PEZA
Sacasun	San Julio Realty, Inc.	Land	Palampas and Punao, San Carlos City, Negros Occidental	₱ 67.0 million rent expense annually	25 years from August 2015; renewable upon mutual agreement by the parties

## MATERIAL CONTRACTS

### AboitizPower ₱ 10 Billion Fixed Rate Bonds due 2021 and 2026

On 10 September 2014, AboitizPower issued fixed-rate bonds (the “2014 Bonds”) in two series: (a) Series A Bonds, with a term of seven (7) years from issue date and in the aggregate amount of ₱6,600,000,000.00, and (b) Series B Bonds, with a term of twelve (12) years from issue date in the aggregate amount of ₱3,400,000,000.00. The Series A 2014 Bonds had an optional redemption on the fifth (5<sup>th</sup>) year and one (1) quarter from issue date, and on the sixth (6<sup>th</sup>) year from issue date. On the other hand, the Series B 2014 Bonds had an optional redemption on the seventh (7<sup>th</sup>) year from issue date, the eighth (8<sup>th</sup>) year from issue date, the ninth (9<sup>th</sup>) year from issue date, the tenth (10<sup>th</sup>) year from issue date, and the eleventh (11<sup>th</sup>) year from issue date. BPI Capital Corporation (“BPI Capital”) acted as the Issue Manager and Lead Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2014 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.02 (a) of the Trust Agreement for the 2014 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the Bonds shall be coursed through the PDTC as Registrar. Transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:
  - a. any Lien over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;
  - b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;
  - c. any Lien constituted over the investment of the Issuer in any of its affiliates, for any obligation or credit facility incurred for the purpose of pursuing any power generation, distribution, or retailing project or investment therein, whether such power generation, distribution, or retailing project is undertaken by the Issuer itself, by its affiliates, and/or by the Issuer or its affiliates with third parties;
  - d. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
  - e. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates’ (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;
  - f. any Lien constituted for the purpose of guaranteeing an affiliate’s obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;
  - g. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;

- h. any Lien created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos (“foreign currency”); or (ii) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness
- i. any Lien created over or affecting any asset acquired by any affiliate after the date of the Trust Agreement, if:
  - (i) the Lien was not created in contemplation of the acquisition of that asset by such affiliate;
  - (ii) the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by such affiliate; and
  - (iii) the Lien is removed or discharged within twelve (12) months of the date of the acquisition of such asset;
- j. any Lien on the properties and assets of the Issuer: (i) imposed by Law, such as carriers’ Liens, warehousemen’s Liens, mechanics’ Liens, unpaid vendors’ Liens, and other similar Liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen’s compensation Laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (iii) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;
- k. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer’s total assets;
- l. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Ten Million (US\$10,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;
- m. other Liens: (i) created solely by operation of law; and (ii) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and
- n. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of “affiliate” as used in Section 5.02 (a) (c), (d), (e), (h), and (m) above, it shall refer to any Person in which the Issuer has investment, whether direct or indirect.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2014 Bonds are current and updated;
3. Maintenance of Financial Ratios. AboitizPower shall not permit its Net Debt to Consolidated Equity Ratio to exceed 3:1 calculated based on the AboitizPower’s year-end audited financial statements.

### **TPI Syndicated Bridge Loan Facility Agreement**

On 4 October 2016, Therma Power, Inc. as borrower, and AboitizPower as guarantor, entered into a Syndicated Bridge Loan Facility Agreement with The Bank of Tokyo-Mitsubishi, UFJ, Ltd., DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation, Ltd., Maybank Kim Eng Securities Pte. Ltd., Mizuho Bank, Ltd., and Standard Chartered Bank as Arrangers, and the Bank of Tokyo-Mitsubishi, UFJ, Ltd. as Agent.

The Syndicated Bridge Loan was for an aggregate amount of US\$650,000,000.00 that was guaranteed by the Company.

## CERTAIN LEGAL PROCEEDINGS

AboitizPower and its Subsidiaries are currently involved in various legal proceedings in the ordinary conduct in their businesses. The Company believes that the results of these actions will not have a material adverse effect on the Company's financial position and results of operations.

VECO, in particular, received several assessments of real property taxes (RPT) on its electric posts, transformers, wires, machineries, air-conditioning units, and water pumps. VECO consistently maintains that the electric posts, transformers, wires, machineries, air-conditioning units, water pumps and their appurtenances are not considered real properties under the Civil Code and therefore, are not lawful objects of RPT. To date, VECO has similar RPT cases in amounts ranging from ₱14mn to ₱67 mn pending before different City Assessors' Offices or the LBAA. In the event that a case is decided against VECO, the Company can file an appeal with the Central Board of Assessment Appeals (CBAA), without prejudice to subsequent appeals allowed under existing rules governing the appeals process.

Hedcor, Inc., Hedcor Sibulan, Inc., Hedcor Tudaya, Inc., Hedcor Sabangan, Inc. and Luzon Hydro Corporation (collectively, the Hydro Group) have pending cases in various stages before the CTA, CTA En Banc, and the Supreme Court relating to their applications for refund or issuance of tax credit certificates of excess and unutilized input VAT attributable to their VAT zero-rated of electricity. The bulk of these cases arose after the Bureau of Internal Revenue (BIR) issued Revenue Memorandum Circular (RMC No. 54-2014) which stated that administrative claims pending with the BIR, which are unacted within one-hundred twenty (120) days from filing are already deemed denied and should be appealed to the CTA.

Other cases involving the Company and its Subsidiaries are as follows:

**Civil Case No. 08-CV-2414 entitled "Luzon Hydro Corporation vs. The Province of Benguet, The Provincial Treasurer of Benguet and Hon. Imelda I. Macanes in her Capacity as Provincial Treasurer of La Trinidad, Province of Benguet", RTC Branch 10, La Trinidad, Benguet  
March 7, 2008**

On October 11, 2007, the Provincial Treasurer of Benguet issued an assessment against LHC, requiring LHC to pay franchise tax for the years 2002 to 2007 in the approximate amount of ₱40.40 mn, inclusive of surcharges and penalties. LHC filed a protest letter with the Provincial Treasurer on December 2007 on the ground that LHC is not a grantee of any legislative franchise on which the franchise taxes may be imposed. On February 8, 2008, the Provincial Treasurer, through the Provincial Legal Officer, denied LHC's protest. On March 7, 2008, LHC filed 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 its business.

On February 18, 2014, the RTC rendered a Decision in favor of LHC declaring the franchise tax assessment ineffective for lack of sufficient evidence that LHC is holding a special or secondary franchise to operate its plant in Benguet. The Province of Benguet filed a Motion for Reconsideration of the RTC's Decision.

After several postponements, the hearing was set on May 24, 2016, and only LHC appeared. The RTC stated that with no additional arguments coming from the Province of Benguet, the Motion for Reconsideration is denied as the matters raised in such have been addressed in its decision being reconsidered.

To date, LHC has not received any further orders or pleadings appealing the case.

**GR No. 229064 (formerly CTA En Banc Case No. 1020; CBAA Case No. L-57 and L-59) entitled "National Power Corporation vs. Luzon Hydro Corporation (LHC), Banggay T. Alwis, Municipal Assessor, Manuel C. Bagayao, Municipal Treasurer of Bakun, Benguet, Erlinda Estepa, Provincial Assessor and Mauricio B. Ambanloc, Provincial Treasurer of the Province of Benguet"  
May 24, 2013**

The Municipality of Bakun, Province of Benguet issued an assessment against LHC for deficiency RPT for the year 2002 on its machineries in the amount of approximately ₱11 mn, inclusive of interests and penalties. LHC



appealed the assessment to the LBAA. The NPC intervened in the proceedings before the LBAA arguing that: (i) the liability for the payment of RPT over the machineries is assumed by the NPC under Section 8.6(b) of the Bakun PPA dated November 24, 1996; and (ii) the NPC is exempted from the payment of RPT under Section 234 of the Local Government Code of 1991 (LGC), which provides that machineries which are actually, directly and exclusively used by government-owned and controlled corporations engaged in the generation and transmission of electric power are not subject to RPT. The LBAA ruled in favor of the Municipality of Bakun on the ground that the NPC could not invoke the exception under Section 234 of the LGC because the machineries covered by the assessment are not yet owned by the NPC.

NPC appealed the ruling of the LBAA to the CBAA, which appeal was docketed as CBAA Case No. L-57/59. The Province of Benguet, through the Office of the Governor, and LHC engaged in negotiations to arrive at a possible settlement. In December 2009, NPC moved for the issuance of a decision based on a compromise agreement. The Province of Benguet opposed NPC's motion and prayed that the CBAA continue hearing the case and resolve the same on the merits. LHC filed its reply to the Province of Benguet's opposition.

On July 3, 2012, the CBAA rendered a decision dismissing the appeals of LHC and NPC for lack of merit. LHC then filed its Motion for Reconsideration. On October 4, 2012, LHC received an order from the CBAA noting its Motion for Reconsideration as well as the one filed by NPC, and giving the Province of Benguet a period of ten days from receipt of the said order within which to file its comment/opposition.

On October 11, 2013, LHC, NPC, and the Province of Benguet filed a Joint Motion for Judgment based on a Compromise Agreement with the Court of Tax Appeals (CTA). On January 16, 2014, LHC received a copy of the resolution of the CTA En Banc ordering the parties to submit additional documents in support of the Joint Motion for Judgment. The CTA En Banc held in abeyance the resolution of the Joint Motion for Judgment based on Compromise pending the submission of certain documents.

On September 2, 2015, LHC received a Manifestation from the Province of Benguet stating that the: (i) Sangguniang Panlalawigan of Benguet's Resolution authorizing their Provincial Governor to enter into the January 29, 2004 Compromise Agreement; and (ii) Sangguniang Bayan of Bakun, Benguet's Resolution authorizing its Municipal Mayor Marcelo Contada to enter into the December 2007 Compromise Agreement and January 18, 2008 MOA, do not exist.

Despite close coordination with both the Province of Benguet and the Municipality of Bakun for the issuance of the necessary resolutions to ratify the actions previously taken by their respective Sanggunian, no such action has been taken by the Sangguniang Panlalawigan of Benguet and the Sangguniang Bayan of Bakun.

Given the foregoing and in the interest of substantial justice, LHC filed a Motion to Resolve the Joint Motion for Judgment based on Compromise Agreement on December 29, 2015, attesting that the Province of Benguet and the Municipality of Bakun made representations that they were authorized to execute the Compromise Agreement and that they accepted the Compromise Payments made by LHC pursuant thereto. As a consequence, the Province of Benguet and the Municipality of Bakun are estopped from assailing the Compromise Agreement.

On March 28, 2016, LHC received a notice of resolution from the CTA En Banc denying LHC's Motion to Resolve the Joint Motion for Judgment based on Compromise.

On April 12, 2016, LHC filed a Motion for Partial Reconsideration asking that the CTA En Banc: (1) hold in abeyance the requirement for respondent to file their comment on the Petition; and (2) partially reconsider its resolution by approving the 2007 and 2013 Compromise Agreements and the 2008 and 2012 MOAs, and render a Decision based on the foregoing. On October 2016, the CTA En Banc denied LHC's Motion for Partial Reconsideration for lack of merit.

On December 12, 2016, LHC filed with the Supreme Court (SC) a Petition for Certiorari assailing the above resolutions of the CTA for acting with grave abuse of discretion amounting to lack or excess of jurisdiction when it denied the parties' joint motion for judgment based on compromise. On June 7, 2017, the SC dismissed LHC's Petition for Certiorari for failure to show that the CTA En Banc committed grave abuse of discretion. On February 22, 2018, counsel for LHC received the SC's Resolution dated December 13, 2017,

which denied LHC's subsequent Motion for Reconsideration with finality and ordered that an Entry of Judgment be issued.

Meanwhile, on February 6, 2017, the CTA En Banc required the parties to submit their respective Memoranda. On April 7, 2017, LHC filed its Memorandum.

On June 7, 2018, counsel for LHC received the Decision of the CTA En Banc which denied LHC's petition for lack of merit. LHC filed its Motion for Reconsideration on June 22, 2018. The case is still pending.

**Supreme Court GR No. 223403 and 223460-61 (formerly CTA En Banc Case Nos. 1024 and 1096; CBAA Case Nos. L-96 and L-99) "Luzon Hydro Corporation and the National Power Corporation vs. The Local Board of Assessment Appeals of the Province of Ilocos Sur, Fatima Tenorio, in her official capacity as the Provincial Assessor of the Province of Ilocos Sur, Antonio A. Gundran, in his capacity as the Provincial Treasurer of the Province of Ilocos Sur" July 2, 2003**

On July 2, 2003, the Municipal Assessor of Alilem sent LHC two notices of assessment for RPT. The first notice required LHC to pay RPT in the amount of ₱4.3 mn for the fourth quarter of 2002, while the second notice required LHC to pay ₱17.2 mn for 2003. The notices of assessment also contained an additional imposition of 40% of the acquisition cost, which allegedly represented installation costs, and a further imposition of 15%, which allegedly represented freight costs.

LHC filed a Protest before the LBAA which ruled against LHC by upholding the notices of assessment. LHC appealed directly to the CBAA.

On September 26, 2012, the CBAA rendered a decision denying LHC's appeal. On November 14, 2012, LHC filed its Motion for Reconsideration. On March 21, 2013, the CBAA issued a resolution denying LHC's Motion for Reconsideration, a copy of which was received by LHC only on November 6, 2013. LHC filed its Petition for Review with the CTA En Banc on December 6, 2013. The CTA En Banc consolidated the instant case with CTA EB Case No. 1024.

On January 26, 2015, the CTA En Banc denied the Petition, prompting LHC to file a Motion for Reconsideration on February 10, 2015.

On May 13, 2015, LHC filed a Motion to take Judicial Notice of Executive Order No. 173 and suspend proceedings. On March 18, 2016, LHC received a copy of the CTA En Banc's resolution wherein the court took judicial notice of the Executive Order, however, denied the motion to suspend the proceedings. LHC filed its Petition for Review on Certiorari with the Supreme Court (SC) on April 4, 2016, which the SC later on consolidated with petition filed by NPC. On November 29, 2016, LHC received the comment of the Province of Ilocos Sur.

On February 28, 2017, counsel for LHC received a notice from the SC requiring LHC to file a reply to respondents' comment. LHC's Reply was filed on March 10, 2017.

On May 2, 2018, counsel for LHC received the SC's Resolution dated February 28, 2018 denying LHC's Petition for Review. LHC filed a Motion for Reconsideration on May 17, 2018. The case is still pending.

**G.R. No. 210245 entitled "Bayan Muna Representative Neri Javier Colmenares, et al. vs. Energy Regulatory Commission, et al.", Supreme Court; December 19, 2013**

**G.R. No. 210255 entitled "National Association of Electricity Consumers for Reforms, et al. vs. Manila Electric Company, et al.", Supreme Court; December 20, 2013**

**G.R. No. 210502 entitled "Manila Electric Company, et al. v Philippine Electricity Market Corporation, et al.", Supreme Court; January 8, 2014**

On December 19, 2013, Bayan Muna representatives filed a Petition for Certiorari against the ERC and the MERALCO with the Supreme Court, questioning the alleged substantial increase in MERALCO's power rates for the billing period of November 2013.

These cases raised, among others, the: (i) legality of Section 6, 29 and 45 of the EPIRA, (ii) failure of ERC to protect consumers from high prices of electricity, and (iii) alleged market collusion by the generation companies.

These cases were consolidated by the Supreme Court, which issued a TRO preventing MERALCO from collecting the increase in power rates for the billing period of November 2013. The TRO was subsequently extended by the Supreme Court for another 60 days, or until April 22, 2014. On April 22, 2014, the Supreme Court extended the TRO indefinitely.

MERALCO filed a counter-petition impleading all generation companies supplying power to the WESM to prevent the generation companies from collecting payments on power purchased by MERALCO from the WESM during the contested billing period. The Supreme Court also ordered other power industry participants (the DOE, ERC, PEMC, PSALM, and the generation companies) to respond to MERALCO's counter-petition.

The Supreme Court set the consolidated cases for oral arguments on January 21, 2014, February 4 and 11, 2014. After oral arguments, all parties were ordered to file their comments and/or memoranda. MERALCO has been prevented from collecting the differential increase of the price hike. Because of MERALCO's counter-petition against the generation companies, the PEMC withheld settlement of the power purchases during the covered period.

These cases before the Supreme Court are still pending resolution.

**SC GR No. 224341 entitled Philippine Electricity Market Corporation vs. Therma Mobile, Inc., Supreme Court [CA G.R. SP No. 140177 entitled "PEMC v. Therma Mobile Inc.", Court of Appeals, Manila]**  
**[SP Proc. No. 12790 entitled "Therma Mobile Inc. vs. PEMC", Regional Trial Court Branch 157-Pasig City]**  
**[PEMC ECO-2014-0009 entitled "Therma Mobile, Inc. (TMO Power Plants Units 1-4) Possible Non-Compliance with Must-Offer-Rule, Investigation Summary Report, dated August 4, 2014"]**

The Enforcement and Compliance Office of the Philippines Electricity Market Corporation (PEMC-ECO) conducted an investigation on TMO for possible non-compliance with the Must-Offer-Rule for the period October 26, 2013 to December 25, 2013.

PEMC-ECO concluded that TMO was non-compliant with the Must-Offer-Rule for 3,578 intervals and recommended a penalty of ₱234.9 mn.

TMO filed its letter request for reconsideration on September 5, 2014, contending that it did not violate the Must-Offer-Rule because its maximum available capacity was limited to 100 MW due to: (i) the thermal limitations of the old TMO 115-kV transmission line, and (ii) the technical and mechanical constraints of the old generating units and the component engines of the TMO power plants which were under various stages of rehabilitation.

In its letter dated January 30, 2015, the PEMC Board of Directors ("PEMC Board") denied TMO's request for reconsideration and confirmed its earlier findings of 3,578 counts of breach of the Must-Offer-Rule and sustained the imposition of financial penalties amounting to ₱234.9 mn on TMO. According to the PEMC Board, the penalties will be collected from TMO through the WESM settlement process.

TMO maintains that there is no basis for the PEMC decision. TMO did not withhold any capacity for the period covered, as it was physically impossible for TMO to transmit more than 100 MW to MERALCO. Although TMO's rated capacity is 234 MW (net), it could only safely and reliably deliver 100 MW during the November and December 2013 supply period because of limitations of its engines and the 115-kV transmission line. This temporary limitation of TMO's plant was confirmed during a dependable capacity testing conducted on November 21, 2013. At this period, TMO's engines and transmission lines were still undergoing rehabilitation after having been non-operational for the five years.

On February 13, 2015, TMO filed a Notice of Dispute with the PEMC to refer the matter to dispute resolution under the WESM Rules, WESM Dispute Resolution Market Manual and the ERC-PEMC Protocol.

On February 16, 2015, TMO filed an Urgent Petition for the Issuance of Interim Measures of Protection for the Issuance of a Writ of Preliminary Injunction with prayer for Temporary Order of Protection before the Pasig City RTC. In its Order dated February 24, 2015, the RTC granted TMO a 20-day temporary order of protection and directed PEMC to: (i) refrain from demanding or collecting the amount of ₱234.9 mn as financial penalty; (ii) refrain from charging interest on the financial penalty and having the same accrue; and (iii) refrain from transmitting PEMC-ECO's investigation report to the ERC. TMO posted a bond in the amount of ₱234.9 mn to answer for any damage that PEMC may suffer as a result of the Order. On April 1, 2015, the RTC rendered a Decision in favor of TMO. PEMC filed a Petition for Review with Prayer for Temporary Restraining Order and/or Writ of Preliminary Injunction before the CA which sought to reverse and set aside the Decision of the RTC.

On December 14, 2015, the CA rendered a Decision denying PEMC's Petition for Review and affirming the April 1, 2015 Decision of RTC in favor of TMO.

On June 6, 2016, PEMC filed a Petition for Review on Certiorari with the Supreme Court to assail the December 14, 2015 CA Decision. On November 14, 2016, TMO filed its Comment to PEMC's Petition for Review. In its Motion for Leave to File Reply to Comment dated December 9, 2016, PEMC prayed with the Supreme Court that it be granted leave to file its Reply. On June 1, 2017, TMO received the Supreme Court Notice dated March 29, 2017 with an attached Resolution. In the Resolution, the Supreme Court noted TMO's Comment and PEMC's Reply.

PEMC's Petition is still pending before the Supreme Court.

**CA G.R. SP. No. 152588 entitled "Therma Mobile, Inc. vs. Energy Regulatory Commission, Atty. Alfredo P. Vergara, Jr. and Engr. Nelson D. Canlas, in their capacity as Investigating Officers (IOs) of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013, as amended by Office Order No. 82, Series of 2017, Court of Appeals, Manila;**

**ERC Case No. 2015-025 MC entitled "Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs MERALCO and Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Economic Withholding)]", ERC Pasig City, June 4, 2015;**

**ERC Case No. 2015-027 MC entitled "Atty. Isabelo Joseph P. Tomas II, in his capacity as the Investigating Officer of the Investigatory Unit constituted by the Honorable Commission pursuant to its Office Order No. 38, Series of 2013 dated December 26, 2013 vs Therma Mobile, Inc. [For Violation of Section 45 of RA 9136, otherwise known as EPIRA, Rule 11, Section 1 and 8(e) of IRR of the EPIRA (Commission of an Anti-Competitive Behavior, particularly Physical Withholding)]", ERC, Pasig City, June 4, 2015;**

Pursuant to the allegations in the Bayan Muna Supreme Court case, the Investigation Unit of the Energy Regulatory Commission ("ERC-IU") conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including TMO.

On January 24, 2014, the ERC issued a Subpoena Ad Testificandum and Duces Tecum directing TMO's representative to give clarification on matters pertaining to offers per trading interval involving the November to December 2013 supply months and provisions on the PSA between MERALCO and TMO. The representative was likewise directed to bring relevant documents.

On January 29, 2014, TMO filed its Compliance and Submission to the Subpoena Duces Tecum. Further, on March 11, 2014, TMO filed its Memorandum arguing that it did not commit any act constituting anti-competitive behavior and/ or misuse of market power. TMO then requested the ERC-IU to terminate and close the investigation.

On May 20, 2015, the ERC-IU issued its report and found that in bidding the way they did for the November and December 2013 supply months, TMO and MERALCO allegedly committed Economic Withholding. In the same report, the ERC IU also found that TMO committed Physical Withholding, and thus recommended the filing of cases for Anti- Competitive Behavior against TMO and MERALCO for Economic Withholding and

against TMO alone for Physical Withholding.

On June 23, 2015, the ERC issued an Order directing MERALCO and TMO to file their respective Answers to the Complaint for Economic Withholding within fifteen (15) days from receipt of notice, and another Order directing TMO to file its Answer to the Complaint for Physical Withholding within fifteen (15) days from receipt of notice.

On August 24, 2015, TMO filed its Answers praying for the dismissal of the Complaints.

In its Manifestation dated October 7, 2016, the ERC-IU manifested the resignation of Atty. Isabelo Tomas as Investigating Officer (IO) and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by TMO.

On July 27, 2016, Meralco filed in ERC Case No. 2015-025MC an Urgent Motion to Dismiss with Motion to Suspend Proceedings on the ground that the ERC has no jurisdiction over anti-competitive behavior cases, and that jurisdiction is with the Philippine Competition Commission (PCC) pursuant to the Philippine Competition Act (PCA). On July 28, 2016, TMO filed in the same case a Manifestation and Motion adopting Meralco's Urgent Motion to Dismiss. On August 1, 2016, TMO also filed its Manifestation and Motion, which sought the dismissal of ERC Case No. 2015-027MC for lack of jurisdiction.

In an Order dated February 2, 2017, the ERC denied Meralco's and TMO's motions to dismiss for lack of jurisdiction. On February 23, 2017, TMO filed its Motion for Reconsideration of the February 2, 2017 ERC Order, which was denied by the ERC in an Order dated June 20, 2017.

On September 18, 2017, TMO filed a Petition for Certiorari (with application for Temporary Restraining Order (TRO) and Writ of Preliminary Injunction) under Rule 65 of the Rules of Court with the CA, docketed as CA GR. No. 152588. TMO prayed for the CA to: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case No. 2015-025MC and ERC Case No. 2015-027MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20, 2017 Orders of the ERC.

In a Resolution dated October 2, 2017, the CA directed the respondents to file their comment on TMO's Petition for Certiorari and denied TMO's prayer for a TRO. TMO filed a Motion for Partial Reconsideration of the CA's October 2, 2017 Resolution.

On June 5, 2018, TMO thru counsel received the CA's Notice of Judgment and Decision dated May 23, 2018. The Decision denied TMO's petition for certiorari and upheld the orders issued by the ERC.

On June 20, 2018, TMO filed its Motion for Reconsideration of the CA's Decision dated May 23, 2018.

On July 31, 2018, TMO received the Motion for Partial Reconsideration dated June 25, 2018 filed by ERC. ERC prayed that the Decision dated May 23, 2018 be partially reconsidered and a new one be issued affirming the denial of the petition and recognizing the jurisdiction of the ERC over the competition cases involving the electric power industry even after the effectivity of the PCA.

To date, the motions for reconsideration are still pending resolution by the CA.

**CA G.R. SP. No. 152613 entitled, "AP Renewables, Inc. vs. Energy Regulatory Commission and Directors Alfredo P. Vergara, Jr. and Engr. Nelson Canlas, in their capacity as the Investigating Officers of the Investigatory Unit of the Energy Regulations Commission", Court of Appeals, Manila;**

**ERC Case No. 2015-038 MC entitled "Energy Regulatory Commission vs. AP Renewables, Inc. [(Violation of Section 45 of EPIRA, Rule 11, Sec. 1 and 8 (E) of the Implementing Rules and Regulations (Commission of an Anti-Competitive Behavior, particularly, Physical Withholding)]", ERC, Pasig City  
June 9, 2015**

The ERC-IU conducted investigations on the alleged anti-competitive behavior and market abuse committed by some participants of the WESM, including APRI.

On May 20, 2015, the ERC-IU released its report holding that APRI's non-compliance with the Must-Offer Rule for four intervals is tantamount to Physical Withholding which, it alleged, is a form of anti-competitive behavior.

On June 9, 2015, complainant Atty. Isabelo Joseph Tomas, III, Investigating Officer of the IU, filed the complaint for Anti-Competitive Behavior against APRI. On June 23, 2015, the ERC issued an Order directing APRI to file its answer within fifteen (15) days from notice.

On July 1, 2015, APRI received the summons and complaint. Subsequently, on July 7, 2015, APRI through counsel, filed its Entry of Appearance with Omnibus Motion praying that: (a) the Complainant serve upon APRI the complete copy of the complaint and its annexes; (b) the Complainant clarify and put on record the answer to the following issues: (i) which of Makban Plants' generating units is the subject of the complaint; and (ii) the dates and times of the four intervals mentioned in the complaint during which APRI allegedly offered "less than its total registered capacity."

Meanwhile, on July 29, 2015, APRI filed its Answer *ad cautelam*.

Despite manifestations to the contrary, complainant no longer filed a reply to APRI's Answer. APRI is now waiting for the schedule of the hearing of its Affirmative Defenses.

On its Manifestation dated October 7, 2016, the ERC-IU manifested the resignation of Atty. Isabelo Tomas as IO and the appointment of Director Alfredo Vergara, Jr. and Engr. Nelson Canlas as new IOs. In a separate pleading, the new IOs filed their Reply to various motions filed by APRI.

Subsequently, APRI filed a Motion to Dismiss dated July 29, 2016, arguing that jurisdiction over the case is vested in the PCC. APRI also filed its Ad Cautelam Pre-Trial Brief and Judicial Affidavits.

On February 2, 2017, ERC issued an Order denying APRI's Motion to Dismiss dated July 29, 2016 based on lack of subject matter jurisdiction. On March 2, 2017, APRI filed its Motion for Reconsideration of the February 2, 2017 Order, which was denied by the ERC in its Order dated June 20, 2017.

On September 19, 2017, APRI filed a Petition for Certiorari (with application for Temporary Restraining Order and Writ of Preliminary Injunction) with the CA (CA G.R. SP. No. 152613), praying for the CA to: (i) issue a TRO commanding the ERC to desist from conducting further proceedings in ERC Case. No. 2015-038MC; (ii) after proceedings, issue a Writ of Preliminary Injunction; and (iii) annul and set aside the February 2, 2017 and June 20, 2017 Orders of the ERC, and dismiss the complaint and ERC proceedings with prejudice.

On November 6, 2017, the IOs filed a Motion for Consolidation seeking to consolidate CA G.R. SP. No. 152613 with TMO's Petition in CA GR. No. 152588. The CA granted the motion and consolidated APRI's action with TMO's and Meralco's petitions.

On June 1, 2018, APRI received the CA's Notice of Judgment and Decision dated May 23, 2018. The Decision denied APRI's Petition for Certiorari and upheld the orders issued by the ERC.

On June 18, 2018, APRI filed its Motion for Reconsideration.

On July 3, 2018, APRI received the Motion for Partial Reconsideration dated June 25, 2018 filed by ERC.

On July 13, 2018, APRI received the CA Resolution dated July 3, 2018, which directed the ERC to file a Comment within 10 days from notice on the Motion for Reconsideration filed by Meralco, APRI, and TMO, and for APRI to comment on the Motion for Partial Reconsideration filed by the ERC. APRI filed its Opposition dated July 25, 2018 with the ERC.

To date, the motions for reconsideration are pending resolution by the CA.

**Certiorari, Court of Appeals, Manila;**

**ERC Case No. 2014-021 MC entitled "In the Matter of the Prices in the WESM for the Supply Months of November and December 2013 and the Exercise by the Commission of its Regulatory Powers to Intervene and Direct the Imposition of Regulated Prices therein without Prejudice to the On-going Investigation on the Allegation of Anti-Competitive Behavior and Possible Abuse of Market Power Committed by Some WESM Participants"**

**March 28, 2014**

The ERC conducted an investigation on the alleged collusion by the generation companies to raise the WESM prices. Subsequently, the ERC issued an Order in ERC Case No. 2014-021 MC dated March 3, 2014 (the "ERC Order"), declaring as void the Luzon WESM prices during the November and December 2013 supply months. The ERC also declared the imposition of regulated prices for such billing periods and directed the PEMC to calculate the regulated prices and implement the same in the revised November and December 2013 WESM bills of the concerned distribution utilities in Luzon, except for MERALCO whose November 2013 WESM bill was maintained in compliance with the TRO issued by the Supreme Court.

The ERC also ordered the PEMC, through its Enforcement and Compliance Office (ECO) to conduct an investigation, within a period of no less than ninety (90) days, on the alleged violation of the Must-Offer-Rule.

Pursuant to the ERC Order, on March 18, 2014, the PEMC issued adjusted billing statements for all generators trading in the WESM, including Cebu-based EAUC and CPPC, recalculating the WESM prices.

The Company's Affiliates and Subsidiaries, APRI, TLI, TMO, AESI, AdventEnergy, SN Aboitiz Power-Magat, SN Aboitiz Power-Benguet, CPPC, and EAUC filed their respective Motions for Reconsideration, questioning the validity of the ERC Order on the ground of lack of due process, among others. In its March 27, 2014 Order, the ERC ordered deferral of PEMC's implementation of the adjusted billing statements for forty-five (45) days. This was subsequently extended with no clear timeline by the ERC in its order dated June 6, 2014.

The ERC, in its Order dated October 15, 2014, denied said Motions for Reconsideration. SN Aboitiz Power-Benguet, SN Aboitiz Power-Magat, APRI, TLI, and TMO filed their Petitions for Review (the "Petitions") before the CA on November 19, 24, December 1, and 4, 2014, respectively. The CA ordered the consolidation of the Petitions on October 9, 2015.

On November 7, 2017, the CA granted the Petitions. The ERC's March 3, 2014 Order, among other orders, were declared null and void, and the Luzon WESM market prices in November and December 2013 were declared valid and therefore reinstated.

Thereafter, ERC and Meralco filed their respective motions for reconsideration. Several entities also filed motions to intervene in the case. APRI, TLI, and TMO filed their oppositions to the motions for reconsideration and motions to intervene. The motions to intervene filed by several entities were denied by the CA, while the motions for reconsideration filed by MERALCO and the ERC are still pending resolution by the CA.

**ERC Case No. 2013-077 MC entitled "In Re: Petition for Dispute Resolution: Manila Electric Company (MERALCO) vs. South Premier Power Corporation (SPPC), Masinloc Power Partners Company, Ltd. (MPPCL), AP Renewables, Inc. (APRI), Therma Luzon, Inc. (TLI), San Miguel Energy Corporation (SMEC) and SEM-Calaca Power Corporation (SCPC)"**

**August 29, 2013**

On August 29, 2013, MERALCO filed a petition before the ERC against TLI and APRI, among other Successor Generating Companies (SGCs), docketed as ERC Case No. 2013-077 MC, where MERALCO prayed that it be refunded by the respondent-SGCs of the transmission line losses. The petition arose from a claim of refund on account of the alleged over-recoveries of transmission line losses.

The petition was filed by MERALCO pursuant to the ERC Order dated March 4, 2013 and July 1, 2013 in ERC Case No. 2008-083 MC where the SGCs were not parties to.

On September 20, 2013, APRI and 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 motion argued that: (i) MERALCO cannot base its cause of action against the SGCs on a decision issued by ERC in another case where none of the SGCs were made parties to the case; and (ii) MERALCO's claim is in a nature of a claim for sum of money which is properly within the jurisdiction of regular courts. 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.

**Civil Case No. 2018-21 Entitled "Pagbilao Energy Corporation vs. the Municipality of Pagbilao, Quezon and Hon. Shierre Ann Portes-Palicipic, in her capacity as the Municipal Mayor of the Municipality of Pagbilao", RTC Branch 57 of Lucena City February 28, 2018**

During the course of PEC's application for a business permit for calendar year 2018 from the Municipality of Pagbilao, the municipality required PEC to execute a MOA implementing its CSR programs for an amount above the Company's approved budget for CSR. The municipality refused to issue the business permit without the executed MOA, and instead issued a Cease and Desist Order (CDO).

On February 27, 2018, PEC filed a Petition for Injunction with prayer for TRO with the Regional Trial Courts of Lucena City. In an Order dated February 28, 2018, the RTC of Lucena City, Branch 57, issued a TRO and ordered the municipal mayor of Pagbilao, Quezon to cease and desist from implementing the assailed CDO. On March 2, 2018, the RTC issued a TRO valid for twenty (20) days from February 28, 2018. On March 7, 2018, the Municipality of Pagbilao revoked the CDO, and at a hearing on the same date, the parties moved for the dismissal of the case, which the Court granted.



## MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

### MARKET INFORMATION

AboitizPower's common shares are traded on the PSE.

The high and low stock prices of AboitizPower's common shares for each quarter of the past two years and first two quarters of 2018 were as follows:

	2018		2017		2016	
	High	Low	High	Low	High	Low
First Quarter	₱41.80	₱37.50	₱44.25	₱41.55	₱44.40	₱39.40
Second Quarter	₱39.70	₱34.25	43.00	38.50	48.90	42.80
Third Quarter	N/A	N/A	42.85	38.80	46.65	44.00
Fourth Quarter	N/A	N/A	42.95	38.30	46.40	41.50

The closing price of AboitizPower common shares as of September 14, 2018 is ₱36.75 per share.

### HOLDERS

As of August 31, 2018, AboitizPower has 630 stockholders of record, including PCD Nominee Corporation (Filipino) and PCD Nominee Corporation (Foreign). Common shares outstanding as of same date were 7,358,604,307 shares.

The top 20 stockholders of AboitizPower as of August 31, 2018 are as follows:

Name	Number of Shares	Percentage
1) Aboitiz Equity Ventures, Inc.	5,657,530,774	76.88%
2) PCD Nominee Corporation (Filipino)	1,372,019,365	18.65%
3) PCD Nominee Corporation (Foreign)	49,463,976	0.67%
4) Bauhinia Management, Inc.	18,109,100	0.25%
5) Portola Investors, Inc.	13,634,856	0.19%
6) Hawk View Capital, Inc.	13,633,657	0.19%
7) San Fernando Electric Light & Power Co.,	7,931,034	0.11%
8) Parraz Development Corporation	7,827,522	0.11%
9) Dominus Capital Inc.	7,241,050	0.10%
10) FMK Capital Partners Inc.	6,538,000	0.09%
11) Sabin M. Aboitiz	6,050,985	0.08%
12) Iker M. Aboitiz	5,465,100	0.07%
13) Aboitiz & Company, Inc.	5,360,000	0.07%
14) Daniele Management & Development	5,234,949	0.07%
15) Arrayanes Corporation	4,146,243	0.06%
16) Danel C. Aboitiz	4,081,636	0.06%
17) Ramon Aboitiz Foundation, Inc.	3,900,000	0.05%
18) Tris Management Corporation	3,130,359	0.04%
19) Tinkerbell Management Corporation	3,042,454	0.04%
20) Cal Management Corporation	3,036,798	0.04%
<b>SUBTOTAL</b>	<b>7,197,377,858</b>	<b>97.82%</b>
<b>Other Stockholders</b>	<b>161,226,449</b>	<b>2.19%</b>
<b>TOTAL SHARES</b>	<b>7,358,604,307</b>	<b>100.00%</b>
<b>NET ISSUED AND OUTSTANDING SHARES</b>	<b>7,358,604,307</b>	<b>100.00%</b>

## DIVIDENDS

The cash dividends declared by AboitizPower to common stockholders from 2016 to the first quarter of 2018 are shown in the table below:

Year	Cash Dividend Per Share	Total Declared	Declaration Date	Record Date	Payment Date
2018 (regular)	₱1.39	₱10.23 bn	3/8/2018	3/22/2018	4/12/2018
2017 (regular)	₱1.36	₱10.01 bn	3/7/2017	3/21/2017	4/10/2017
2016 (regular)	₱1.20	₱8.83 bn	3/8/2016	3/22/2016	4/19/2016
2016 (special)	₱0.46	₱3.38 bn	3/8/2016	3/22/2016	4/19/2016

During the regular board meeting of the Company held on 28 November 2012, the Board approved a revised dividend policy consisting of an annual cash dividend payment ratio of 50% of its consolidated net income from the previous fiscal year based on the audited financial statements of the Company. The new policy changes the previous cash dividend payment ratio of 33% of previous year's net profits. The Company's new dividend policy was effective starting 2013.

The Philippine Corporation Code prohibits stock corporations from retaining surplus profits in excess of 100% of their paid-in capital stock, except when justified by definite corporate expansion projects or programs approved by the Board, or when the corporation is prohibited under any loan agreement with any financial institution or creditor from declaring dividend without its consent, and such consent has not yet been secured, or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation.

As of the date of this Prospectus, the Company's Subsidiaries do not have a defined dividend policy. However, it has been the practice of the Company's Subsidiaries to declare excess cash as dividends to the Company.

## RECENT SALES OF UNREGISTERED OR EXEMPT SECURITIES INCLUDING RECENT ISSUANCES OF SECURITIES CONSTITUTING AN EXEMPT TRANSACTION

AboitizPower does not have any recent sales of unregistered or exempt securities including recent issuances of securities constituting an exempt transaction.

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of Aboitiz Power Corporation’s (AP, AboitizPower, Parent, or the Company) consolidated financial condition and results of operations should be read in conjunction with the consolidated financial statements and accompanying schedules and disclosures set forth elsewhere in this report. The discussion and analysis of the Company’s results of operations is presented in three comparative sections: for the six-month period ended 30 June 2018 compared with the six-month period ended 30 June 2017, for the year ended 31 December 2017 compared with the year ended 31 December 2016, and the year ended 31 December 2016 compared with the year ended 31 December 2015.

Prospective investors should read this discussion and analysis of the Company’s consolidated financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto set forth elsewhere in this report.

### TOP FIVE KEY PERFORMANCE INDICATORS

Management uses the following indicators to evaluate the performance of the Company and its subsidiaries (the Company and its subsidiaries are hereinafter collectively referred to as the “Group”):

1. Share in Net Earnings of Associates and Joint Ventures. It represents the Group's share in the undistributed earnings or losses of its investees for each reporting period subsequent to acquisition of said investment. It also indicates profitability of the investment and investees' contribution to the Group's net income.

Manner of Computation:

*Investee's Net Income (Loss) x Investor's % ownership - Goodwill Impairment Cost*

2. Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA). The Company computes EBITDA as earnings before extraordinary items, net finance expense, income tax provision, depreciation, and amortization. It provides management and investors with a tool for determining the ability of the Group to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Group’s ability to service its debts.
3. Cash Flow Generated. Using the Consolidated Statement of Cash Flows, management determines the sources and usage of funds for the period and analyzes how the Group manages its profit and uses its internal and external sources of capital. This aids management in identifying the impact on cash flow when the Group's activities are in a state of growth or decline, and in evaluating management's efforts to control the impact.
4. Current Ratio. Current ratio is a measurement of liquidity, calculated by dividing total current assets by total current liabilities. It is an indicator of the Group's short-term debt paying ability. The higher the ratio, the more liquid the Group.
5. Debt-to-Equity Ratio. Debt-to-Equity ratio gives an indication of how leveraged the Group is. It compares assets provided by creditors to assets provided by shareholders. It is determined by dividing total debt by stockholders' equity.

### SIX-MONTH PERIOD ENDED 30 JUNE 2018 SIX-MONTH PERIOD ENDED 30 JUNE 2017

The table below shows the comparative figures of the top five key performance indicators for the first six (6) months of 2018 and 2017:

Key Performance Indicators	JUNE 2018	JUNE 2017
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	1,923,308	2,412,475

EBITDA	<b>23,950,438</b>	<b>21,802,582</b>
CASH FLOW GENERATED:		
Net cash flows from operating activities	<b>12,933,796</b>	<b>16,907,696</b>
Net cash flows used in investing activities	<b>(260,889)</b>	<b>(7,138,928)</b>
Net cash flows used in financing activities	<b>(12,162,504)</b>	<b>(17,041,288)</b>
Net increase (decrease) in cash & cash equivalents	<b>510,403</b>	<b>(7,272,520)</b>
Cash & cash equivalents, beginning	<b>35,699,631</b>	<b>47,094,740</b>
Cash & cash equivalents, end	<b>36,476,195</b>	<b>39,831,596</b>
CURRENT RATIO	<b>1.48</b>	
DEBT-TO-EQUITY RATIO	<b>2.05</b>	

Lower hydrology for the first half of this year compared to same period resulted in lower revenues for SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat) and SN Aboitiz Power-Benguet, Inc. (SN Aboitiz Power-Benguet). This led to lower contributions from both companies which in turn drove the 20% decline in the Company's share in net earnings of associates and joint ventures during the period in review.

Consolidated EBITDA grew by 10% year-on-year (YoY) as EBITDA contributions were recognized from the newly operating 400-MW coal-fired power plant of Pagbilao Energy Corporation (PEC), higher EBITDA from GNPowder-Mariveles Coal Plant Ltd. Co (GMCP) due to higher plant availability, and higher contracting levels at the Company's retail electricity suppliers. These gains were offset by lower EBITDA from the Company's hydro units due to lower hydrology as noted above.

The 16% increase in current assets during the first half of this year mainly resulted from higher trade and other receivables as well as other current assets. The increase in current assets combined with an 8% increase in current liabilities for the same period led to the movement in current ratio from 1.38x at the end of 2017 to 1.48 at the end of the first half of 2018.

The increase in total liabilities led to a change in the Company's debt-to-equity ratio from 1.92 as of December 31, 2017 to 2.05 as of June 30, 2018.

## Results of Operations

AboitizPower's net income for the first six months of 2018 was ₱9.12 billion (bn), 6% lower than the ₱9.72 bn recorded during the same period last year. The Company recognized non-recurring losses of ₱1.39 bn during the period, versus last year's losses of ₱744 million (mn), resulting from net foreign exchange losses. Without these one-off losses, the Company's core net income for the period in review was relatively flat YoY at ₱ 10.51 bn versus last year's core net income of ₱10.46 bn.

## Results of Operations

### *Generation and Retail Electricity Supply*

Consolidated EBITDA of the Company's generation and retail supply business for the first half of 2018 was ₱ 20.19 bn, up 9% from the ₱18.47 bn recorded during the same period in 2017. This was due to the fresh EBITDA contributions from PEC during the period in review. In addition, higher contracting levels versus last year also contributed to the higher EBITDA. These increases were partially offset by lower contributions from the Company's hydro plants due to lower hydrology during the first six months of 2018. After taking into account interest, depreciation and taxes, core net income at the end of the first half of 2018 was ₱9.38 bn, 2% lower than in 2017. Due to foreign exchange losses, the first half's non-recurring losses totaled ₱857 mn, versus last year's non-recurring loss of ₱284 mn. This brought the generation and retail electricity supply net income contribution to ₱8.52 bn on the first six months of 2018, which was 8% lower YoY.

AboitizPower's capacity sold during the period increased 8% YoY, from 3,086 megawatts (MW) to 3,319 MW, driven by new capacities sold by PEC.

## Distribution

For the first half of 2018, consolidated EBITDA of the distribution business was ₱3.9 bn, up by 13% from the ₱3.4 bn recorded for the same period last year. The Group saw a 7% YoY increase in energy sold, from 2,546 gigawatt-hours (GWh) to 2,719 GWh, due to increased consumption across all customer segments. Improving margins also contributed to the increase in consolidated EBITDA during the period in review. As a result, net income contribution of the distribution business increased by 14% YoY, from ₱1.8 bn to ₱2.1 bn.

## Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

### Consolidated Statements of Income

The various movements in the revenue and expense line items leading to the Consolidated Net Income Attributable to Equity Holders of the Parent of ₱9.12 bn are shown below:

Consolidated Net Income Attributable to Equity Holders of the Parent (January – June 2017)	<u>₱9,720,562</u>
Increase in operating revenues	<b>8,384,098</b>
Increase in operating expenses	<b>(6,694,736)</b>
Decrease in interest income	<b>(81,263)</b>
Increase in interest expense	<b>(162,530)</b>
Decrease in share in net earnings of associates and joint ventures	<b>(489,167)</b>
Increase in other expenses	<b>(885,233)</b>
Lower provision for taxes	<b>15,476</b>
Increase in income attributable to non-controlling interests	<u><b>(689,174)</b></u>
Total	<u><b>(602,529)</b></u>
Consolidated Net Income Attributable to Equity Holders of the Parent (January – June 2018)	<u><u><b>₱9,118,033</b></u></u>

### Operating Revenues

*(15% increase from ₱56.65 bn to ₱65.03 bn)*

Operating revenues increased by ₱8.38 bn primarily due to higher revenues at the Group's retail electricity supply companies resulting from a combination of higher indices and higher contracting levels during the first half of 2018 period versus the same period in 2017. In addition, new capacities sold from the operations of 400-MW coal-fired power plant of PEC as well as higher sales of Therma Luzon Inc. (TLI) further added to the increase in revenues during the period under review.

Operating revenues also increased for the distribution utilities, mainly at the two large distribution utilities of the group, Davao Light & Power Co., Inc. (Davao Light) and Visayan Electric Company (VECO), as higher electricity sales across all customer segments was recorded during the first half of 2018.

### Operating Expenses

*(16% increase from ₱41.52 bn to ₱48.21 bn)*

The 16% increase in operating expenses for the first half of 2018 was mainly due to higher operating expenses at the Group's thermal plants (particularly at TLI and Therma South, Inc.) the take up of expenses at the newly operating coal plant of PEC, and higher costs of fuel at AP Renewables Inc.

In addition, higher costs of purchased power likewise contributed to the increase in operating expenses at the Group's large distribution utilities during the first six months of 2018.

### Interest Income

*(19% decrease from ₱424 mn to ₱343 mn)*

Interest income declined by 19% as a result of lower average cash balances held during the period under review versus the same period last year.

**Interest Expense and Other Financing Costs**

*(3% increase from ₱5.19 bn to ₱5.35 bn)*

The 3% increase in interest expense was mainly due to the recognition of interest expense relating to the newly operating 400-MW coal-fired power plant of PEC.

**Share in Net Earnings of Associates and Joint Ventures**

*(20% decrease from ₱2.41 bn to ₱1.92 bn)*

Lower hydrology in the first half of 2018 compared to the same period in 2017 led to lower revenues (and therefore lower contributions) from the Group's two large hydroelectric power plants, SN AboitizPower-Magat and SN AboitizPower-Benguet.

**Other Income (Expenses) - net**

*(332% increase in other expenses from ₱267 mn to ₱1.15 bn)*

The increase in Other expenses by ₱885 mn during the first half of 2018 resulted from the mark to market losses on dollar denominated obligations of the Group. The largest change came from the restatement of TLI's dollar denominated debt on its monthly obligations to the Power Sector Assets and Liabilities Management Corporation, which was accounted for as a finance lease obligation.

**Provision for Income Tax**

*(1% decrease from ₱ 1.74 bn to ₱1.73 bn)*

Lower taxable income recognized during the period at the Group's taxable subsidiaries led to lower provisions for income tax.

**Net Income Attributable to Non-Controlling Interests**

*(66% increase from ₱1.05 bn to ₱1.74 bn)*

Higher income contributions from GMCP due to the plants' higher availability during the period in review contributed led to the increase in Net Income Attributable to Non-controlling Interests.

**Consolidated Statements of Comprehensive Income**

Consolidated comprehensive income attributable to equity holders of the Parent increased by 9% during the first half of 2018 was a result of cumulative translation adjustments.

**Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

**Assets**

Total assets increased by 3% from ₱361.48 bn as of December 31, 2017 to ₱373.65 bn as of June 30, 2018. The material changes in the following accounts that led to the increase are discussed below:

- a) Trade and other receivables increased by 29%, or by P 5.05 bn (from ₱17.36 bn in 2017 to ₱22.41 bn in June 2018), due to higher trade receivable balances as of the end of the first half of 2018 at PEC, TLI, and GMCP, as well as at the Group's RES and distribution utility companies.
- b) Inventories increased by 7% (from ₱5.64 bn at end 2017 to ₱6.03 bn in June 2018) as inventory levels at Davao Light, VECO, and certain thermal plants were observed.

- c) As power plants reached the end of construction and approached commercial operations, input value added tax (VAT) input previously classified as other non-current assets were re-classified as other current assets because they were expected to be used within the next twelve (12) months. This led to the increase in other current assets by 54%.
- d) As a result of fair value changes during the period under review derivative assets net of derivative liabilities (both current and non-current) increased by 156%.
- e) Deferred tax assets increased by 31% as the deferred tax benefits arising from unrealized foreign exchange losses were recorded during the current period.
- f) Other non-current assets decreased by 40% as a result of the re-classification of input VAT previously from other non-current assets to the other current asset account.

### **Liabilities**

Consolidated liabilities increased by 6%, from ₱237.50 bn as of December 31, 2017 to ₱251.03 bn as of June 30, 2018. The material changes to the following accounts that led to the increase are discussed below:

- a) Short term loans increased by ₱6.01 bn, primarily due to a short-term bank loan by the parent Company, as well as higher short-term debt incurred by the distribution utilities to meet working capital requirements
- b) Recognition of trade and other payables at newly operating coal plant of PEC, as well as higher balances for this account at TLI and the RES companies, led to the 26% increase in this account.
- c) Income tax payable increased by 9% mainly due to higher provision for taxes at the Company's RES companies and distribution utilities, as well as the recognition of pre-operating taxable obligations at PEC.
- d) Accretion of interest on Subic Enerzone Corporation's long-term obligation on power distribution system increased this account by 7%.
- e) Net pension liabilities decreased by 10% due to lower provisions taken up during the period.
- f) Other non-current liabilities decreased by 100%, as obligations to suppliers were settled during the period under review.

### **Equity**

Equity attributable to equity shareholders of the Parent remained steady at the close of the first half of the year (from ₱115.40 bn at year-end 2017 to ₱116.05 bn as of June 30, 2018) after the declaration of dividends and after recognizing of net income during the period.

### **Material Changes in Liquidity and Cash Reserves of Registrant**

Cash flows from operating activities continued to be a robust source of cash flows for the Group, bringing in ₱12.93 bn in the first half of 2018. Strong earnings continued to provide significant EBITDA, leading to consistent Cash inflows from operating activities year on year.

The bulk of the Group's net cash used in investing activities, totaling ₱260.89 mn in the first half of 2018, continued to be spent on capital expenditures as the construction for various power plants remain ongoing. As these projects reach the tail end of their construction activities, the cash outflows for these activities decline compared to previous periods.

After the payment of dividends to its shareholders, and timely payments made by various subsidiaries to serve

outstanding obligations, the cash flows used in financing activities for the first half of 2018 stood at ₱ 12.16 mn. This was lower than the prior year as proceeds from long term debt and short-term loans availed in the first 6 months of the year were received.

As of June 30, 2018, the Group's cash and cash equivalents increased by 2% compared to year-end 2017, from ₱35.70 bn to ₱ 36.48 bn.

### **Financial Ratios**

Current assets increased by ₱11.14 bn driven mainly by the ₱ 5.05 bn increase in Trade and other receivables and the increase in Other current assets of ₱4.87 bn. Current liabilities meanwhile had a net upward change of ₱4.14 bn. These factors led to the change in the Company's current ratio from 1.38x at the end of 2017 to 1.48x at the end of the first half of 2018.

Consolidated debt to equity ratio was at 2.05x as of June 30, 2018 (versus year end 2017's 1.92x). The change was mainly due to the 6% increase in consolidated debt versus the minimal change in total equity.

### ***Outlook for the Upcoming Year/Known Trends, Events, Uncertainties which may have Material Impact on Registrant***

AboitizPower believes it is well-positioned to take advantage of opportunities arising from developments in the power industry. Its sound financial condition is expected to give it the agility to create or acquire additional generating capacity over the next few years.

### **I. Power Generation Business**

Despite increased competition in the power generation market, AboitizPower believes it has built the foundation to sustain growth over the long term. In line with its growth target of reaching 4,000 MW in net attributable capacity by 2020, from its capacity of 2,999 MW as of December 31, 2017. AboitizPower expects to expand its portfolio of generation assets by implementing the projects described below:

#### **A. Greenfield and Brownfield Developments**

AboitizPower, together with its Subsidiaries and Associates, is in various stages of construction or completion of the following Greenfield and Brownfield projects:

- 1. 340-MW CFB Coal-Fired Project in Toledo City, Cebu.** This project is undertaken by Therma Visayas, Inc. (TVI), a partnership between AboitizPower and the Vivant group. The 2x170-MW coal-fired power plant is in the testing and commissioning phase, but is experiencing technical issues with turbines that will delay commercial operation date (COD) of the first unit to December 2018 and the second unit to first quarter of 2019.
- 2. 68.8-MW Manolo Fortich Hydropower Plant in Manolo Fortich, Bukidnon.** The project is undertaken by Hedcor Bukidnon, Inc. The COD of Plant 1 (43.4-MW) was achieved in early July, and Plant 2 (25.4-MW) is expected to reach COD in September 2018 once the final tunnel lining works are completed. The plant is expected to operate under the Feed-in-Tariff (FIT).
- 3. 19-MW La Trinidad Hydropower Plant in La Trinidad, Benguet.** This project is undertaken by Hedcor, Inc. It is currently under construction with targeted COD by the second half of 2019. The plant is expected to operate under the FIT.
- 4. 2x668-MW Dinginin Supercritical Coal-Fired Power Plant in Mariveles, Bataan.** This project is undertaken by GNPowr Dinginin Ltd. Co., a partnership composed of Therma Power, Inc. (TPI), AC Energy Holdings, Inc., a wholly-owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. Both Unit 1 and Unit 2, each of 668-MW, are under construction, with targeted commercial operations expected to commence in 2019 and 2020, respectively.



#### B. Alimit Hydropower Complex

SN Aboitiz Power-Ifugao, Inc. (SN AboitizPower-Ifugao), is in the process of developing the Alimit Hydro Power Complex in Ifugao, which consists of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility, and the 20-MW Olilicon hydropower. The affected municipalities are Aguinaldo, Lagawe, Lamut, and Mayoyao. The development is still in the feasibility study phase, including the permitting process. Due to market constraints, the technical studies of the pumped storage facility have been temporarily suspended. An important component of the feasibility review is the Free Prior and Informed Consent from the indigenous peoples. SN AboitizPower-Ifugao will continue working with the government, indigenous peoples' representatives, and industry partners

#### C. Naga Power Plant

On April 30, 2014, Power Sector Assets and Liabilities Management (PSALM) issued a Notice of Award to AboitizPower subsidiary, Therma Power Visayas, Inc. (TPVI), for submitting the highest bid amounting to ₱1.08 bn. TPVI received the Certificate of Effectivity (COE) from PSALM last May 24, 2018. Thereafter, on July 16 2018 TPVI took possession of the power plant complex.

The facility is currently being assessed for maintenance and rehabilitation works. Due to its strategic location within the Cebu franchise area and its potential to provide a platform for future activities, AboitizPower believes that possession of the Naga complex will provide opportunities to add to its generation portfolio.

#### D. RP Energy PSA

The 660-MW circulating fluidized bed coal-fired power plant located in Redondo Peninsula, Subic, Zambales, is a project undertaken by Redondo Peninsula Energy, Inc. (RP Energy), a joint venture among Meralco PowerGen Corporation (MPGC), TPI, and Taiwan Cogeneration International Corporation.

On April 20, 2016, RP Energy entered into a Power Service Agreement (PSA) with Manila Electric Company (Meralco) for a contracted capacity of 225 MW within a 20-year term. This PSA was filed for approval with the Energy Regulatory Commission (ERC) on April 29, 2016. Public hearings were subsequently held, and were concluded on January 6, 2017. On April 10, 2018, RP Energy and Meralco agreed to extend the longstop date of the PSA for a period of six (6) months or from April 29, 2018 to October 29, 2018. If the ERC does not approve the PSA by October 29, 2018, RP Energy would then have the option to terminate the PSA. To date, RP Energy is still awaiting the ERC's PSA approval.

#### E. Expansion of Existing Net Attributable Capacity

AboitizPower is focused on addressing the needs of its markets, including reliable supply, reasonable cost, and minimal impact on the environment and communities. The Company recognizes that there is no single technology that can address the country's energy requirements. Thus, AboitizPower believes that a mix of power generation technologies is necessary to address the country's needs. The Company will continue to pursue both renewable projects and thermal technologies, where and when it makes sense.

## II. Power Distribution Business

AboitizPower expects that its existing distribution utilities will continue to realize modest growth. It continuously seeks efficiency and improvements in its distribution utilities' operations in order to maintain healthy margins.

#### A. Performance-Based Rate-Setting

Performance-Based Rate-setting Regulation (PBR) replaced the Return on Rate Base (RORB) mechanism that had historically determined the distribution charges paid by customers. Under PBR, distribution utilities can collect rates from customers over a four-year regulatory period.

The ERC has implemented a Performance Incentive Scheme (PIS), whereby annual rate adjustments under PBR are made. The annual rate adjustments take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as: (i) the average duration of power outages; (ii) the average time of restoration to customers; and (iii) the average time to respond to customer calls. The distribution utilities are either rewarded or penalized, depending on their ability to meet these performance targets.

Through ERC Resolution No. 25, Series of 2016, dated July 12, 2016, the ERC adopted the “Resolution Modifying the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR)”. Based on this Resolution, the Fourth Regulatory Period shall be as follows:

- (i) Cotabato Light: April 1, 2017 to March 31, 2021
- (ii) Davao Light and VECO: July 1, 2018 to June 30, 2022
- (iii) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

The reset process for the Fourth Regulatory Period has not started for all private distribution utilities as the above-mentioned ERC rules have not been published, which is a condition for their effectivity. Due to the rules change on PBR, all Distribution Utilities of AboitizPower have not undergone the Third Regulatory Period.

#### B. System Loss Caps

In February 2018, the ERC issued Resolution No. 20, Series of 2017 (ERC Resolution No. 20-2017) entitled “A Resolution Adopting the ERC Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency”. This set of rules provide for the new Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period. Private distribution utilities shall charge a 6.50% DSL cap for 2018, which shall be reduced gradually on an annual basis until a DSL cap level of 5.50% is achieved by the year 2021. The aforementioned caps are exclusive of sub-transmission and substation losses.

The rules allow distribution utilities to use an alternative method in determining an individualized DSL cap that it shall apply. The individualized cap has two components: one for technical loss (determined using load flow simulations on the DU's reference distribution system) and another for non-technical loss (which represents the level of non-technical loss that minimizes the costs to consumers). In determining the reasonable level of the individualized DSL cap, costs and benefits must be analyzed from the viewpoint of the customer.

On June 4, 2018, Cotabato Light and Power Company filed with ERC its individualized system loss cap application with technical loss cap at 7.48% and non-technical loss cap at 1.77%. The initial public hearing was conducted at ERC's Mindanao Field Office on August 2, 2018.

### III. Solar Rooftop

Improvements in technical capabilities and commercial feasibility of distributed energy technologies is of long term strategic importance to AboitizPower. Through its participation in the nascent solar solutions space via the grid-tied rooftop solar power system, AboitizPower Distributed Renewables, Inc. intends to anticipate and reduce potential disruption across the value chain.

Groundwork completed include the attraction of top technical talent for photovoltaic (PV) solar technology such as PV design and structural engineering to set the foundation of developing in-house expertise. In addition, establishing commercial capabilities and exploring synergies with other teams within the Aboitiz

Group such as the AboitizPower Retail Electricity Supplier and AboitizPower Distribution Utility customer teams, as well as Aboitiz Land, Inc. (AboitizLand) are in full swing.

Last February 2018, a 100 kW installation for Cebu Praedia Development Corporation, atop the roof of the Aboitiz Corporate Office at Banilad, Cebu was completed. Moreover, an agreement between AboitizLand and AboitizPower Distributed Renewables Inc. to develop a 1.6 MW rooftop solar solution for *The Outlets at Lipa* in the Lima Technology Center was finalized. While AboitizPower Distributed Renewables, Inc. initially caters to the robust demand from several business units within the Aboitiz Group to showcase the technology and refine service delivery, a pipeline of customers within the franchise area of distribution utilities as well as contestable customers of the RES are currently being processed.

#### **IV. Market and Industry Developments**

##### **A. Policy on Competitive Selection Process in Securing Power Supply Agreements**

In 2015, the DOE issued Department Circular No. DC2015-06-0008, entitled "Mandating all Distribution Utilities to Undergo Competitive Selection Process (CSP) in securing Power Supply Agreements (PSA)." The DOE recognizes that CSP in the procurement of PSAs by the distribution utilities ensures long term security and certainty of electricity prices of electric power to end-users.

On November 4, 2015, the ERC issued Resolution No. 13, Series of 2015, entitled "A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply in the Captive Market".

The adoption and implementation of the CSP is expected to increase transparency and competition in power supply contracting. The impact of CSP is prospective and, as such, its effectivity will not affect AboitizPower's existing contracts.

On February 9, 2018, the DOE issued Department Circular No. DC2018-02-0003, essentially modifying the existing policy on CSP of power supply contracting, applicable to both electric cooperatives and private distribution utilities. Distribution utilities are now mandated to create either an independent five-man third party bids and awards committee (TPBAC) that will manage their CSP supply procurements, or have a third party auctioneer (TPA). The TPBAC and the TPA shall be accountable to its decision in the conduct of the CSP.

If a TPBAC is established, it shall be comprised of five (5) members, three (3) of whom shall be officers and/or employees of the distribution utility, and two (2) members shall be captive customers that are not directly or indirectly connected/affiliated with the distribution utility.

If the relevant distribution utility opts to have a TPA to undertake CSP in its procurement of power supply, the TPA shall be composed of a team of private individuals or a private corporation duly recognized in the Philippines with expertise on competitive bidding and with sufficient knowledge of the electric power industry. The TPA should not be connected/affiliated either directly or indirectly with the relevant distribution utility. The accreditation of potential TPAs is handled by the ERC.

##### **B. Renewable Portfolio Standards**

On December 30, 2017, the DOE issued Department Circular No. DC2017-12-0015, or the "Renewable Portfolio Standards (RPS) On-Grid Rules". The new policy mandates distribution utilities, renewable energy suppliers, generation companies supplying directly connected customers, and other mandated energy sector participants (each, a "Mandated Participant") to source or produce a certain percentage share of their energy mix from eligible renewable energy (RE) facilities. Under the new policy, eligible RE facilities include the following technologies: biomass, waste-to-energy technology, wind, solar, hydro, ocean, geothermal, and such other RE technologies that may be later identified by the DOE.

The new policy mandates identified energy sector participants to comply with minimum annual RPS requirement in order to meet an “aspirational target” of 35% renewable energy supply in the generation mix by the year 2030. The RPS guidelines will implement a Minimum Annual Increment RE Percentage to be sold to mandated participants, initially set at 1% of the net electricity sales of the mandated participant for the previous year. Furthermore, this Minimum Annual Increment RE Percentage will be used to determine the current year’s requirement for RE Certificates (RECs) of the Mandated Participant. RE sourcing shall be enforced on the third year from the issuance of the DOE Circular in the year 2020, with the period 2018-2019 considered as the transition phases to project developments.

The RPS On-Grid Rules, which shall be implemented nationwide, also envisions the creation of an RE market where mandated participants comply with the Minimum Annual RPS Requirement through the allocation, generation, purchase or acquisition, or generation from net-metering arrangements, of RE Certificates. The RE Certificates will represent 1 MWh of generation produced from an eligible RE facility. Furthermore, all Mandated Participants must undertake a CSP in sourcing RE generation supply for its customers.

#### C. Retail Competition and Open Access

DOE Circular No. 2015-06-0010 and ERC Resolutions 5, 10, and 11, Series of 2016, are all subject of a Petition for Declaratory Relief filed by Meralco with the Regional Trial Court of Pasig (the “Pasig RTC”) in June 2016 (the “Petition”). On July 13, 2016, the Pasig RTC has issued a writ of preliminary injunction enjoining the DOE and ERC from implementing the aforementioned Circular and Resolutions, insofar as relating to the prohibition on distribution utilities from engaging in the supply business, and the imposition of restrictions, contract term limits, mandatory contestability, and market caps.

On September 21, 2016, the DOE filed a Petition for Certiorari and Prohibition to the Supreme Court praying, among others, for the nullification of all Orders and Decisions issued by the Pasig RTC. The Supreme Court issued a Resolution on October 10, 2016 granting a Temporary Restraining Order enjoining the Pasig RTC from enforcing its decisions, orders, and resolutions related to the Petition until its final resolution.

On November 15, 2016, the ERC issued Resolution No. 28, Series of 2016, revising the timeframe of mandatory contestability from December 26, 2016 to February 26, 2017.

On February 21, 2017, the Supreme Court issued a TRO in relation to the petition to stop the implementation of the new regulations imposing mandatory contestability filed by Philippine Chamber of Commerce and Industry, San Beda College Alabang Inc., Ateneo de Manila University, and Riverbanks Development Corporation before the Supreme Court in December 2016. The TRO enjoined the ERC and the DOE from implementing ERC Resolutions No. 5, 10, 11, and 28, Series of 2016, and DOE Circular No. 2015-06-0010.

#### D. Mindanao Wholesale Electricity Spot Market

On May 4, 2017, the DOE issued DC 2017-05-0009 entitled “Declaring the Launch of WESM in Mindanao and Providing Transition Guidelines”. This DOE Circular took effect on June 7, 2017, with the following pertinent provisions:

- (a) Establishment of Mindanao WESM Transition Committee, which will be one of the committees under the Philippine Electricity Market Corporation (PEMC) Board;
- (b) Launch of WESM in Mindanao on June 26, 2017, with the commencement of full commercial operations dependent on various conditions precedent, including installation of metering facilities, approval of the Price Determination Methodology by the ERC, and trial operations of the WESM, among others;
- (c) Conduct of the Trial Operation Program for the WESM;
- (d) Automatic termination of IMEM; and

- (e) Implementation of an Interim Protocol to govern the dispatch and scheduling of power generation plants, while the WESM is still not operational.

#### E. Reserve Market

On December 2, 2013, the DOE issued Department Circular No. DC2013-12-0027 entitled: “Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market”. This DOE Circular sets the responsibility of the PEMC, National Grid Corporation of the Philippines (NGCP), National Electrification Administration, and all WESM members in relation to the operation of the Reserve Market (market that basically provides back-up power that could be tapped by the NGCP). As of this writing, no date has been set for the launch of the Reserve Market.

Pending the ERC’s approval of the Price Determination Methodology of the Reserve Market, the DOE and PEMC implemented the Central Dispatch and Scheduling of Energy and Reserves in the WESM starting January 2016. The protocol follows that of the Reserve Market, with participants being only those contracted with NGCP, and that no settlement amount will come from the WESM.

#### F. Feed-in-Tariff Scheme

In February 2018, the DOE issued a two-year extension on the FIT incentive scheme for Biomass and Run-of-River Hydro Power developments. This lengthened the duration of the subsidy rate for the aforementioned RE technologies. The DOE, however, maintained the cessation of FIT incentives for new solar and wind technologies. The decision of the DOE was officially communicated to the ERC as well as to RE developers. A department circular is due to be issued related to said extension.

#### G. Green Energy Option

On July 18, 2018, the DOE issued Department Circular No. DC2018-07-0019, “Promulgating the Rules and Guidelines Governing the Establishment of the Green Energy Option Program (GEOP) Pursuant to the Renewable Energy Act of 2008”. The circular was issued pursuant to Section 9, Chapter III of the Renewable Energy Law, which authorizes the establishment of a Green Energy Option Program (GEOP).

The GEOP is a RE policy mechanism which provides end-users the option to choose RE resources. The GEOP rules establish the general guidelines and procedures governing transactions between consumers, RE suppliers and network service providers, on choosing and using RE resources at the least cost and sustainable manner.

The GEOP provides consumers the option to source their power supply from Renewable Energy increasing demand and opening up the potential for further RE developments in the country.

#### H. Implementing Rules and Regulations of the Energy Investment Coordinating Council

On May 04, 2018, the DOE issued Department Circular No. DC2018-04-0013, setting the Implementing Rules and Regulations of Executive Order 30 which was signed by President Rodrigo Duterte in June 2017. EO 30 created the Energy Investment Coordinating Council (EICC) to streamline the regulatory process affecting energy projects considered as projects of national significance.

Under the IRR, the processing of permits and licenses for projects deemed as “Energy Projects of National Significance” (EPNS) shall be within a maximum period of 30 days. The 30-day period will start from the complete submission of all documentary requirements to the pertinent government agency involved in the permitting process.

The EICC has yet to issue any certification declaring power projects as “Energy Projects of National Significance”. The certification will be beneficial to “greenfield projects” as this will lead to a streamline and faster approval process of government permits required for said projects.

#### I. Shift to Independent Market Operator for WESM

On February 04, 2018, the DOE issued DOE Circular DC2018-01-0002, setting the policy governing the establishment of an independent market operator (IMO) of the Wholesale Electricity Spot Market (WESM). The policy on IMO outlines the mandates of the DOE and the ERC over the independent market operator, its guiding principles, composition, including a board composed of at least five members, its functions, and WESM's new governing and governance structure and the conditions for transition.

The IMO transition plan called for the formation of a new Company called the Independent Electricity Market Operator of the Philippines (IEMOP) as an independent market operator with PEMC remaining as WESM's governing body. Previously, the Philippine Electric Market Corporation (PEMC), oversees both the operations and governance functions of WESM.

The transition also entails the reconstitution of the PEM Board, with the DOE Secretary relinquishing his chairmanship, paving the way for a PEMC independent of government.

#### **V. Capital Expenditure for 2018**

AboitizPower has allotted P62 bn for capital expenditures in 2018, of which 82% is for new thermal projects, 3% for new renewable projects, and 15% for exploratory and operating activities.

## YEAR ENDED 31 DECEMBER 2017 VERSUS YEAR ENDED 31 DECEMBER 2016

The table below shows the comparative figures of the top five (5) key performance indicators for 2017 and 2016.

Key Performance Indicators	2017	2016
Amounts in thousands of ₱s, except for financial ratios		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	4,697,864	3,641,210
EBITDA	47,650,408	38,085,726
CASH FLOW GENERATED:		
Net cash flows from operating activities	30,235,931	29,887,980
Net cash flows used in investing activities	(9,452,925)	(81,380,348)
Net cash flows from/ (used in) financing activities	(32,122,699)	47,483,228
Net Decrease/Increase in Cash & Cash Equivalents	(11,339,693)	(4,009,140)
Cash & Cash Equivalents, Beginning	47,094,741	51,098,269
Cash & Cash Equivalents, End	35,699,631	47,094,741
CURRENT RATIO	1.38	2.25
DEBT-TO-EQUITY RATIO	1.92	2.18

Share in net earnings in associates and joint ventures grew by 29% in 2017, as contributions from SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet increased. The improved hydrology experienced by both companies during the first half of 2017 led to higher revenues.

The primary driver of the 25% growth in EBITDA during 2017 was the full year EBITDA contributions of GNPow Mariveles, which was acquired by the Company at the close of 2016.

Supported by increased cash flows from operations and inflows from new loans, the Company continued to infuse capital to its Subsidiaries in 2017 to complete various projects, made timely payments on its obligations, and distributed dividends to its shareholders. During 2017, net outflows relating to financing and investing activities outpaced cash inflow from operations, which led to the ₱11.34 bn decrease in cash and cash equivalents as of year-end 2017.

Current ratio at the end of 2017 was 1.38x, down from end-2016's 2.25x. This was driven by the 8% decrease in current assets mainly due to the decrease in cash and cash equivalents, coupled with a 50% increase in current liabilities as certain long-term debt are expected to fall due in 2018.

Debt-to-equity ratio as of December 31, 2017 was at 1.92:1, down from end-2016's 2.18:1, as long-term debts were paid down in 2017.

### Results of Operations

The Company's net income for 2017 increased to ₱20.42 bn from ₱20.00 bn in 2016, a 2% year-on-year (YoY) increase. This translated to earnings per share of ₱2.77 for 2017. During 2017, the Company recognized non-recurring losses of ₱2.90 bn (versus 2016's non-recurring loss of ₱611 mn), primarily due to asset impairment costs related to Aseagas and debt prepayment costs on an existing loan of GNPow Mariveles, which were partially offset by a one-off recognition of lower interest expense from an acquired loan. Without these one-off adjustments, the Company's core net income grew to ₱23.35 bn in 2017 from ₱20.61 bn in 2016, or an increase of 13% YoY.

### Power Generation

On a full year basis, the power generation group recorded a consolidated EBITDA share of ₱38.79 bn in 2017, up 27% YoY, and accounted for 81% of the EBITDA contributions from the Company's business segments. This was driven by the full-year fresh contribution from GNPowerr Mariveles, and the higher EBITDA of the hydro group as power generation increased during 2017 due to higher water inflows. At the core net income level, the power generation group grew 18% YoY, from ₱17.16 bn in 2016 to ₱20.20 bn in 2017. Non-recurring charges relating to impairment costs, prepayment charges on GNPowerr Mariveles' loan upon refinancing, and the one-off recognition of lower interest expense from the foregoing acquired loan, brought the power generation group's net income contribution in 2017 to ₱17.07 bn.

The Company's capacity sold increased by 41% YoY, from 2,223 MW in 2016 to 3,124 MW in 2017. This was mainly driven by the additional capacities from GNPowerr Mariveles, increased generation by its HEPPs, and additional capacities contracted.

### Power Distribution

The distribution group's EBITDA increased by 14% YoY, to ₱7.76 bn in 2017. Net income contribution in 2017 increased by 16% YoY to ₱4.27 bn.

The distribution group's gross margin on a per kWh basis increased by 9% YoY, to ₱1.73 in 2017 from ₱1.59 in 2016. The improved margins were driven by more adequate power supply, better supply mix, and recoveries on purchased power costs.

The distribution group's attributable sales for 2017 was 5,288 GWh, registering a 4% YoY increase from 2016.

## Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income

### Consolidated Statements of Income

Consolidated net income attributable to equity holders of the parent company increased by 2% YoY, from ₱20.00 bn in 2016 to ₱20.42 bn in 2017. The various movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	₱20,002,582
Increase in operating revenues	30,228,034
Increase in operating expenses	(22,364,605)
Decrease in interest income	(156,523)
Increase in interest expense	(3,543,769)
Increase in share in net earnings of associates and joint ventures	1,056,654
Increase in other expense	(3,373,212)
Higher provision for taxes	(362,258)
Increase in income attributable to non-controlling interests	(1,070,461)
Total	413,860
Consolidated Net Income Attributable to Equity Holders of the Parent for 2017	₱20,416,442

### Operating Revenues

(34% increase from ₱89.16 bn to ₱119.39 bn)

Revenues of the power distribution group decreased by 2% YoY, while the power generation group saw a 61% YoY increase from ₱35.69 bn in 2016 to ₱57.42 bn in 2017. The full year consolidation of the operating revenues of GNPowerr Mariveles accounted for 97% of the increase in the power generation group's revenue. The balance of this increase was attributed to higher operating revenues at the small HEPPs (increase of 14%



YoY) due to better hydrology in 2017 and the full commercial operations of TSI two units during 2017. The higher operating revenues were partly offset by lower operating revenues at TMI during 2017 as a result of expiring contracts.

In anticipation of the commercial operations of PEC and TVI in 2018, the RES companies progressively entered into contracts throughout 2017, resulting in a ₱9.59 bn increase in operating revenues.

#### **Operating Expenses**

(36% increase from ₱62.85 bn to ₱85.22 bn)

Cost of purchased power increased by ₱6.48 bn during 2017 as RES companies incur higher costs to serve their new contracts.

Cost of generated power increased during 2017 as the costs at GNPowder Mariveles were consolidated during the year. This accounted for ₱7.35 bn of the ₱11.24 bn increase in this account for 2017. The balance came from higher cost of steam at APRI, as well as higher fuel costs at the thermal companies due to the price increases on coal and oil during 2017.

All other operating expenses relating to general and administrative expenses, operations and maintenance, and depreciation and amortization increased during 2017 as a result of the full year consolidation of GNPowder Mariveles' expenses.

#### **Interest Income**

(14% decrease from ₱1.08 bn to ₱ 927 mn)

The decrease in interest income in 2017 was mainly due to lower average cash balances carried at the Parent Company and at its intermediate holding companies, ARI and TPI, during most of the year.

#### **Interest Expense and Other Financing Costs**

(46% increase from ₱7.70 bn to ₱11.25 bn)

Higher interest expense incurred on TPI's bridge loan, full year recognition of GNPowder Mariveles' interest expenses, and interest payments made on the Company's corporate retail bonds led to the 46% YoY increase during 2017 in this account as compared to 2016. This increase was net of lower debt service costs from the Company's other Subsidiaries, as timely principal payments were made during 2017 on project debts.

#### **Share in Net Earnings of Associates and Joint Ventures**

(29% increase from ₱3.64 bn to ₱4.70 bn)

The higher volumes sold and ancillary revenues at SN Aboitiz Power-Magat and SN Aboitiz Power-Benguet led to an increase in contributions in 2017 as compared to 2016, as these companies experienced better hydrology in 2017 as compared to very low hydrology during 2016.

#### **Other Income (Expenses) – net**

(from ₱1.67 bn other income to ₱ 1.70 bn other expense)

The shift from an Other Income position in 2016 to an Other Expense position in 2017 was primarily due to an impairment loss on Property, Plant and Equipment (PPE) at Aseagas (₱ 3.13 bn) during 2017, as compared to a non-recurring gain in 2016 relating to supplier settlements.

#### **Provision for Taxes**

(10% increase from ₱3.50 bn to ₱3.86 bn)

The increase was due to the full year consolidation of tax provisions taken by GNPowder Mariveles.

#### **Net Income Attributable to Non-controlling Interests**

(71% increase from ₱1.50 bn to ₱2.57 bn)

The increase in this account during 2017 was mainly from the take-up of the minority shareholders' participation in the income of GNPowder Mariveles in 2017.

### **Consolidated Statements of Comprehensive Income**

The movements in cumulative translation adjustments, the share of an associate's unrealized mark-to-market gains on its available-for-sale (AFS) investments, and the recognition of losses and gains on defined benefit plans led to higher comprehensive income recognized for 2017. Total consolidated comprehensive income attributable to equity holders of the Parent was ₱20.62 bn for 2017.

### **Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

#### **Assets**

Total assets (as of December 31, 2017 vs. December 31, 2016 as restated) increased by ₱4.47 bn or by 1%. The major movements of the accounts leading to the increase were as follows:

- a) Cash and cash equivalents decreased by 24%, or by ₱11.40 bn, during 2017. Cash generated from operations continue to provide significant liquidity for the Company. Long-term debt payments were made during 2017, including ₱16 bn on TPI's bridge financing obtained in 2016 to fund the acquisitions of GNPowder Mariveles and GNPowder Dinginin; and ₱2.43 bn as prepayment of Aseagas' project debt. During 2017, the Company also made timely payments on its other obligations as they became due, and also paid dividends to its shareholders.
- b) Trade and other receivables increased by 12% (from ₱15.47 bn in 2016 to ₱17.36 bn in 2017), due to the increase in receivables as new contracts were signed by the Company's RES-licensed companies, AESI and AdventEnergy, as well as higher trade receivable balances of the Company's distribution utilities. The increases noted in the RES companies and distribution utilities constituted 73% of the increase, with the balance mainly coming from higher trade receivables at TLI and TSI.
- c) Inventories increased by 27% (from ₱4.45 bn in 2016 to ₱5.64 bn in 2017) as higher inventory balances as of year-end 2017 were noted at the Company's thermal plants.
- d) Other current assets increased by 40% during 2017, driven mainly by higher prepaid insurance and prepaid taxes of the Company's Subsidiaries.
- e) At the end of 2017, PPE increased by 6% from ₱192.98 bn at end-2016 (as restated) to ₱204.03 bn at end-2017, as various projects entered the final stages of their construction activities, in particular, Hedcor Bukidnon's hydro project, and TVI and PEC's coal plants.
- f) The increase in derivative assets (both current and non-current) of the Group by ₱50.08 mn as of end-2017 was driven by fair value changes during the course of 2017.
- g) Net pension assets went up by ₱11 mn, or 24% during 2017, due to the increase in the fair value of plan assets as contributions were made during the year.
- h) Due to the refinancing of GNPowder Mariveles' outstanding loan in 2017, previously recognized deferred tax assets relating to the loan were written down, resulting in a 22% decrease in the deferred income tax asset account as of end-2017.
- i) Other non-current assets decreased by 7% as of end-2017, mainly from the Group's acquisition of Sacasun loan payable during 2017, which offset the Group's receivables from Sacasun.

## **Liabilities**

Consolidated liabilities decreased by 3%, from ₱244.80 bn as of December 31, 2016 to ₱237.50 bn as of December 31, 2017.

- a) Short term loans increased by 14% or ₱562 mn, mainly from an increase in the number of short-term debts incurred by the distribution utilities to meet working capital requirements.
- b) Trade and other payables increased by 14% or ₱2.45 bn, as payables to suppliers and contractors increased as construction of various power plants continued.
- c) Long-term debt (current and non-current) decreased by ₱7.32 bn (from ₱159.37 bn in 2016 to ₱152.05 bn in 2017). The decrease was mainly due to the ₱15.93 bn prepayment of TPI's bridge loan obtained in 2016 to fund the acquisition of GNPowder Mariveles and GNPowder Dinginin, and the ₱2.43 bn prepayment of Aseagas' project debt. The decrease was net of drawdowns on various project loans and the issuance of the first tranche of corporate retail bonds amounting to ₱3 bn during 2017.
- d) Finance lease obligations (current and non-current) decreased by 6% (from ₱52.34 bn in 2016 to ₱49.22 bn in 2017), as TLI continues to make timely payments to the PSALM on its obligations as IPPA.
- e) Asset retirement obligation account increased as a result of the revaluation of the future obligation on APRI's asset retirement obligations. The account increased by 62% (from ₱1.82 bn in 2016 to ₱2.96 bn in 2017).
- f) Long term obligation on power distribution system (PDS) decreased by 6%, as regular annual payments were made in 2017.
- g) Derivative liabilities (current and non-current) decreased by 87% (from ₱361 mn as of December 31, 2016 to ₱48 mn as of December 31, 2017) due to the de-recognition of the derivative liability related to the loan prepayment of GNPowder Mariveles during 2017.
- h) Customers' deposits decreased by 11% (from ₱6.83 bn in 2016 to ₱6.09 bn in 2017), as special deposits were refunded by distribution utilities to its customers during 2017.
- i) Other non-current liabilities increased by 20%, driven by an increase of retention payables to suppliers during 2017.
- j) Pension liability increased by 46% (from ₱247 mn in 2016 to ₱361 mn in 2017) on account of additional retirement costs, net of retirement contributions, made by certain Subsidiaries during 2017.
- k) Deferred income tax liabilities (DTL) decreased by 13% (from ₱1.04 bn in 2016 to ₱913 mn in 2017), mainly due to lower deferred tax provisions on unrealized foreign exchange gains and valuation changes recognized during 2017.

## **Equity**

Equity attributable to equity shareholders of the Parent increased by 10% (from ₱105.11 bn at year-end 2016 to ₱115.40 bn at year-end 2017) driven mainly by the recognition of income totalling to ₱20.42 bn in 2017, net of dividends declared and paid to the Company's shareholders.

### **Material Changes in Liquidity and Cash Reserves of Registrant**

Cash generated from operations during 2017 were consistent with previous cash flows from operations, bringing in ₱30.24 bn in 2017 as compared to ₱29.89 bn in 2016.

During 2017, the Group's net cash used for investing activities of ₱9.45 bn was used primarily to continue the construction of various power projects. The Group received cash dividends from Associates amounting to ₱5.07 bn during 2017, which provided inflows from investing activities.

In 2017, cash outflows from the payment of long-term debt exceeded cash inflows from availment of long term debt, driven primarily by the Group's prepayment of ₱2.43 bn for the Aseagas project debt, and ₱16 bn payment on TPI's bridge loan. During 2017, the Company also raised ₱3.0 bn in corporate retail bonds. Various Subsidiaries also drew down on their project loans, as necessary to bring their respective on-going projects to completion. Net cash outflows for financing activities is ₱32.12 bn during 2017.

As of December 31, 2017, the Group's cash and cash equivalents decreased by 24%, or from ₱47.09 bn as of year-end 2016 to ₱35.70 bn as of year-end 2017.

### **Financial Ratios**

Current assets decreased by 8% in 2017 as compared to 2016, accompanied by corresponding increase in current liabilities of 50%. The current ratio as of year-end of 2017 was 1.38x, compared to 2.25x at year-end 2016.

Consolidated debt to equity ratio at year-end 2017 was at 1.92:1, as compared to 2.18:1 as of year-end 2016, owing to the Company's growth in equity and substantial debt paid down during 2017.

### ***Outlook for the Upcoming Year/ Known Trends, Events, Uncertainties which may have Material Impact on Registrant***

AboitizPower believes that it is well-positioned to take advantage of opportunities arising from developments in the power industry. Its sound financial condition will give it the agility to create or acquire additional generating capacity over the next few years.

#### **I. Power Generation Business**

Despite increased competition in the power generation market, AboitizPower believes it has built the foundation to sustain growth over the long term. In line with its growth target of reaching 4,000 MW in net attributable capacity by 2020 from its capacity of 2,999 MW as of December 31, 2017. AboitizPower expects to expand its portfolio of generation assets by implementing the projects described below:

##### **A. Greenfield and Brownfield Developments**

AboitizPower, together with its Subsidiaries and Associates, is in various stages of construction or completion of the following Greenfield and Brownfield projects.

- 1. 8.5-MW Maris Canal Hydropower Plant Project in Ramon, Isabela.** This project, undertaken by SN Aboitiz Power-Magat, was inaugurated in January 2018.
- 2. 420-MW Pulverized Coal-Fired Expansion Unit 3 in Pagbilao, Quezon.** This project is undertaken by PEC, a partnership between TPI, a wholly-owned Subsidiary of AboitizPower, and TPEC Holdings Corporation. PEC started commercial operations in March 2018.
- 3. 40-MW CFB Coal-Fired Project in Toledo City, Cebu.** This project is undertaken by TVI, a partnership between AboitizPower and the Vivant Group. The project involves the construction of a 2x170-MW coal-fired power plant. TVI is targeting commercial operations in May 2018 for Unit 1 and in August 2018 for Unit 2.
- 4. 68.8-MW Manolo Fortich Hydropower Plant in Manolo Fortich, Bukidnon.** The project is undertaken by Hedcor Bukidnon. The completion of Unit 1 (43.4-MW) and Unit 2 (25.4-MW) is expected in April 2018 and in July 2018, respectively.

5. **19-MW La Trinidad Hydropower Plant in La Trinidad, Benguet.** This project is undertaken by Hedcor. It is currently under construction and targeted commercial operation date is in the second half of 2019.
6. **2x668-MW Dinginin Supercritical Coal-Fired Power Plant in Mariveles, Bataan.** This project is undertaken by GNPowder Mariveles, a partnership composed of TPI, AC Energy Holdings, Inc., a wholly-owned subsidiary of Ayala Corporation, and Power Partners Ltd. Co. Both Unit 1 and Unit 2, each of 668-MW, are under construction, with targeted commercial operations expected in June 2019 and July 2020, respectively.

#### B. Alimit Hydropower Complex

This project, undertaken by SN Aboitiz Power-Ifugao, involves the construction of the 120-MW Alimit hydropower plant, the 250-MW Alimit pumped storage facility, and the 20-MW Olilicon hydropower plant in the municipalities of Aginaldo, Lagawe, Lamut, and Mayoyao in Ifugao. SN AboitizPower-Ifugao is currently completing the feasibility study phase of the project. The company is also progressing in the permitting process, and is expected to continue working with the government, indigenous peoples' representatives, and industry partners. An important component of the feasibility review for this project is the Free Prior and Informed Consent from the indigenous peoples.

#### C. Naga Power Plant

Senator Sergio R. Osmeña III filed a petition for certiorari with the Supreme Court to nullify the right-to-top granted by PSALM to SPC in relation to the 153.1 MW NPPC bidding, and to enjoin the award on the ground that SPC's right-to-top is against public policy.

On February 14, 2017, TPVI, thru counsel, received a copy of the Entry of Judgment from the Supreme Court dated January 9, 2017, stating that its September 28, 2015 Decision declaring the right-to-top as null and void and October 5, 2016 Resolution reinstating the Notice of Award in favor of TPVI, have become final and executory and have been recorded in the Book of Entries of Judgment. With regard to the Motion for Leave to File and Admit the attached Motion for Reconsideration dated December 9, 2016, and the Supplemental Motion/Petition for Referral to the En Banc dated January 16, 2017 filed by SPC, these were denied by the Supreme Court in a Resolution dated April 26, 2017.

#### D. RP Energy PSA

The 660-MW CFB coal-fired power plant located in Redondo Peninsula, Subic, Zambales, is a project undertaken by RP Energy, a joint venture among MPGC, TPI, and TCIC.

On April 20, 2016, RP Energy entered into a PSA with Meralco for a contracted capacity of 225MW within a 20-year term. This PSA was filed for approval with the ERC on April 29, 2016. Public hearings were subsequently held, and were concluded on January 6, 2017. To date, RP Energy is still awaiting the ERC's PSA approval.

#### E. Expansion of Existing Net Attributable Capacity

AboitizPower is focused on addressing the needs of its markets, including reliable supply, reasonable cost, and minimal impact on the environment and communities. The Company recognizes that there is no single technology that can address the country's energy requirements. Thus, AboitizPower believes that a mix of power generation technologies is necessary to address the country's needs. The Company will continue to pursue both renewable projects and thermal technologies, where and when it makes sense.

## II. Power Distribution Business

AboitizPower expects that its existing Distribution Utilities will continue to realize modest growth. It continuously seeks efficiency and improvements in its Distribution Utilities' operations in order to maintain healthy margins.

#### A. Performance-Based Rate-Setting

Performance-Based Rate-setting Regulation (PBR) replaced the Return on Rate Base (RORB) mechanism, that had historically determined the distribution charges paid by customers. Under PBR, distribution utilities can collect rates from customers over a four-year regulatory period.

The ERC has implemented a Performance Incentive Scheme (PIS) whereby annual rate adjustments under PBR are made. The annual rate adjustments take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as: (i) the average duration of power outages; (ii) the average time of restoration to customers; and (iii) the average time to respond to customer calls. The distribution utilities are either rewarded or penalized, depending on their ability to meet these performance targets.

In April 2016, the ERC posted on its website the following documents: (1) Draft Rules for Setting Distribution Wheeling Rates or "RDWR" for Privately Owned Distribution Utilities Operating under Performance Based Regulation, First Entry Group, Fourth Regulatory Period; (2) Draft Position Paper: Regulatory Reset for the July 1, 2015 to June 30, 2019, Fourth Regulatory Period for the First Entry Group of Privately-Owned Distribution Utilities Subject to Performance Based Regulation; and (3) Draft Commission Resolution on the Issues on the Implementation of PBR for Privately Owned DUs under the RDWR. Comments on the said draft documents were submitted to the ERC on May 13, 2016.

Through ERC Resolution No. 25, Series of 2016, dated July 12, 2016, the ERC adopted the "Resolution Modifying the Rules for Setting Distribution Wheeling Rates (RDWR) for Privately Owned Distribution Utilities Entering Performance Based Regulation (PBR)". Based on this Resolution, the Fourth Regulatory Period shall be as follows:

- (i) Cotabato Light: April 1, 2017 to March 31, 2021
- (ii) Davao Light and VECO: July 1, 2018 to June 30, 2022
- (iii) SEZ and SFELAPCO: October 1, 2019 to September 30, 2023

On November 21, 2016, the ERC posted the draft "Regulatory Asset Base (RAB) Roll Forward Handbook for Privately Owned Electricity Distribution Utilities" for comments. Public consultations were conducted on January 6 and 9, 2017 in Cebu City and Metro Manila, respectively.

In December 2015, a Petition was filed by Matuwid na Singil sa Kuryente Consumer Alliance, Inc. (MSK) with the ERC wherein MSK proposed a modified RORB methodology or even a modified PBR methodology, in which the distribution utilities' capital expenditures and rate recovery thereon are approved in advance but the charges to the customers will only start after the investments have actually been made and validated by ERC auditors. Public consultations were set by the ERC on March 17 and April 10, 2017 in its main office, and on March 22 and 24, 2017, in its field offices in Cebu City and Davao City, respectively.

The reset process for the Fourth Regulatory Period has not started for all private distribution utilities as the above-mentioned ERC rules have not been published, which is a condition for their effectivity. Due to the rules change on PBR, all Distribution Utilities of AboitizPower have not undergone the Third Regulatory Period.

#### B. Policy on Competitive Selection Process in Securing Power Supply Agreements

In 2015, the DOE issued Department Circular No. DC2015-06-0008, entitled "Mandating all Distribution Utilities to Undergo Competitive Selection Process (CSP) in securing Power Supply Agreements (PSA)." The DOE recognizes that CSP in the procurement of PSAs by the distribution utilities ensures long term security and certainty of electricity prices of electric power to end-users.

On November 4, 2015, the ERC issued Resolution No. 13, Series of 2015, entitled "A Resolution Directing All Distribution Utilities to Conduct a Competitive Selection Process in the Procurement of their Supply in the Captive Market".

The adoption and implementation of the CSP is expected to increase transparency and competition in power supply contracting. The impact of CSP is prospective and, as such, its effectivity will not affect AboitizPower's existing contracts.

On February 9, 2018, the DOE issued Department Circular No. DC2018-02-0003, essentially modifying the existing policy on CSP of power supply contracting, applicable to both electric cooperatives and private distribution utilities. Distribution utilities are now mandated to create either an independent five-man third party bids and awards committee (TPBAC) that will manage their CSP supply procurements, or have a third party auctioneer (TPA). The TPBAC and the TPA shall be accountable to its decision in the conduct of the CSP.

If a TPBAC is established, it shall be comprised of five (5) members, three (3) of whom shall be officers and/or employees of the distribution utility, and two (2) members shall be captive customers that are not directly or indirectly connected/affiliated with the distribution utility.

If the relevant distribution utility opts to have a TPA to undertake CSP in its procurement of power supply, the TPA shall be composed of a team of private individuals or a private corporation duly recognized in the Philippines with expertise on competitive bidding and with sufficient knowledge of the electric power industry. The TPA should not be connected/affiliated either directly or indirectly with the relevant distribution utility. The accreditation of potential TPAs is handled by the ERC.

#### C. Renewable Portfolio Standards

On December 30, 2017, the DOE issued Department Circular No. DC2017-12-0015, or the "Renewable Portfolio Standards (RPS) On-Grid Rules". The new policy mandates distribution utilities, RES, generation companies supplying directly connected customers, and other mandated energy sector participants (each, a "Mandated Participant") to source or produce a certain percentage share of their energy mix from eligible renewable energy (RE) facilities. Under the new policy, eligible RE facilities include the following technologies: biomass, waste-to-energy technology, wind, solar, hydro, ocean, geothermal, and such other RE technologies that may be later identified by the DOE.

The new policy mandates identified energy sector participants to comply with minimum annual RPS requirement in order to meet an "aspirational target" of 35% renewable energy supply in the generation mix by the year 2030. The RPS guidelines will implement a Minimum Annual Increment RE Percentage to be sold to mandated participants, initially set at 1% of the net electricity sales of the mandated participant for the previous year. Furthermore, this Minimum Annual Increment RE Percentage will be used to determine the current year's requirement for RE Certificates (RECs) of the Mandated Participant. RE sourcing shall be enforced on the third year from the issuance of the DOE Circular in the year 2020, with the period 2018-2019 considered as the transition phases to project developments.

The RPS On-Grid Rules, which shall be implemented nationwide, also envisions the creation of an RE market where mandated participants comply with the Minimum Annual RPS Requirement through the allocation, generation, purchase or acquisition, or generation from net-metering arrangements, of RE Certificates. The RE Certificates will represent 1 MWh of generation produced from an eligible RE facility. Furthermore, all Mandated Participants must undertake a CSP in sourcing RE generation supply for its customers.

#### D. System Loss Caps

In February 2018, the ERC issued Resolution No. 20, Series of 2017 (ERC Resolution No. 20-2017) entitled "A Resolution Adopting the ERC Rules for Setting the Distribution System Loss Cap and Establishing Performance Incentive Scheme for Distribution Efficiency". This set of rules provide for

the new Distribution System Loss (DSL) cap that can be recovered and charged by distribution utilities to its customers, beginning in the May 2018 billing period. Private distribution utilities shall charge a 6.50% DSL cap for 2018, which shall be reduced gradually on an annual basis until a DSL cap level of 5.50% is achieved by the year 2021. The aforementioned caps are exclusive of sub-transmission and substation losses.

Thereafter, the Private Electric Power Operators Association (PEPOA) wrote a letter to the ERC seeking for a one year delay of the effectivity of the recoverable rate under the new DSL cap, to the May 2019 billing period. With the additional year, the member distribution utilities could make the appropriate upgrades to their distribution systems for cost-effective system loss reduction measures, and ultimately, achieve efficient operation of their utilities. These capital expenditure projects such as upgrading transformers or primary and secondary voltage distribution lines, require careful planning, implementation, and ERC approval. These material and physical changes to distribution systems cannot be achieved in two months.

AboitizPower is considering the filing of individualized system loss applications to the ERC, where justifiable for a particular Distribution Utility. The foregoing ERC Resolution 20-2017 provides that a distribution utility may elect to use an alternative method in determining its applicable individualized DSL cap. The Company believes that costs and benefits must be analyzed from the viewpoint of the customer determining the reasonable level of individualized DSL cap.

In February 2018, the Philippine Senate passed a bill setting the recoverable system loss rate for the private distribution utilities at 5%. Meanwhile, the Philippine House of Representatives is conducting technical working group meetings to gather inputs from industry stakeholders.

### **III. Market and Industry Developments**

#### **A. Retail Competition and Open Access (Open Access)**

DOE Circular No. 2015-06-0010 and ERC Resolutions 5, 10 and 11, Series of 2016, are all subject of a Petition for Declaratory Relief filed by Meralco with the Regional Trial Court of Pasig (the "Pasig RTC") in June 2016 (the "Petition"). On July 13, 2016, the Pasig RTC has issued a writ of preliminary injunction enjoining the DOE and ERC from implementing the aforementioned Circular and Resolutions, insofar as relating to the prohibition on distribution utilities from engaging in the supply business, and the imposition of restrictions, contract term limits, mandatory contestability, and market caps.

On September 21, 2016, the DOE filed a Petition for Certiorari and Prohibition to the Supreme Court praying, among others, for the nullification of all Orders and Decisions issued by the Pasig RTC. The Supreme Court issued a Resolution on October 10, 2016 granting a Temporary Restraining Order enjoining the Pasig RTC from enforcing its decisions, orders, and resolutions related to the Petition until its final resolution.

On November 15, 2016, the ERC issued Resolution No. 28, Series of 2016, revising the timeframe of mandatory contestability from December 26, 2016 to February 26, 2017.

On February 21, 2017, the Supreme Court issued a TRO in relation to the petition to stop the implementation of the new regulations imposing mandatory contestability filed by Philippine Chamber of Commerce and Industry San Beda College Alabang Inc., Ateneo de Manila University, and Riverbanks Development Corporation before the Supreme Court in December 2016. The TRO enjoined the ERC and the DOE from implementing ERC Resolutions No. 5, 10, 11, and 28, Series of 2016, and DOE Circular No. 2015-06-0010.

#### **B. Possibility of the Mindanao Wholesale Electricity Spot Market (WESM)**



On May 4, 2017, the DOE issued DC 2017-05-0009 entitled “Declaring the Launch of WESM in Mindanao and Providing Transition Guidelines”. This DOE Circular took effect on June 7, 2017, with the following pertinent provisions:

1. Establishment of Mindanao WESM Transition Committee, which will be one of the committees under the Philippine Electricity Market Corporation (PEMC) Board;
2. Launch of WESM in Mindanao on June 26, 2017, with the commencement of full commercial operations dependent on various conditions precedent, including installation of metering facilities, approval of the Price Determination Methodology by the ERC, and trial operations of the WESM, among others;
3. Conduct of the Trial Operation Program for the WESM;
4. Automatic termination of IMEM; and
5. Implementation of an Interim Protocol to govern the dispatch and scheduling of power generation plants, while the WESM is still not operational.

#### C. Reserve Market

On December 2, 2013, the DOE issued Department Circular No. DC2013-12-0027 entitled: “Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market”. This DOE Circular sets the responsibility of the PEMC, National Grid Corporation of the Philippines (NGCP), National Electrification Administration, and all WESM members in relation to the operation of the Reserve Market (market that basically provides back-up power that could be tapped by the NGCP). As of this writing, no date has been set for the launch of the Reserve Market.

Pending the ERC’s approval of the Price Determination Methodology of the Reserve Market, the DOE and PEMC implemented the Central Dispatch and Scheduling of Energy and Reserves in the WESM starting January 2016. The protocol follows that of the Reserve Market, with participants being only those contracted with NGCP, and that no settlement amount will come from the WESM.

#### D. Feed-in-Tariff (FIT) scheme

On May 2017, the DOE approved the new FIT-All rate for 2016 at ₱0.1830/kWh. The new FIT-All rate for 2016 took effect in the immediately succeeding billing period following the receipt by National Transmission Corporation of the aforementioned decision.

In March 2017, the ERC issued Resolution No. 01, Series of 2017, entitled “Resolution Setting the Degressed Feed-In Tariff Rates for Run-of-River Hydro and Biomass, as provided in Section 2.11 of the Feed-In Tariff Rules (FIT Rules)”. The degressed rates will be applied for run-of-river hydro and biomass plants which commenced commercial operations in the period January to December 2017. The degressed rate for hydro is ₱5.8705/kWh, and ₱6.5969/kWh for biomass.

#### E. Maintaining the Share of RE in the Installed Capacity

The DOE, through the National Renewable Energy Board (NREB), aims to release the final rules for the Green Energy Option (GEOP) in 2018. The NREB has conducted several public consultations nationwide as part of the requirements for the approval of the policy.

Under the GEOP, electricity end-customers will be allowed to access renewable energy resources through their distribution utility, electric cooperatives, or electricity suppliers. The NREB is expected to submit its output on the policy to the DOE for the latter’s review and eventual promulgation.

## YEAR ENDED 31 DECEMBER 2016 VERSUS YEAR ENDED 31 DECEMBER 2015

The table below shows the comparative figures of the top five key performance indicators for 2016 and 2015.

Key Performance Indicators	2016	2015
<i>Amounts in thousands of ₱s, except for financial ratios</i>		
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	<b>3,641,210</b>	<b>3,979,947</b>
EBITDA	<b>38,085,726</b>	<b>33,664,121</b>
CASH FLOW GENERATED:		
Net cash flows from operating activities	<b>29,887,980</b>	25,199,597
Net cash flows used in investing activities	<b>(81,380,348)</b>	(8,902,646)
Net cash flows from/ (used in) financing activities	<b>47,483,228</b>	(5,448,755)
Net (Decrease)/Increase in Cash & Cash Equivalents	<b>(4,009,140)</b>	<b>10,848,19</b>
Cash & Cash Equivalents, Beginning	<b>51,098,269</b>	40,231,875
Cash & Cash Equivalents, End	<b>47,094,741</b>	51,098,269
CURRENT RATIO	<b>2.25</b>	<b>3.12</b>
DEBT-TO-EQUITY RATIO	<b>2.18</b>	<b>1.39</b>

Share in net earnings in associates and joint ventures declined by 9% in 2016, as contributions from WMPC, SPPC, STEAG Power and the large hydroelectric power plant, SN Aboitiz Power -Magat, decreased during 2016 compared to 2015.

The main driver of the 13% increase in consolidated EBITDA during 2016 was the full year EBITDA contributions of TSI, which started commercial operations for its first coal-fired unit on September 2015, and for its second unit on February 2016.

During 2016, cash and cash equivalents decreased by ₱4.01 bn, as cash was used in investing activities, mainly, the acquisition of partnership interests in GNPowder-Mariveles and GNPowder Dinginin. In 2016, the Company also managed to return the same levels of cash dividends to its shareholders, and continued to deploy financial resources for the construction of various greenfield projects.

Current ratio at the end of 2016 was 2.25x compared to the previous year's 3.12x, as the 45% increase in current liabilities outpaced the 5% increase in current assets.

Debt-to-equity ratio as of December 31, 2016 was at 2.18, higher than the 1.39 recorded the end of 2015.

### Results of Operations

Net income for 2016 increased to ₱20.00 bn from ₱17.60 bn in 2015, a 14% year on year (YoY) increase. This translated to earnings per share of ₱2.72 for 2016. During the year, the Company recognized non-recurring losses of ₱612 mn (versus 2015's loss of ₱762 mn), primarily due to forex losses from the revaluation of its dollar-denominated liabilities, refinancing costs and goodwill impairment. Adjusting for these one-offs, the Company's core net income for 2016 amounted to ₱20.6 bn, an increase of 12% YoY.

#### Power Generation

The power generation group continued to lead in terms of earnings contribution during 2016, accounting for 82% of earnings contributions from the Company's business segments. Income share for 2016 was ₱16.26 bn, up 17% YoY. The growth was largely driven by TSI's full year contribution. Netting out one-off items, AboitizPower's generation business generated ₱17.16 bn for the period, which was 16% higher than 2015.

Attributable net energy rose in 2016 by 8% YoY, from 12,550 GWh to 13,495 GWh, as electricity sold through bilateral contracts, which made up 91% of total energy sold during the period, expanded by 8% to 12,279 GWh. On the other hand, spot market sales increased by 4% during 2016 from 1,168 GWh in 2015 to 1,216 GWh.

As of year-end 2016, AboitizPower's net sellable capacity stood at 2,975 MW, after the acquisition of GNPowder-Mariveles (604-MW) and GNPowder Dinginin (2x668-MW) on December 27, 2016.

#### *Power Distribution*

The power distribution group's earnings share for 2016 decreased by 4%, from ₱3.81 bn to ₱3.67 bn. This is equivalent to 18% of the 2016 earnings contributions from the Company's business segments. Total attributable electricity sales increased by 7% YoY, from 4,759 GWh to 5,105 GWh, as energy sales grew across all customer segments. Meanwhile, the group's gross margin on a per kWh basis in 2016 decreased to ₱1.59 from ₱1.61 in 2015.

### **Material Changes in Line Items of Registrant's Statements of Income and Comprehensive Income**

#### **Consolidated Statements of Income**

Consolidated net income attributable to equity holders of the parent increased by 14%, from ₱17.60 bn in 2015 to ₱20.00 bn in 2016. The various movements in line items are shown below to account for the increase:

Consolidated Net Income Attributable to Equity Holders of the Parent for 2015	<b>₱17,603,797</b>
Increase in operating revenues	3,989,317
Increase in operating expenses	(2,365,594)
Increase in interest income	237,242
Increase in interest expense	(1,070,153)
Decrease in share in net earnings of associates and joint ventures	(338,737)
Increase in other income	2,005,851
Lower provision for taxes	93,529
Increase in income attributable to non-controlling interests	(152,670)
Total	<b>2,398,785</b>
Consolidated Net Income Attributable to Equity Holders of the Parent for 2016	<b>₱20,002,582</b>

#### **Operating Revenues**

*(5% increase from ₱85.17 bn to ₱89.16 bn)*

Higher revenues during 2016 from the distribution segment, which accounted for ₱3.21 bn out of the ₱3.99 bn increase, served as the primary driver of the increase in operating revenues. Robust growth in the demand for electricity across the distribution companies' franchise areas, notably in the areas of VECCO and Davao Light, led to higher operating revenues in 2016.

The generation segment likewise noted a 7% increase in operating revenues for 2016 versus 2015. This was mainly driven by the full year operating revenues of TSI, which was offset by lower revenues of some of the oil-fired plants due to lower dispatch during the year, and of the small hydroelectric power plants, due to lower water levels brought about by the El Niño.

#### **Operating Expenses**

*(4% increase from ₱60.49 bn to ₱62.85 bn)*

Operating expenses increased during 2016, as costs of purchased power, general and administrative expenses and higher depreciation expenses (primarily from the first year depreciation of the TSI assets) were incurred. This was offset by a ₱1.21 bn decrease in the cost of generated power as fuel costs declined during the year.

**Interest Income**

*(28% increase from ₱846 mn to ₱1.08 bn)*

Increase in interest income in 2016 was mainly due to higher average cash and cash equivalent balances carried at the Parent Company and at the intermediate holding companies, ARI and TPI, during the year.

**Interest Expense and Other Financing Costs**

*(16% increase from ₱6.63 bn to ₱7.70 bn)*

The higher interest expense in 2016 was due to the recognition of interest expense on TSI's project debt, as well as the interest expense on a notes facility which APRI availed of in the first quarter of 2016.

**Share in Net Earnings of Associates and Joint Ventures**

*(9% decrease from ₱3.98 bn to ₱3.64 bn)*

Share in net earnings of associates and joint ventures declined by 9% in 2016 as lower contracted capacities at two associate oil companies operating in Mindanao, WMPC and SPPC, led to lower contributions. STEAG Power also saw a decline in net profits during the year. The effects of the El Niño led to lower water levels affecting the income contributions from SN Aboitiz Power-Magat.

**Other Income (Expenses) – net**

*(Increase from ₱337 mn other expense to ₱1.67 bn other income)*

The increase in the account was due to the recognition of other income of insurance proceeds from the settlement of liquidated damages during 2016, a gain on the step-acquisition of EAUC, and lower foreign exchange losses.

**Provision for Taxes**

*(3% decrease from ₱3.59 bn to ₱3.50 bn)*

The decrease was due to lower provision for taxes recognized at Davao Light and TLI in 2016.

**Net Income Attributable to Non-controlling Interests**

*(11% increase from ₱1.35 bn to ₱ 1.50 bn)*

Minority shareholders of VECO took up higher attributed income during 2016. The balance of the increase was due to the take up of the minority shareholder's participation in the income of CEDC and CPPC's net income for the 2016.

**Consolidated Statements of Comprehensive Income**

The movements in cumulative translation adjustments and recognition of slight gains on defined benefit plans (versus actuarial losses recognized in the prior year) led to lower total net other comprehensive income for 2016 at ₱71 mn (compared to ₱226 mn in 2015). Total consolidated comprehensive income was ₱21.58 bn for 2016.

**Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

**Assets**

Total assets (as of December 31, 2016 vs. December 31, 2015) increased by ₱114.52 bn or 47%. The major movements of the accounts leading to the increase are as follows:

- (a) Cash and cash equivalents decreased by 8% in 2014. Cash generated from operations continued to provide significant liquidity for the Company, but a major acquisition during 2016 and the need to fund ongoing greenfield projects, resulted in the consolidated cash position of the Company decreasing ₱4.00 bn during 2016.
- (b) Trade and other receivables increased by 13% (from ₱13.69 bn in 2015 to ₱15.47 bn in 2016) primarily due to the take up of the trade receivables at newly consolidated Subsidiary GNPowerr Mariveles.
- (c) Inventories increased by 118% (from ₱2.04 bn in 2015 to ₱4.45 bn in 2016) due to the consolidation of inventories held at GNPowerr Mariveles and higher inventory balances at TSI and TLI.
- (d) Other current assets rose by 90% (from ₱3.39 bn in 2015 to ₱6.45 bn in 2016), mainly driven by ₱2.10 bn in restricted cash at TSI to comply with the covenants for its project debt. The balance of the increase was due to the consolidation of prepaid assets at GNPowerr Mariveles.
- (e) Investments and advances increased mainly as a result of the acquisition of a minority interest in GNPowerr Dinginin. The account increased from ₱22.55 bn at the end of 2015 to ₱30.60 bn at the end of 2016.
- (f) After the acquisition of a majority interest in GNPowerr Mariveles, the resulting consolidation of its Property, Plant and Equipment (PPE) led to an increase of 43% (from ₱134.81 bn in 2015 to ₱192.98 bn in 2016). The Group also continued to the final stages of the construction of its hydro facilities under Hedcor Sabangan during 2016 and continued the construction of its various coal plants under TVI and PEC.
- (g) Intangible assets increased by ₱39.13 bn as the Company recognized ₱39.35 bn of provisional goodwill resulting from the acquisition of GNPowerr Mariveles, net of ₱170 mn of goodwill impaired on the Company's investment in MEZ.
- (h) The additions to derivative instruments as a result of business combinations during 2016 (the acquisition of GNPowerr Mariveles) led to an increase in derivative assets net of derivative liabilities (current and non-current).
- (i) Available for sale (AFS) investments went up by ₱97 mn during 2016 mainly due to the consolidation of AFS investments at GNPowerr Mariveles.
- (j) Net pension assets went up by ₱11 mn (or 31%) due to the increase in the fair value of plan assets as contributions made during the year.
- (k) Deferred income tax assets increased by 208% (from ₱585 mn in 2015 to ₱1.80 bn in 2016). The increase was driven by the take up of deferred tax assets at newly consolidated GNPowerr Mariveles. The balance was attributable to the corresponding deferred tax benefits recognized on the unrealized foreign exchange losses recognized by the Group during the current year.
- (l) Other noncurrent assets increased by 80% (from ₱6.12 bn in 2015 to ₱11.02 bn in 2016) mainly due to the increase in input VAT on the on-going construction of various greenfield projects as well as a loan receivable of ARI from Sacasun.

### **Liabilities**

Consolidated liabilities increased by 74% from ₱140.88 bn as of December 31, 2015 to ₱244.80 bn as of December 31, 2016.

- (a) Short term loans increased by 62% or ₱1.59 bn, primarily due to temporary advances during 2016 between Davao Light and AEV Parent.

- (b) Trade and other payables increased by 23% (from ₱14.14 bn in 2015 to ₱17.40 bn in 2016) as the Company consolidated trade and other payables of GNPowerr Mariveles. Also contributing to the increase were higher payables to suppliers and contractors as construction of various power plants continued.
- (c) Income tax payable decreased by 23% (from ₱853 mn in 2015 to ₱654 mn in 2016) primarily due to lower corporate and final taxes payable at the end of the year.
- (d) Long-term debt (current and non-current) increased by 173% (from ₱58.38 bn in 2015 to ₱159.37 bn in 2016) net of payments on long term debt made during the year.

This increase was attributable to the following:

- (i) TPI's ₱30.49 bn bridge financing to fund the acquisition of GNPowerr Mariveles and GNPowerr Dinginin;
  - (ii) New loans during the year for APRI (₱11.61 bn) and Hedcor Sibulan (₱4.05 bn) ;
  - (iii) Increase in long-term debt relating to the drawdowns on various financing facilities for TVI, PEC and Hedcor Bukidnon; and
  - (iv) Consolidation of GNPowerr Mariveles' project debt of ₱26.43 bn.
- (e) Long term obligation on PDS decreased by 5% as regular annual payments were made during 2016.
  - (f) Customers' deposits increased by 7% (₱6.38 bn in 2015 to ₱6.83 bn in 2016) due to increases in deposits at Davao Light and VECO resulting from the growth in their customer base during the year, as well as additional deposits from retail electricity supply customers in 2016.
  - (g) The revaluation of the future obligations on APRI's asset retirement obligation resulted in a decrease by 40% (₱3.02 bn in 2015 to ₱1.82 bn in 2016).
  - (h) Pension liability decreased by 50% (₱493 mn in 2015 to ₱247 mn in 2016) due to retirement contributions made by the group during the year.
  - (i) Deferred income tax liabilities (DTL) decreased by 8% (₱1.13 bn in 2015 to ₱1.04 bn in 2016) primarily due to lower deferred tax provisions on unrealized forex gains and actuarial valuations recognized during the year.
  - (j) Other noncurrent liabilities went from nil in 2015 to ₱334 mn at the end of 2016 due to retention payables at PEC as provided for under its EPC contracts.

### **Equity**

Equity attributable to equity shareholders of the parent increased by 8% (from ₱97.57 bn at year end 2015 to ₱105.11 bn at year-end 2016) driven primarily by the recognition of income during the year of ₱20.00 bn, net of dividends declared and paid to the Company's shareholders.

### **Material Changes in Liquidity and Cash Reserves of Registrant**

Cash generated from operations of ₱29.89 bn continued to provide a source of liquidity during 2016, growing by ₱4.69 bn as compared to 2015. Cash from operations of fully commissioned TSI augmented the cash streams from operations.

During 2016, the Group used ₱81.38 bn cash for investing activities. This was ₱72.48 bn more compared to 2015, and largest portion was used to acquire indirect, majority interests in GNPowerr-Mariveles, and a minority interest in GNPowerr Dinginin. Meanwhile, the Company continued to deploy financial resources in the construction of various greenfield projects. Funds were also invested in the step acquisition of a

subsidiary. The outflows were supported by dividends received during the year.

In 2016, the Group availed of long term debt through bridge financing, fresh loans availed of by certain subsidiaries and draw down on project finance facilities. During the first half of 2016, the Company declared ₱12.22 bn in dividends to its shareholders. These activities led to cash flow from financing activities of ₱47.48 bn during the year.

As of December 31, 2016, the Group's cash and cash equivalents decreased to ₱47.09 bn, from ₱51.10 bn as of the end of 2015.

#### **Financial Ratios**

Current assets increased by 5% but with the marked increase in current liabilities of 45%. The current ratio at the end of 2016 is now at 2.25x versus 3.12x at the end of 2015.

Consolidated debt to equity ratio at the end of 2016 was at 2.18 versus 1.39 as of end-2015, owing to the Company's increasing debt position as a result of consolidating a new Subsidiary's debt, and project and bridge financing incurred as it pursues its strategy to grow the business.

## MANAGEMENT

### BOARD OF DIRECTORS AND EXECUTIVE OFFICERS

The overall management and supervision of the Company is undertaken by its Board. The Company's executive officers and management team cooperate with the Board by preparing appropriate information and documents concerning the Company's business operations, financial condition and results of operations for its review. The Company currently has nine directors, three of whom are Independent Directors.

The table below sets forth the members of the Company's Board and its executive officers, with their corresponding positions and offices held for the past five (5) years, from 2013 to 2018, as of the date of this Prospectus.

<p><b>MIKEL A. ABOITIZ</b>  Chairman of the Board of Directors  Member – Board Audit Committee  – Board Risk and Reputation  Management Committee  – Executive Committee</p>	<p>Mr. Mikel A. Aboitiz, 63 years old, Filipino, has been Director of AboitizPower since 1998 and was appointed as Chairman of the Board on September 1, 2018. He was appointed as member of the Company's Board Audit Committee on October 26, 2007, of the Board Risk and Reputation Management Committee on May 19, 2014, and of the Executive Committee on May 21, 2018. He was Vice Chairman of City Savings Bank, Inc. (CitySavings) from 2015 to 2016, and President and Chief Executive Officer from 2001 to 2014. He is currently Director of ACO and AEV, a publicly-listed company, since May 3, 2017; and Trustee and Vice Chairman of RAFL. He holds a degree in Bachelor of Science in Business Administration from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>ERRAMON I. ABOITIZ</b>  President and Chief Executive Officer  Chairman – Executive Committee  Member – Board Corporate  Governance Committee</p>	<p>Mr. Erramon I. Aboitiz, 62 years old, Filipino, was appointed as President and Chief Executive Officer on July 26, 2018. He served as Chief Executive Officer and Director of AboitizPower from 1998 to 2018. He is a member of the Board Corporate Governance Committee since May 17, 2010, and was appointed as a Chairman of the Executive Committee on September 1, 2018.</p> <p>Mr. Aboitiz is currently the President &amp; Chief Executive Officer of AEV, a publicly-listed company. He has been Director of AEV since 1994 and was its Executive Vice President and Chief Operating Officer from 1994 to 2008. Mr. Aboitiz is also President and Chief Executive Officer of ACO; Chairman of the Board and Chief Executive Officer of AboitizLand; and Chairman of the Board of Directors of the following companies: Aboitiz InfraCapital, SFELAPCO, the SN Aboitiz Power Group, MORE, TPI, CRH Aboitiz. He is Vice Chairman of RCBM and Union Bank of the Philippines (UnionBank), a publicly-listed company. He is also the Chairman of UnionBank's Executive Committee and Nominations Committee. Mr. Aboitiz is also Director of AEV International Pte. Ltd., AboitizPower International Pte. Ltd., ARI, Archipelago Insurance Pte. Ltd. (Archipelago Insurance), Apo Agua Infraestructura, Inc., Cotabato Light, Davao Light, PETNET, Inc., and Pilmico Foods Corporation (Pilmico). Lastly, he is Chairman of the Board of Trustees</p>



	<p>of Aboitiz Foudation, and is a director of the Philippine Disaster Recovery Foundation.</p> <p>Mr. Aboitiz holds a Bachelor of Science degree in Business Administration, Major in Accounting and Finance from Gonzaga University in Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>ENRIQUE M. ABOITIZ</b>  Director  Chairman – Board Risk and Reputation Management Committee  Member – Board Audit Committee  Alternate Member – Executive Committee</p>	<p>Mr. Enrique M. Aboitiz, 63 years old, Filipino, has served as a Director of AboitizPower since May 18, 2009, and as Chairman of the Board of Directors from 2009 to 2018. He was appointed Chairman of the Board Risk and Reputation Management Committee on May 16, 2011, member of the Board Audit Committee on September 1, 2018, and Alternate Member of the Executive Committee on May 21, 2018. Mr. Aboitiz is currently Vice Chairman of AEV, a publicly-listed company, and ACO. He holds a degree in Bachelor of Science in Business Administration, Major in Economics from Gonzaga University, Spokane, Washington, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>JON RAMON ABOITIZ</b>  Director  Chairman – Board Corporate Governance Committee  Member – Executive Committee</p>	<p>Mr. Jon Ramon Aboitiz, 70 years old, Filipino, has been Director of AboitizPower since February 13, 1998 and served as Vice Chairman from 2009 to 2018. He was appointed Chairman of the Board Corporate Governance Committee on May 19, 2008 and member of the Executive Committee on May 21, 2018. He served as Chairman of the Board from 1998 to 2008.</p> <p>Mr. Aboitiz began his career with the Aboitiz Group in 1970. From being a manager of Aboitiz Shipping Corporation, he was promoted to President in 1976. He headed the Aboitiz Group’s power business in 1989 and was President of ACO from 1991 to 2008. He is currently Chairman of the Board of Directors of ACO and AEV, a publicly-listed company. He also holds positions in the following publicly-listed companies: Director of Bloomberry Resorts Corporation (Bloomberry) and International Container Terminal Services, Inc. (ICTSI), UnionBank. He is a member of UnionBank’s Executive Committee and of the Corporate Governance Committee, including the latter’s Compensation Remuneration and Nomination Sub-Committees. He is Chairman of the Board of Trustees and Chief Executive Officer of Ramon Aboitiz Foundation, Inc. (RAFI); Trustee of the Association of Foundations, and Santa Clara University; and member of the Board of Advisors of the Coca-Cola Export Corporation (Philippines) and Pilipinas Kao, Inc.</p> <p>Mr. Aboitiz holds a Bachelor of Science degree in Commerce, Major in Management from the Santa Clara University, California, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>LUIS MIGUEL O. ABOITIZ</b>  Director</p>	<p>Mr. Luis Miguel O. Aboitiz, 53 years old, Filipino, was appointed as Chief Strategy Officer of AboitizPower on</p>

<p>Chief Strategy Officer Member – Executive Committee</p>	<p>May 21, 2018, and as Director and member of the Executive Committee on September 1, 2018. Prior to this, he served as Executive Vice President and Chief Operating Officer-Corporate Business Group from 2016 to 2018 and as Senior Vice President-Power Marketing and Trading from 2009 to 2015.</p> <p>Mr. Aboitiz is also currently Senior Vice President of AEV, a publicly-listed company. He is Director and First Vice President of ACO, and member of the Board of Trustees of Aboitiz Foundation. He also serves as Director and President of MORE; and Director of Abovant, STEAG Power, ARI, TPI, Pilmico, PANC, RP Energy, TSI, TLI, PEC, Aboitiz InfraCapital, Sacasun, and Unionbank, a publicly-listed company. He holds directorship and management positions in GMCP and GNPD and its holding companies. Mr. Aboitiz is also a member of the Board of Trustees of the Philippine Independent Power Producers Association, Inc., and Director of Semiconductors and Electronics Industries in the Philippines, Inc.</p> <p>Mr. Aboitiz graduated from Santa Clara University, California, U.S.A. with a degree of Bachelor of Science in Computer Science and Engineering, and earned his Master’s degree in Business Administration from the University of California in Berkeley, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>JAIME JOSE Y. ABOITIZ</b> Director Executive Vice President and Chief Operating Officer – Power Distribution Group Member – Executive Committee – Board Risk and Reputation Management Committee</p>	<p>Mr. Jaime Jose Y. Aboitiz, 56 yearsold, Filipino, was Director of AboitizPower from 2004 to April 2007, and was re-elected as Director on May 18, 2009. He is also AboitizPower’s Executive Vice President and Chief Operating Officer-Power Distribution Group, a position he has held since August 14, 2008. He was appointed as member of the Executive Committee on May 21, 2018 and of the Board Risk and Reputation Management Committee on September 1, 2018.</p> <p>.</p> <p>Mr. Aboitiz is a member of the Board of Advisers of ACO, Chairman of the Board of Aboitiz Construction, Inc. (ACI), and a Trustee of Aboitiz Foundation. He is also Chairman of the Board of SEZ, MEZ, LEZ, BEZ and CPPC; President and Chief Executive Officer of Abovant, Cotabato Light, and Davao Light; President of VECO; and Director of ARI, SFELAPCO, AboitizLand, CIPDI, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, Tsuneishi Heavy Industries (Cebu), Inc. (THICI), and Hijos de F. Escano, Inc. (Hijos).</p> <p>Mr. Aboitiz holds a degree in Mechanical Engineering from Loyola Marymount University in California, U.S.A. and a Master’s Degree in Management from the Asian Institute of Management. He is not connected with any government agency or instrumentality. He is not a director of any other publicly-listed company.</p>

<p><b>CARLOS C. EJERCITO</b>  Independent Director  Chairman – Board Audit Committee  Member – Board Risk and Reputation Management Committee  – Board Corporate Governance Committee  – Board Related Party Transaction Committee</p>	<p>Mr. Carlos C. Ejercito, 72 years old, Filipino, has been an Independent Director of AboitizPower since May 19, 2014. He is the Chairman of the Board Audit Committee, member of the Board Corporate Governance Committee and the Board Risk and Reputation Management Committee since May 19, 2014, and a member of the Board Related Party Transactions Committee since May 15, 2017.</p> <p>Mr. Ejercito is also an Independent Director and Chairman of the Board Audit Committee of Bloomberry and an independent Director of Century Properties Group, Inc., both publicly-listed companies. He is also an Independent Director of Monte Oro Resources and Energy Corporation. Mr. Ejercito is President and Chief Executive Officer of Mount Grace Hospitals, Inc., Chairman and Chief Executive Officer of Forum Cebu Coal Corporation, and Chairman of Northern Access Mining, Inc. He is a Board Member of thirteen (13) hospitals, including Medical Center Manila, VR Potenciano Medical Center, Tagaytay Medical Center, Pinehurst Medical Services Inc., Grace General Hospital, Healthserv Medical Center, Lorma Medical Center, Mary Mediatrix Medical Center, and Silvermed Corporation, and Capitol Medical Center. He was formerly the Chairman of the Board of United Coconut Planters Bank, and a former Director of the National Grid Corporation of the Philippines. He was also the President and Chief Executive Officer of United Laboratories, Inc., Unilab Group of Companies, Univet Agricultural Products, Inc., and Greenfield Development Corporation, as well as the Vice President and Senior Country Operation Officer of Citibank, NA. Prior to Citibank, Mr. Ejercito was a System Engineer in IBM Philippines, and Accounting Unit Head in Procter &amp; Gamble Philippines, Inc. He was a member of the Board of Governors of the Management Association of the Philippines.</p> <p>Mr. Ejercito graduated <i>cum laude</i> from the University of the East with a degree in Bachelor of Science in Business Administration. He also completed the Management Development Program of the Harvard Business School in 1983, and has completed the coursework for Masters in Business Administration at the Ateneo Graduate School of Business. Mr. Ejercito is a certified public accountant. He is not connected with any government agency or instrumentality.</p>
<p><b>ROMEO L. BERNARDO</b>  Lead Independent Director  Member – Board Audit Committee  – Board Corporate Governance Committee  – Board Risk and Reputation Management Committee  – Board Related Party Transaction Committee</p>	<p>Mr. Romeo L. Bernardo, 63 years old, Filipino, was elected Lead Independent Director of AboitizPower on May 15, 2017. He has been Independent Director of the Company, and a member of its Board Audit Committee and Board Corporate Governance Committee since May 19, 2008. He was appointed as member of the Board Risk and Reputation Management Committee in 2015, and of the Board Related Party Transactions Committee on May 15, 2017.</p>

	<p>Mr. Bernardo is the Managing Director of Lazaro Bernardo Tiu and Associates, a boutique financial advisory firm based in Manila. He is also an economist of GlobalSource in the Philippines. He is Chairman of ALFM Family of Funds and Philippine Stock Index Fund. He is an Independent Director of the following publicly-listed corporations: Globe Telecom, RFM Corporation, and Bank of the Philippine Islands (BPI). He is likewise Independent Director of several companies and organizations, including BPI Capital Corporation, BPI/MS Insurance Corporation, and BPI-Philam Life Assurance Corporation. He is currently affiliated in various capacities with the Foundation for Economic Freedom, World Bank Philippine Advisory Group, International Centre for Settlement of Investment Disputes, and the Energy Policy and Development Program.</p> <p>Mr. Bernardo previously served as Undersecretary for International Finance of the Department of Finance, and as Alternate Executive Director of the Asian Development Bank. He has held various positions in government, including the National Power Corporation and Philippine National Bank. He was a member of the Board of Trustees of the Philippine Institute for Development Studies from October 2005 until March 2016. He was an Advisor of the World Bank and the International Monetary Fund, and served as Deputy Chief of the Philippine Delegation to the General Agreement on Tariffs and Trade (World Trade Organization) in 1979. In the same year, he was Finance Attaché of the Philippine Mission to the United Nations in Geneva, Switzerland. He was formerly President of the Philippine Economics Society, Chairman of the Federation of ASEAN Economic Societies, and a faculty of the College of Business Administration of the University of the Philippines.</p> <p>Mr. Bernardo holds a Bachelor of Science degree in Business Economics from the University of the Philippines (magna cum laude) and a Master's degree in Development Economics from Williams College in Williamstown, Massachusetts, U.S.A. where he graduated top of the class. He is not connected with any government agency or instrumentality.</p>
<p><b>ERIC RAMON O. RECTO</b>  Lead Independent Director  Chairman – Board Related Party  Transaction Committee  Member – Board Audit Committee  – Board Corporate  Governance Committee  – Board Risk and Reputation  Management Committee</p>	<p>Mr. Eric O. Recto, 55 years old, Filipino, was elected as Independent Director of AboitizPower, Chairman of the Board Related Party Transaction Committee, and a member of the Company's Board Audit Committee, Board Corporate Governance Committee, and Board Risk and Reputation Management Committee on May 21, 2018.</p> <p>He currently holds positions in the following publicly-listed companies: Chairman and President of ISM Communications Corporation; Chairman and Director of the Philippine Bank of Communications, Vice Chairman and President of Atok-Big Wedge Co., Inc.; and Director</p>

	<p>of Petron Corporation. He is also the Chairman and President of Bedfordbury Development Corporation; President/Director of Q-Tech Alliance Holdings, Inc.; and Supervisory Board Member of Acentic Gmbh and Ltd.</p> <p>Mr. Recto held various positions in Philweb Corporation from 2005 to 2016. He was also the Vice Chairman of Alphaland Corporation from 2007 to 2014; Director of San Miguel Corporation from 2010 to 2014; and of Manila Electric Company from 2010 to 2013: and President of Top Frontier Investment Holdings, Inc. from 2010 to 2013. Mr. Recto was formerly the Undersecretary of the Philippine Department of Finance from 2002 to 2005.</p> <p>Mr. Recto earned his Bachelor of Science Degree in Industrial Engineering from the University of the Philippines Diliman. He completed his Master’s in Business Administration, with concentration in Finance and Operation Management, from Cornell University, Johnson Graduate School of Management in Ithaca, New York, U.S.A. He is not connected with any government agency or instrumentality.</p>
<p><b>EMMANUEL V. RUBIO</b> Chief Operating Officer</p>	<p>Mr. Emmanuel V. Rubio, 54 years old, Filipino, was appointed as Chief Operating Officer on June 1, 2018. He served as AboitizPower’s Executive Vice President and Chief Operating Officer – Power Generation Group from 2014 to 2018.</p> <p>Mr. Rubio is currently Chairman of EAUC, Sacasun, TVI, LHC, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, and Hedcor Bukidnon; Director of ARI, Abovant, Cebu Energy, PEC, STEAG Power, TPI, TSI, and MORE. He holds directorship and management positions in GMCP and GNPD and its holding companies. He is also a member of the Board of Trustees and President of PEMC.</p> <p>Prior to joining AboitizPower, Mr. Rubio was connected with Consolidated Industrial Gases, Inc. (CIGI) Philippines, where he worked for more than 15 years in various capacities, including Vice President for Sales and Marketing, Business Unit General Manager, and eventually, President.</p> <p>Mr. Rubio is a graduate of Bachelor of Science in Industrial Management Engineering, with a minor in Mechanical Engineering, from De La Salle University, where he also completed his post-graduate studies. He is also a certificate course graduate of the University of Michigan Executive Education Program, the LEAD program of Columbia University, and the Strategic Management Course of the Nanyang Technological University in Singapore. He recently completed the Advanced Management Program of Columbia University. Mr. Rubio is a holder of the Executive Certificate in Directorship from the Singapore Management University-Singapore Institute of Directors (SMU-SID). He</p>

	is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.
<b>FELINO M. BERNARDO</b> Chief Operating Officer – Power Generation Group	<p>Mr. Felino M. Bernardo, 54 years old, Filipino, was appointed as Chief Operating Officer – Power Generation Group on June 1, 2018. Prior to this, he served as President &amp; Chief Operating Officer of APRI from 2015 to 2018.</p> <p>Mr. Bernardo is currently Chairman of the Board of EAUC, TMI, and TMO; and Director of CPPC, Hedcor, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor Bukidnon, LHC, STEAG Power, TLI, and TVI.</p> <p>Prior to joining the Aboitiz Group, Mr. Bernardo was the Country Manager of LIXIL for Philippines, Singapore, and Malaysia from February to October 2013, and the Country Manager of American Standard Philippines from February 2005 to January 2013.</p> <p>Mr. Bernardo graduated from the University of the Philippines – Diliman, with a degree in Bachelor of Science in Electrical Engineering, Major in Electronics. He also obtained a post-graduate degree in Strategic Business Economics.</p>
<b>JUAN ANTONIO E. BERNAD</b> Executive Vice President for Regulatory and Industry Affairs	<p>Mr. Juan Antonio E. Bernad, 62 years old, Filipino, has been AboitizPower’s Executive Vice President for Regulatory and Industry Affairs since May 18, 2009. He has served AboitizPower in several capacities, as Director from 1998 until 2009, as Executive Vice President/Chief Financial Officer/Treasurer from 1998 to 2003, and as Executive Vice President for Regulatory Affairs/ Chief Financial Officer from 2004 to 2007.</p> <p>He was Senior Vice President - Electricity Regulatory Affairs from 2004 to 2007, Senior Vice President - Chief Financial Officer from 1995 to 2004 and Senior Vice President from 1995 to 2018 of AEV, a publicly-listed company. Mr. Bernad is also Chairman of the Board of VECO; Director and the Executive Vice President - Regulatory Affairs of Davao Light; Director and Chief Financial Officer/Treasurer of Hijos; and Director of Cotabato Light, AEV Aviation, Inc. (AEV Av), and SFELAPCO. He is also Vice Chairman of the National Renewable Energy Board (NREB), representing Private Distribution Utilities.</p> <p>Mr. Bernad graduated with a degree in Economics from Ateneo de Manila University and a Master’s degree in Business Administration from The Wharton School of the University of Pennsylvania, U.S.A. He is not a director of a publicly-listed company.</p>
<b>GABRIEL T. MAÑALAC</b> Senior Vice President and Group Treasurer	Mr. Gabriel T. Mañalac, 61 years old, Filipino, has been AboitizPower’s Treasurer since May 11, 2004 and its Senior Vice President and Group Treasurer since May 17, 2010. He has been Senior Vice President and Group

	<p>Treasurer of AEV, a publicly-listed company, since 2009. Mr. Mañalac joined AEV as Vice President for Treasury Services in 1998 and was promoted to First Vice President for Treasury Services in 2004. He is also Vice President and Treasurer of Davao Light and Treasurer of Cotabato Light.</p> <p>Mr. Mañalac graduated cum laude with a Bachelor of Science degree in Finance degree and a Bachelor of Arts in Economics degree from De La Salle University. He obtained his Masters of Business Administration in Banking and Finance degree from the Asian Institute of Management and was awarded the Institute's Scholarship for Merit. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.</p>
<p><b>SUSAN V. VALDEZ</b> Senior Vice President and Chief Reputation and Risk Management Officer Ex-officio Member – Board Risk and Reputation Management Committee</p>	<p>Ms. Susan V. Valdez, 57 years old, Filipino, has been the Chief Reputation Officer and Risk Management Officer of AboitizPower since December 14, 2012. She was appointed Senior Vice President and Chief Reputation and Risk Management Officer on May 18, 2015 and has been an Ex-Officio member of the Board Risk and Reputation Management Committee since May 21, 2012. She is also Senior Vice President and Chief Corporate Services Officer of AEV, a publicly-listed company. She is Trustee and President of Aboitiz Foundation; Trustee and President of WeatherPhilippines Foundation, Inc. (WeatherPhilippines); and Director of Archipelago Insurance.</p> <p>Before joining AEV, Ms. Valdez was the Executive Vice President and Chief Executive Officer of the 2GO Freight Division of Aboitiz Transport System (ATSC) Corporation (now 2GO Group, Inc., a publicly-listed company) for eight years. She was also President and Chief Executive Officer of Aboitiz One, Inc. (now ATS Express, Inc.) and Aboitiz One Distribution, Inc. (now ATS Distribution, Inc.) for two years. Prior to heading the freight and supply chain business of ATSC, she was its Chief Finance Officer and Chief Information Officer for eight years.</p> <p>Ms. Valdez is a Certified Public Accountant, and graduated cum laude from St. Theresa's College with a degree of Bachelor of Science in Commerce, Major in Accounting. She earned her Master's degree in Business Management from the University of the Philippines, and completed a program on Management Development at Harvard Business School. She is not connected with any government agency or instrumentality. She is also not a director of a publicly-listed company.</p>
<p><b>LIZA LUV T. MONTELIBANO</b> Senior Vice President/Chief Financial Officer/Corporate Information Officer Ex-officio Member – Board Risk and Reputation Management Committee</p>	<p>Ms. Liza Luv T. Montelibano, 43 years old, Filipino, was appointed as Chief Financial Officer-Power Generation Group of AboitizPower on January 2, 2014 until she was promoted as First Vice President/ Chief Financial Officer/Corporate Information Officer on May 18, 2015. She was appointed as Ex-officio member of the Board Risk and Reputation Management Committee</p>

	<p>on the same date. On May 16, 2016, Ms. Montelibano was promoted to Senior Vice President and Chief Financial Officer/Corporate Information Officer, a position that she holds to date.</p> <p>Ms. Montelibano is Director and Senior Vice President-Finance of ARI, and Director of MORE, SEZ, VECO, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, TPI, Archipelago Insurance, and AboitizPower International. She holds directorship and management positions in GMCP and GNPD and its holding companies.</p> <p>Prior to joining AboitizPower, Ms. Montelibano was the Country Controller of NXP Semiconductors. Her background is in finance, risk assessment, and internal audit arising from her previous experience with various multinational companies. She also served as Chief Financial Officer of SteelAsia Manufacturing Corporation from September 2012 to March 2013, and as General Manager for Finance and Administration at L'Oreal Philippines, Inc. from March 2006 to August 2012.</p> <p>Ms. Montelibano graduated cum laude from the Ateneo de Manila University with a degree in Bachelor of Science in Management, Minor in Finance. She is also a Certified Internal Auditor under the Institute of Internal Auditors. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.</p>
<p><b>ROBERT MCGREGOR</b> Executive Director – Chief Strategy Officer</p>	<p>Mr. Robert McGregor, 58 years old, British, was appointed as Executive Director – Chief Strategy Officer of AboitizPower on June 1, 2018. He was Executive Director for Business Development of AboitizPower from May 2017 to June 2018 and Executive Director – Investments from September 2015 to May 2017. Mr. McGregor is concurrently the Senior Vice President and Chief Strategy and Investment Officer of AEV, a publicly-listed company, and Director of PETNET and Aboitiz InfraCapital. He first joined the Aboitiz Group as AEV's Senior Vice President - Chief Strategy Officer until November 2014, when he was appointed as AEV's Chief Strategy and Investment Officer.</p> <p>Mr. McGregor brings with him a wealth of experience in management, investment banking, and private equity investing, with almost 38 years of experience in energy markets. He also has extensive experience in corporate strategy, marketing and business planning in oil, gas and electricity industries in the United Kingdom. He moved to Hong Kong in 1997 and enjoyed an 11-year career in regional investment banking, before moving to Singapore to take up a partnership in Actis, an emerging-market private equity company. In 2012, he returned to Hong Kong with Hongkong and Shanghai Banking Corporation Limited as an investment banker.</p>



	<p>Mr. McGregor completed his honours degree in Applied Chemistry from The University of Strathclyde in Glasgow, United Kingdom and obtained his Masters Degree in Business Administration from the same university. He is not connected with any government agency or instrumentality. He is also not a director of a publicly-listed company.</p>
<p><b>CHRISTOPHER B. SANGSTER</b> Executive Director – Business Development and Project Development and Execution</p>	<p>Mr. Christopher B. Sangster, 50 years old, Australian, was appointed Executive Director – Business Development and Project Development and Execution of AboitizPower on June 1, 2018. He was Executive Director – Power Generation Group from May 2017 to June 2018. He first joined the Aboitiz Group in May 2008, and served as Executive Director of LHC.</p> <p>Prior to joining the Aboitiz Group, Mr. Sangster was Executive Manager for Asian Development and Operations of Pacific Hydro Pty Ltd. from August 2005 to May 2008. He has over 20 years of experience in the power sector with expertise on international development, construction, economic analysis, and technical and risk evaluations.</p> <p>Mr. Sangster earned his degree in Civil Engineering from the University of Adelaide in Adelaide, South Australia and his Masters in Business Administration degree from Melbourne Business School in Melbourne, Victoria, Australia. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.</p>
<p><b>JOSEPH TRILLANA T. GONZALES</b> General Counsel and Compliance Officer Ex-officio Member – Board Corporate Governance Committee</p>	<p>Mr. Joseph Trillana T. Gonzales, 51 years old, Filipino, was appointed First Vice President and General Counsel of AboitizPower on January 1, 2015. He was appointed as the Company’s Compliance Officer and Ex-officio member of the Board Corporate Governance Committee, effective March 1, 2018.</p> <p>He previously served as Assistant Corporate Secretary of the Company from August 2007 to May 2016. He was Vice President for Legal and Corporate Services of AEV from 2008 to 2014.</p> <p>Mr. Gonzales was Special Counsel of SyCip Salazar Hernandez &amp; Gatmaitan Law Offices until he joined the Aboitiz Group as Assistant Vice President of the Corporate and Legal Services of ACO in 2007.</p> <p>Mr. Gonzales is a graduate of Bachelor of Arts, Major in Economics, and Bachelor of Laws from the University of the Philippines. He has a Master of Laws degree from the University of Michigan in Ann Arbor, Michigan, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of a publicly-listed company.</p>
<p><b>MANUEL ALBERTO R. COLAYCO</b> Corporate Secretary</p>	<p>Mr. Manuel Alberto R. Colayco, 48 years old, Filipino, has been Corporate Secretary of AboitizPower since March</p>

	<p>1, 2018. He is concurrently First Vice President and Chief Legal Officer of AEV since July 11, 2016, and AEV's Corporate Secretary and Compliance Officer since March 1, 2018.</p> <p>Mr. Colayco has practice in the areas of corporate law, mergers and acquisitions, joint ventures, securities regulation, corporate and financial restructuring, and litigation. Prior to joining the Aboitiz Group, Mr. Colayco acted as independent legal consultant providing professional advice, representation, and transactional assistance to private companies and individuals. His previous work experience includes: General Counsel for AGP International Holdings Ltd. and Atlantic, Gulf &amp; Pacific Company of Manila, Inc. from August 2013 to December 2014; Executive Director and Assistant General Counsel of J.P. Morgan Chase Bank N.A. from July 2010 to August 2013; and Vice President and Legal Counsel of DKR Oasis (Hong Kong) LLC, a private investment management firm, from August 2007 until March 2010. He was an Associate at Skadden, Arps, Slate, Meagher &amp; Flom, LLP from 2000 to 2007, and at Romulo Mabanta Buenaventura Sayoc &amp; De Los Angeles from 1996 to 2000.</p> <p>Mr. Colayco earned his undergraduate and Juris Doctor degrees from the Ateneo de Manila University, and his Master of Laws degree from New York University School of Law in New York, U.S.A. He is not connected with any government agency or instrumentality. He is not a director of any publicly listed company.</p>
<p><b>MAILENE M. DE LA TORRE</b> Assistant Corporate Secretary</p>	<p>Ms. Mailene M. de la Torre, 36 years old, Filipino, was appointed Assistant Corporate Secretary of AboitizPower on November 24, 2016. She is concurrently Assistant Vice President - Governance and Compliance and Assistant Corporate Secretary of AEV, a publicly-listed company, from January 1, 2018. She was previously Senior Associate General Counsel for Governance and Compliance of AEV since November 2016, and was Associate General Counsel for Legal and Corporate Services from May 2010 to October 2014. Ms. de la Torre is also the Corporate Secretary of various Subsidiaries of the Aboitiz Group, including Aboitiz InfraCapital, AEV CRH, ARI, CPPC, EAUC, BEZ, LEZ, MEZ, SEZ, Hedcor Bukidnon, Hedcor Sabangan, Hedcor Sibulan, Hedcor Tudaya, Hedcor, LHC, PANC, Pilmico, PEC, TMI, TMO, TSI, TPI, TVI, and PETNET, as well as Assistant Assistant Corporate Secretary for CRH Aboitiz, AEV Av, Cotabato Light, Davao Light, MORE, the SN Aboitiz Power Group, and VECO.</p> <p>Ms. de la Torre has practice in the areas of compliance and corporate governance, corporate secretarial and corporate housekeeping, acquisitions, joint ventures, and litigation. Prior to joining the Aboitiz Group, she was Associate at Esguerra &amp; Blanco Law Office from 2007 to 2010. She graduated cum laude with a Bachelor of Arts</p>

	<p>Degree in Political Science from the University of the Philippines Diliman and earned her Bachelor of Laws degree from the same university. She is a graduate member of the Institute of Corporate Directors, after completing the Professional Director's Program. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.</p>
<p><b>NOREEN MARIE N. VICENCIO</b> Data Privacy Officer</p>	<p>Ms. Noreen Marie N. Vicencio, 39 years old, Filipino, was appointed Data Privacy Officer of AboitizPower on November 23, 2017. She is also the Assistant Vice President for Risk Management of the Company since November 21, 2017.</p> <p>Ms. Vicencio brings with her experience in risk management, quality management, and systems integration. Prior to joining AboitizPower, she various positions in AboitizLand from 2005 to 2017, as Assistant Vice President for Risk Management and Corporate Social Responsibility, and Assistant Vice President for Corporate Planning, Risk Management and Quality Management System. She obtained her Bachelor of Arts degree in Psychology from St. Theresa's College, Cebu City. She also earned units in Masters in Management from the University of the Philippines Cebu. She is not connected with any government agency or instrumentality. She is not a director of a publicly-listed company.</p>
<p><b>SATURNINO E. NICANOR, JR.</b> Group Internal Audit Head</p>	<p>Mr. Saturnino E. Nicanor, Jr., 55 years old, Filipino, was appointed as Group Internal Audit Head of AboitizPower on July 26, 2018. He is concurrently the Assistant Vice President for Internal Audit since July 2016.. He has extensive experience in internal audit and controllership in various industries. He also served as Internal Audit Head for the Company's Generation Group from August 2012 to July 2016, and held various audit-related positions in the Aboitiz Group from 1999 to 2005.</p> <p>Mr. Nicanor earned his Bachelor of Science in Commerce, Major in Accounting (magna cum laude) degree from the University of San Jose Recoletos, Cebu City. He is an Accredited Training Facilitator of the Institute of Internal Auditors Philippines. He is not connected with any government agency or instrumentality. He is not a director of any publicly listed company.</p>

**Period in which the Directors Should Serve**

The directors shall serve for a period of one year.

**Term of Office of a Director**

Pursuant to the Amended By-Laws of AboitizPower, the directors are elected at each annual stockholders' meeting by stockholders entitled to vote. Each director holds office until the next annual election or for a term of one year and until his successor is duly elected, unless he resigns, dies or is removed prior to such election.

Any vacancy in the Board, other than by removal or expiration of term, may be filled by a majority vote of the remaining members thereof at a meeting called for that purpose, if they still constitute a quorum. The director so chosen shall serve for the unexpired term of his predecessor in office.

### **Significant Employees**

AboitizPower considers the contribution of every employee important to the fulfillment of its goals.

### **Family Relationships**

Messrs. Jaime Jose and Luis Miguel Aboitiz are first cousins. Messrs. Jon Ramon and Mikel Aboitiz are brothers. Messrs. Erramon and Enrique Aboitiz are brothers as well. Other than these, no other officers or directors are related within the fourth degree of consanguinity.

### **Involvement in Certain Legal Proceedings as of August 31, 2018**

To the knowledge and/or information of AboitizPower, none of its nominees for election as directors, its present members of the Board, or its executive officers, is presently involved in any legal proceeding or bankruptcy petition or has been convicted by final judgment, or being subject to any order, judgment or decree or has violated the securities or commodities law in any court or government agency in the Philippines or elsewhere, for the past five (5) years and the preceding years until June 30, 2018, which would put to question his/her ability and integrity to serve AboitizPower and its stockholders.

### **Parent Company**

AboitizPower's parent company is AEV. As of August 31, 2018, AEV owns 76.88% of the voting shares of AboitizPower. In turn, ACO owns, as of August 31, 2018, 48.56% of the voting shares of AEV.

### **Resignation or Refusal to Stand for Re-election by Members of the Board of Directors**

No director has resigned or declined to stand for re-election to the Board since the date of AboitizPower's last Annual Stockholders' Meeting because of a disagreement with AboitizPower on matters relating to its operations, policies and practices.

## **CORPORATE GOVERNANCE**

Guided by the Organization for Economic Co-operation and Development's (OECD) Five (5) Principles of Corporate Governance, AboitizPower continued its efforts to strengthen the roles and responsibilities of its Board; adopted new protocols and improved existing systems and policies to protect the rights of its shareholders; safeguarded shareholders' equitable treatment; continuously recognized the value and participatory role of all stakeholders; and practiced the appropriate level of transparency and improved corporate disclosures. AboitizPower continues to create long-term value for all stakeholders, and to drive change for a better world by advancing business and communities.

### **SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT**

All shareholders, regardless of the amount of their shareholdings, are given the right to participate in the decision making, pursuant to the Company's One Share, One Vote policy.

Moreover, to ensure that directors, officers, and even majority shareholders do not take advantage of their positions, all shareholders are apprised, with amounts disclosed, of all related-party transactions, within the Aboitiz Group. All related-party transactions in the Group are reported in AboitizPower's Consolidated Audited Financial Statements each year.

All shareholders likewise receive notices of all shareholders' meetings, all agenda items to be discussed and decided upon during the said meetings are set out in the notices, and no new agenda item will be taken up during the conduct of the meeting. For the guidance of shareholders, included in the notices to shareholders' meetings include the rationale of agenda items which are submitted to the shareholders for their approval. Moreover, shareholders are given sufficient notice before the annual shareholder's meeting is held. Consistent with the requirements of the Securities Regulation Code, the Company has sent out the notice of annual shareholder's meeting 25 days and at least 28 days before the scheduled meeting for the years 2017 and 2018, respectively.

### **STAKEHOLDER ENGAGEMENT**

The Aboitiz Group is committed to the principles of sustainability to balance the interests of People, Planet, and Profit. By following this principle, AboitizPower has obtained and maintained a good health, safety, and environmental track record. The Group launched its Sustainability Policy in 2013, with the belief that all stakeholders must be treated with fairness, and that corporate social responsibility is an integral part of doing business. In support of this policy, the Group launched its BetterWorld campaign in 2014 to encourage all stakeholders to adopt this policy for sustainability.

AboitizPower has a Manual of Corporate Governance (Manual) and a Code of Ethics and Business Conduct (Code) to guide the attainment of its corporate goals and strategies. In 2016, the Board of Directors upon the endorsement of the Board Corporate Governance Committee, approved the revised Code which now includes a more defined anti-corruption and bribery policy, sustainability policy, and digital media policy, among others. In 2017, the Board of Directors approved the revised Manual, which now specifies the composition and duties of the newly-created and restructured board committees, the qualifications of the Corporate Secretary, an information security management policy, a sustainability policy, a risk management policy, communication process and training process, reportorial or disclosure system of the Company's corporate policies, shareholders' benefit statement, and a monitoring and assessment system. The revised Manual on Corporate Governance is generally aligned to the principles and recommendations laid down by the SEC under the Corporate Governance Code for Publicly Listed Companies in order to further strengthen the Company's corporate governance practices.

The Compliance Officer, together with the Human Resources Department, regularly monitors and evaluates compliance by the Board of Directors, management and employees to the Manual, the Code, other Company policies, and existing laws and regulations. The Compliance Officer also ensures the implementation of AboitizPower's rules on conflicts of interest and against the misuse of confidential and proprietary information throughout the organization.

The Compliance Officer regularly reports to the Board Corporate Governance Committee the Company's compliance status with existing laws and regulations, as well as the Board's, management's and employees' compliance with internal governance policies.

There are no major deviations from the Manual as of the date of this report. The Board of Directors regularly reviews the Manual to ensure that the same remains relevant and responsive to the needs of the organization. Any amendments to the Manual are promptly submitted to the SEC for confirmation and approval.

## DISCLOSURE AND TRANSPARENCY

Pursuant to its commitment to transparency and accountability, AboitizPower, in its website, [www.aboitzpower.com](http://www.aboitzpower.com), has its own dedicated corporate governance webpage which serves as a resource center and library for its stakeholders. The Company also maintains a comprehensive Corporate Governance report every year which will be uploaded in the Company's website before the Annual Stockholders' Meeting. As part of its commitment to sustainability, AboitizPower is maximizing the use of digital technology rather than the use of scarce paper sources.

A copy of the complete annual Corporate Governance Report ("CG Report") of the Compliance Officer is available at [www.aboitzpower.com](http://www.aboitzpower.com) under Governance Reports and Scorecards of the Corporate Governance webpage. A condensed copy of the CG Report is also included in AboitizPower's Annual Report and can be accessed at [www.aboitzpower.com](http://www.aboitzpower.com) under Annual Report of the Investor Relations webpage (Investor's Kit).

## BOARD RESPONSIBILITY

The Board's primary objectives are to improve shareholder returns, to develop responsible long-term investments, and to achieve disciplined and sustainable growth. To this end, board attendance and active participation during board and committee meetings are encouraged from directors. Attendance during board meetings are closely monitored and reported by the Compliance Officer to the SEC and the PSE, as well as in the Company's 2016 SEC Annual Corporate Governance Report uploaded in the Company website.

In 2017, the Board held a total of ten regular and special meetings. Below is a summary of the attendance of the Directors:

Corporate governance is further fostered by the Board's active role in reviewing and approving corporate goals and strategies set by management, as well as in monitoring and evaluating management performance in meeting such goals. The different board committees - Audit, Corporate Governance, Risk and Reputation Management, and Related Party Transactions - report regularly to the Board and are crucial in maintaining Board oversight in key management areas. The mandate and the composition of each Board committee are described below:

The mandate and the composition of each Board committee are described below:

- The **Board Corporate Governance Committee** represents the Board in discharging its responsibility relating to issues around the Group's governance principles and guidelines, nomination of persons into Board and Group senior leadership roles, and the various compensation matters. Independent Directors comprise majority of the voting members of the Board Corporate Governance Committee.

Chairman: Jon Ramon Aboitiz; Members: Erramon I. Aboitiz, Carlos C. Ejercito, Romeo L. Bernardo, and Eric Ramon O. Recto; Ex-Officio Members: Joseph Trillana T. Gonzales and Xavier Jose Y. Aboitiz

- The **Board Audit Committee** represents the Board in discharging its responsibility related to audit matters for the Group. Independent Directors comprise majority of the members of the Board Audit Committee, including its Chairman.

Chairman: Carlos C. Ejercito; Members: Romeo L. Bernardo, Eric Ramon O. Recto, Mikel A. Aboitiz, and Erramon I. Aboitiz

- The **Board Risk and Reputation Management Committee** represents the Board in discharging its responsibility relating to risk management and related matters for the Group.

Chairman: Enrique M. Aboitiz; Members: Antonio R. Moraza, Mikel A. Aboitiz, Romeo L. Bernardo, Carlos C. Ejercito and Eric Ramon O. Recto; Ex-Officio Members: Liza Luv T. Montelibano and Susan V. Valdez

- The **Board Related Party Transaction Committee** represents the Board in discharging its responsibility relating to transactions entered into between or among the Company or any of its subsidiaries, affiliates, directors and officers.

Chairman: Eric Ramon O. Recto; Members: Romeo L. Bernardo and Carlos C. Ejercito

- The **Executive Committee** is tasked to assist the Board of Directors in overseeing the Company's day-to-day operations and strategic decision making, while ensuring compliance with the Company's governance policies.

Chairman: Antonio R. Moraza; Members: Erramon I. Aboitiz, Mikel A. Aboitiz, Jaime Jose Y. Aboitiz, Jon Ramon Aboitiz; Alternate Member: Enrique M. Aboitiz

## CORPORATE GOVERNANCE INITIATIVES

Going beyond mere compliance and box-ticking, the Company regularly updates its corporate governance policies to ensure that they are relevant to the needs of the organization and, at the same time, at par with global best practices.

In 2016, the SEC released the Code of Corporate Governance for Publicly Listed Companies ("CG Code for PLCs").

The Board Corporate Governance Committee reviewed the existing policies and practices of the Company and made an assessment in terms of the Company's level of compliance with the new CG Code for PLCs. The Committee reviewed and updated some governance policies and proposed adoption of new policies, Board and Board Committee Charters, creation of new Board Committee and adoption of the recommendations made by SEC under the CG Code for PLCs.

The Board of Directors, during its January 26, 2017 meeting, approved additional policies and protocols recommended by the Board Corporate Governance Committee as part of its commitment in its effort to continuously adopt evolving best practices. These Board Protocols include Policy on Information Disclosure, Policy on Related Party Transactions, Policy on Conflict of Interest, and Whistle Blowing Policy.

The Board of Directors also approved the Board Charter recommended by the Board Corporate Governance Committee for continuous improvement of solutions to shareholder concerns.

Moreover, in 2016, the Compliance Officer together with the Chief Financial Officer and the Controller of AboitizPower made a major benchmarking study on the related party transactions of the Company, the result of which was then presented to the Board Corporate Governance Committee. On March 23, 2017, the Board approved the adoption of a new Related Party Transactions (RPT) Policy and the creation of RPT Committees and corresponding RPT Committee Charters.

For a full discussion on the Company's initiatives, a copy of the complete CG Report of the Compliance Officer will be available at [www.aboitzpower.com](http://www.aboitzpower.com) under Full Corporate Governance Report of Corporate Governance webpage.

## CORPORATE GOVERNANCE AWARDS

As a testament to its commitment to adopt best practices, AboitizPower has been consistently recognized in local and international surveys, assessments, and scorecards as among the Philippines' best-managed companies and cited for its commitment to good corporate governance practices.

The numerous awards received by AboitizPower, especially in the field of corporate governance and stakeholder engagement, reflect the commitment of the Aboitiz Group to adopt and implement corporate governance best practices. AboitizPower, together with its Subsidiaries and Affiliates, have been consistently recognized in local and international surveys, assessments, and scorecards as among the Philippines' best-managed companies.

In 2017, AboitizPower received the following awards:

Award Giving Body	Category	Awards Received
Corporate Governance Asia	5th Asian Excellence Awards	Best Investor Relations Company
		Best Environmental Responsibility
Finance Asia	15th Finance Asia Best Companies in Asia	Most Committed To Paying Good Dividends (8th place)
		Best In Corporate Governance (10th place)
Philippine Stock Exchange, Inc.	2017 PSE Bell Awards	PSE Bell Awards for Excellence in Corporate Governance (winner)



## EXECUTIVE COMPENSATION

Information as to the aggregate compensation paid or accrued to AboitizPower's Chief Executive Officer and other highly compensated executive officers, as well as other officers and directors during the last two completed fiscal years and the ensuing fiscal year, is as follows:

Name of Officer and Principal Position	Year	Salary (in Pesos)	Bonus (in Pesos)	Other Annual Compensation (in Pesos)
<b>Chief Executive Officer and the Four Most Highly Compensated Officers:</b>  <b>1. ERRAMON I. ABOITIZ</b> - Chief Executive Officer  <b>2. ANTONIO R. MORAZA</b> - President & Chief Operating Officer  <b>3. JUAN ANTONIO E. BERNAD</b> - Executive Vice President for Strategy and Regulatory  <b>4. JAIME JOSE Y. ABOITIZ</b> - Executive Vice President & Chief Operating Officer – Power Distribution Group  <b>5. EMMANUEL V. RUBIO</b> - Executive Vice President & Chief Operating Officer – Power Generation Group				
	<b>Actual 2017</b>	<b>₱166,030,000.00</b>	<b>₱5,740,000.00</b>	<b>₱18,140,000.00</b>
	Actual 2016	₱159,950,000.00	₱5,350,000.00	₱15,490,000.00
	Projected 2018	₱182,630,000.00	₱6,320,000.00	₱19,960,000.00
	<b>Actual 2017</b>	<b>₱122,710,000.00</b>	<b>₱5,910,000.00</b>	<b>₱39,660,000.00</b>
All other officers and directors as a group	Actual 2016	₱76,650,000.00	₱5,150,000.00	₱38,780,000.00
	Projected 2018	₱134,990,000.00	₱6,510,000.00	₱43,620,000.00

*\*The four most highly compensated officers in 2017 are Messrs. Antonio R. Moraza, Jaime Jose Y. Aboitiz, Luis Miguel O. Aboitiz and Emmanuel V. Rubio.*

The 2014 Amended By-Laws of the Company, as approved by SEC on May 16, 2014, defined corporate officers as follows: Chairman of the Board, the Vice Chairman, the Chief Executive Officers, President, Chief Operating Officer(s), the Treasurer, the Corporate Secretary, the Assistant Corporate Secretary and such other officers as may be appointed by the Board of Directors. For the year 2016, the Company's Summary of Compensation covers the compensation of officers as reported under Item 5 (a) (1) of the Information Statement.

Except for the regular Company retirement plan, which by its very nature will be received by the officers concerned only upon retirement from the Company, the above-mentioned officers do not receive any other compensation in the form of warrants, options, and/or profit-sharing.

There is no compensatory plan or arrangement between the Company and any executive in case of resignation or any other termination of employment or from a change-in-control of the Company.

## COMPENSATION OF DIRECTORS

### Standard Arrangements

Prior to the 2015 Annual Stockholders' Meeting, all of AboitizPower's directors received a monthly allowance of ₱100,000.00, except for the Chairman of the Board who received a monthly allowance of ₱150,000.00. On May 18, 2015, the stockholders approved an increase in the directors' monthly allowance to ₱120,000.00 for the members of the Board, and ₱180,000.00 for the Chairman of the Board.

In addition, each director and the Chairmen of the Board and the Board Committees received a per diem for every Board or Committee meeting attended as follows:

Type of Meeting	Directors	Chairman of the Board
Board Meeting	₱100,000.00	₱150,000.00

Type of Meeting	Directors	Chairman of the Committee
Committee Meeting	₱80,000.00	₱100,000.00

### Other Arrangements

Other than payment of the directors' per diem and monthly allowance as stated, there are no standard arrangements pursuant to which directors of the Company are compensated, or are to be compensated, directly or indirectly, for any services provided as a director.

### Employment Contracts and Termination of Employment and Change-in-Control Arrangements

There is no compensatory plan or arrangement between AboitizPower and any executive officer in case of resignation or any other termination of employment or from a change in the management or control of AboitizPower.

### Warrants and Options Outstanding

To date, AboitizPower has not granted any stock options to its directors or officers.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Security Ownership of Certain Record and Beneficial Owners (of more than 5%) as of August 31, 2018

Title of Class	Name, Address of Record Owner and Relationship with AP	Name of Beneficial Owner and Relationship with AP	Citizenship	No. of Shares Held and Nature of Ownership (record and/or Beneficial)	Percentage of Class Owned
Common	<b>1. Aboitiz Equity Ventures, Inc.</b> <sup>9</sup> 32nd Street, Bonifacio Global City, Taguig City (Stockholder)	Aboitiz Equity Ventures, Inc. <sup>10</sup>	Filipino	5,657,530,772 (Record and Beneficial)	76.88%
Common	<b>2. PCD Nominee Corporation (Filipino)</b> <sup>11</sup> G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers <sup>12</sup>	Filipino	1,372,019,365 (Record)	18.65%
Common	<b>3. PCD Nominee Corporation (Foreign)</b> <sup>13</sup> G/F MSE Bldg. Ayala Avenue, Makati City (Stockholder)	PCD participants acting for themselves or for their customers <sup>14</sup>	Non-Filipino	49,463,976 (Record)	0.67%

Aboitiz Equity Ventures, Inc. (AEV) is the public holding and management Company of the Aboitiz Group, one of the largest conglomerates in the Philippines.

The following table sets forth security ownership of the Company's Directors, and Officers, as of August 31, 2018 (Record and Beneficial):

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
		No. of Shares	Nature of Ownership		
Common	<b>Erramon I. Aboitiz</b> Chairman of the Board	1,300,001	Direct	Filipino	0.02%
		82,939,214	Indirect		1.13%
Common	<b>Mikel A. Aboitiz</b>	1	Direct	Filipino	0.00%

<sup>9</sup> AEV is the parent company of AboitizPower.

<sup>10</sup> Mr. Erramon I. Aboitiz, President and Chief Executive Officer of AEV, will vote the shares of AEV in AboitizPower in accordance with the directive of the AEV Board of Directors.

<sup>11</sup> The PCD Nominee Corporation (Filipino and Foreign) is not related to the Company.

<sup>12</sup> Each beneficial owner of shares, through a PCD participant, is the beneficial owner of such number of shares he owns in his account with the PCD participant. AboitizPower has no record relating to the power to decide how the shares held by PCD are to be voted. The Company advised that none of the beneficial owners under a PCD participant owns more than 5% of the Company's common shares.

<sup>13</sup> *Supra* note 3.

<sup>14</sup> *Supra* note 4.

Title of Class of Shares	Name of Owner and Position	No. of Shares and Nature of Ownership (Direct and/or Indirect)		Citizenship	Percentage of Ownership
	Vice Chairman of the Board	20,908,259	Indirect		0.28%
Common	<b>Enrique M. Aboitiz</b> Director	758	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Jon Ramon Aboitiz</b> Director	33,001	Direct	Filipino	0.00%
		18,014,220	Indirect		0.24%
Common	<b>Antonio R. Moraza</b> Director/President and Chief Executive Officer	1	Direct	Filipino	0.00%
		20,432,299	Indirect		0.28%
Common	<b>Jaime Jose Y. Aboitiz</b> Director/Executive Vice President and Chief Operating Officer – Power Distribution Group	5,367,397	Direct	Filipino	0.07%
		4,719,302	Indirect		0.06%
Common	<b>Romeo L. Bernardo</b> Lead Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Carlos C. Ejercito</b> Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Eric Ramon O. Recto</b> Independent Director	1,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Emmanuel V. Rubio</b> Chief Operating Officer	89,130	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Felino M. Bernardo</b> Chief Operating Officer – Power Generation Group	2,000	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Luis Miguel O. Aboitiz</b> Chief Strategy Officer	11,167,081	Direct	Filipino	0.15%
		0	Indirect		0.00%
Common	<b>Juan Antonio E. Bernad</b> Executive Vice President for Strategy and Regulatory	520,001	Direct	Filipino	0.01%
		488,734	Indirect		0.01%
Common	<b>Gabriel T. Mañalac</b> Senior Vice President and Group Treasurer	111,139	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Susan V. Valdez</b> Senior Vice President and Chief Reputation and Risk Management Officer	754,862	Direct	Filipino	0.01%
		0	Indirect		0.00%
Common	<b>Liza Luv T. Montelibano</b> Senior Vice President/Chief Financial Officer/Corporate Information Officer	500	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Robert McGregor</b> Executive Director – Chief Investment Officer	0	Direct	British	0.00%
		5,000	Indirect		0.00%
Common	<b>Christopher B. Sangster</b> Executive Director – Business Development and Project Development	109,936	Direct	Australian	0.00%
		0	Indirect		0.00%
Common	<b>Joseph Trillana T. Gonzales</b> General Counsel and Compliance Officer	62,527	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Manuel Alberto R. Colayco</b>	0	Direct	Filipino	0.00%

<b>Title of Class of Shares</b>	<b>Name of Owner and Position</b>	<b>No. of Shares and Nature of Ownership (Direct and/or Indirect)</b>		<b>Citizenship</b>	<b>Percentage of Ownership</b>
	Corporate Secretary	0	Indirect		0.00%
Common	<b>Mailene M. de la Torre</b> Assistant Corporate Secretary	0	Direct	Filipino	0.00%
		5,000	Indirect		0.00%
Common	<b>Noreen Marie N. Vicencio</b> Data Privacy Officer	0	Direct	Filipino	0.00%
		0	Indirect		0.00%
Common	<b>Saturnino E. Nicanor, Jr.</b> Group Internal Audit Head	26,896	Direct	Filipino	0.00%
		0	Indirect		0.00%
	<b>TOTAL</b>	<b>167,060,259</b>			2.26%

**Voting Trust Holders of Five Per Centum (5%) or More of Common Equity**

No person holds under a voting trust or similar agreement more than five per centum (5%) of AboitizPower's common equity.

**Changes in Control**

There are no arrangements that may result in a change in control of AboitizPower during the period covered by this report.

## **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

AboitizPower and its Subsidiaries (the "Group"), in their regular conduct of business, have entered into related party transactions consisting of professional fees, advances, various guarantees, construction contracts, and rental fees. These are made on an arm's length basis as of the time of the transactions.

AboitizPower ("Parent") has provided support services to its Business Units, such as marketing, trading, billing and other technical services, necessary for the effective and efficient management and operations among and between the Subsidiaries and Associates.

The Group has existing Service Level Agreements (SLAs) with its parent company, AEV, for corporate center services, such as human resources, internal audit, legal, information technology, treasury and corporate finance, among others. These services are obtained from AEV to enable the Group to realize cost synergies and optimize expertise at the corporate center. AEV maintains a pool of highly qualified professionals with business expertise specific to the businesses of the Group. Transaction costs are always benchmarked on third party rates to ensure competitive pricing and consistency with prevailing industry standards. SLAs are in place to ensure quality of service.

Material and significant related party transactions are reviewed and approved by the Related Party Transactions Committee of the Board.

No other transactions, without proper disclosure, were undertaken by the Company in which any director or executive officer, any nominee for election as director, any beneficial owner (direct or indirect) or any member of his immediate family was involved or had a direct or indirect material interest.

AboitizPower employees are required to promptly disclose any business and family-related transactions with the Company to ensure that potential conflicts of interest are brought to the attention of the management.

For detailed discussion on related party transactions, please refer to Note 32 of the Consolidated Financial Statements.

## DESCRIPTION OF DEBT

As of the date of this Prospectus, AboitizPower has the outstanding indebtedness:

### **AboitizPower ₱ 10 Billion Fixed Rate Bonds due 2021 and 2026**

On 10 September 2014, AboitizPower issued fixed-rate bonds (the “2014 Bonds”) in two series: (a) Series A 2013 Bonds, with a term of seven (7) years from issue date and in the aggregate amount of ₱6,600,000,000.00 bn, and (b) Series B Bonds, with a term of twelve (12) years from issue date in the aggregate amount of ₱3,400,000,000.00 bn. The Series A 2014 Bonds had an optional redemption on the fifth (5<sup>th</sup>) year and one (1) quarter from issue date, and on the sixth (6<sup>th</sup>) year from issue date. On the other hand, the Series B 2014 Bonds had an optional redemption on the seventh (7<sup>th</sup>) year from issue date, the eighth (8<sup>th</sup>) year from issue date, the ninth (9<sup>th</sup>) year from issue date, the tenth (10<sup>th</sup>) year from issue date, and the eleventh (11<sup>th</sup>) year from issue date. BPI Capital Corporation (“BPI Capital”) acted as the Issue Manager and Lead Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2014 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.02 (a) of the Trust Agreement for the 2014 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the Bonds shall be coursed through the PDTC as Registrar. Transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:
  - a. any Lien over any asset to secure: (i) payment of the purchase price or cost of leasehold rights of such asset; or (ii) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (iii) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;
  - b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;
  - c. any Lien constituted over the investment of the Issuer in any of its affiliates, for any obligation or credit facility incurred for the purpose of pursuing any power generation, distribution, or retailing project or investment therein, whether such power generation, distribution, or retailing project is undertaken by the Issuer itself, by its affiliates, and/or by the Issuer or its affiliates with third parties;

- d. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
- e. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;
- f. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;
- g. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;
- h. any Lien created over (i) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (ii) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness
- i. any Lien created over or affecting any asset acquired by any affiliate after the date of the Trust Agreement, if:
  - j. the Lien was not created in contemplation of the acquisition of that asset by such affiliate;
  - k. the principal amount secured has not been increased in contemplation of, or since the acquisition of that asset by such affiliate; and
  - l. the Lien is removed or discharged within twelve (12) months of the date of the acquisition of such asset;
- m. any Lien on the properties and assets of the Issuer: (i) imposed by Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (ii) arising out of pledges or deposits under workmen's compensation Laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (iii) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;
- n. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;
- o. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Ten Million (US\$10,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;



- p. other Liens: (i) created solely by operation of law; and (ii) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and
  - q. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;  
Provided that for purposes of “affiliate” as used in Section 5.02 (a) (c), (d), (e), (h), and (m) above, it shall refer to any Person in which the Issuer has investment, whether direct or indirect.
2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2014 Bonds are current and updated; and
  3. Maintenance of Financial Ratios. AboitizPower shall not permit its Net Debt to Consolidated Equity Ratio to exceed 3:1 calculated based on the AboitizPower’s year-end audited financial statements. As of 31 December 2017, the Net Debt to Consolidated Equity Ratio of AboitizPower is 0.04 and is compliant with the covenant under the 2014 Bonds.

### **AboitizPower ₱ 3 Billion Fixed Rate Bonds due 2027**


On 3 July 2017, AboitizPower issued fixed-rate bonds (the “2017 Bonds”), with a term of ten (10) years from issuedate and in the aggregate amount of ₱3,000,000,000.00. The 2017 Bonds had an optional redemption on the seventh (7<sup>th</sup>) year, eighth (8<sup>th</sup>), and ninth (9<sup>th</sup>) year from issue date. BPI Capital Corporation (“BPI Capital”) acted as the Sole Issue Manager and Sole Underwriter while Bank of the Philippine Islands – Asset Management Group was appointed as Trustee.

The 2017 Bonds constitute direct, unconditional, unsecured and unsubordinated Peso denominated obligations of AboitizPower and shall rank *pari passu* and ratably without any preference or priority amongst themselves and at least *pari passu* in priority of payment with all other present and future unsecured and unsubordinated obligations of the Issuer, other than (i) obligations preferred by the law, (ii) any obligation incurred by AboitizPower pursuant to Section 5.02 (a) of the Trust Agreement for the 2017 Bonds or as may be allowed therein, and (iii) other Indebtedness or obligations disclosed by the Issuer to the Trustee as of the relevant issue date.

Transfers of the Bonds shall be coursed through the PDTC as Registrar. Transfer and/or settlement of the Bonds shall be performed in accordance with the PDTC rules and procedures to be set by the Issuer and Registrar.

AboitizPower is subject to the following negative covenants, among others:

1. Encumbrances - AboitizPower shall not permit any Indebtedness to be secured by or to benefit from any Lien, in favor of any creditor or class of creditors on, or in respect of, any present or future assets or revenues of the Issuer or the right of the Issuer to receive income; *Provided*, however that this shall not prohibit the following:
  - a. any Lien over any asset to secure: (x) payment of the purchase price or cost of leasehold rights of such asset; or (y) the payment of the cost and expenses for the development of such asset pursuant to any development made or being made by the Issuer in the ordinary course of business; or (z) the payment of any indebtedness in respect of borrowed money (including extensions and renewals thereof and replacements therefor) incurred for the purpose of financing the purchase, lease or development of such asset;

- b. Liens or charges for current taxes, assessments, or other governmental charges which are not delinquent or remain payable, without any penalty, or the validity of which is contested in good faith by appropriate proceedings, and adequate reserves have been provided for payment thereof;
- c. any Lien to secure, in the normal course of the business of the Issuer or its affiliates: (x) statutory or regulatory obligations; or (y) performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases;
- d. any Lien to secure, in relation to a pending judicial, administrative, or arbitral proceeding, the Issuer or its affiliates' (x) surety or appeal bonds; or (y) bonds for release of attachment, stay of execution or injunction;
- e. any Lien constituted for the purpose of guaranteeing an affiliate's obligation in connection with any contract or agreement that has been assigned to such affiliate by the Issuer;
- f. any Lien constituted for the purpose of guaranteeing an obligation in connection with any contract or agreement of sale of any asset by the Issuer, provided that the Lien is removed or discharged within twelve (12) months of the date of the sale of the asset;
- g. any Lien created over (x) deposits made by the Issuer with the proceeds of any loan facility made to it by any bank or financial institution denominated in a currency other than Philippine Pesos ("foreign currency"); or (y) financial instruments denominated in foreign currency owned by the Issuer, in each case solely for the purposes of raising an equivalent amount of Peso denominated indebtedness;
- h. any Lien on the properties and assets of the Issuer: (x) imposed by Applicable Law, such as carriers' Liens, warehousemen's Liens, mechanics' Liens, unpaid vendors' Liens, and other similar Liens arising in the ordinary course of business; (y) arising out of pledges or deposits under workmen's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits or similar legislation, or retirement benefit plans of the Issuer; or (z) arising out of the set-off provision on other agreements of the Issuer relating to Indebtedness;
- i. any Lien in favor of banks, insurance companies, other financial institutions, and Philippine government agencies, departments, authorities, corporations of other juridical entities which secure a preferential financing obtained by the Issuer under a governmental program and the aggregate principal amount of such preferential financing does not exceed Thirty-Five percent (35%) of the Issuer's total assets;
- j. any Lien over its cash deposits, short-term cash investments, and marketable investment securities in favor of banks and other financial institutions, which secure (i) any borrowed money in connection with a Treasury Transaction in the ordinary course of business of Issuer, provided that the aggregate amount of security does not at any time exceed United States Dollars: Forty Million (US\$40,000,000.00) or its equivalent; and/or (ii) standby letters of credit to be used to guarantee additional equity infusions by the Issuer in its Subsidiaries or Affiliates and/or used in the ordinary course of business of Issuer, its Subsidiaries and/or Affiliates;
- k. other Liens: (x) created solely by operation of law; and (y) on such other assets, whether constituted before or after the Issue Date, as may be disclosed in writing by the Issuer to the Trustee on or before the execution of this Agreement; and 
- l. any Lien constituted over the investment of the Issuer in any of its affiliate, and whether such investment is in the form of shares, deposits or advances to guarantee or secure the obligations of the said affiliates;

Provided that for purposes of “affiliate” as used in Section 5.2aiiiiii), (iv), (v), and (xii) of this Agreement, it shall refer to any Person in which the Issuer has investment, whether direct or indirect, in.

2. Declaration and Payment of Cash Dividends/Issuance of Share. AboitizPower shall not declare or pay any dividends to its stockholders (other than dividends payable solely in shares of its capital stock and cash dividends due on its then-outstanding preferred shares) or retain, retire, purchase or otherwise acquire any class of its capital stock, or make any other capital or other asset distribution to its stockholders, unless all payments due under the 2017 Bonds are current and updated; and
3. Maintenance of Financial Ratios. Under the 2017 Bonds, AboitizPower is not required to maintain any financial ratios. However, the Issuer shall not incur any loan obligation with a maturity of more than one (1) year, if on the Transaction Date, after giving effect to the incurrence of such loan obligation and any other such cumulative obligations, but not giving any effect to the receipt or application of proceeds therefrom, the Net Debt to Consolidated Equity Ratio, as at the last day of the Relevant Period immediately preceding the Transaction Date (and giving effect to the incurrence of such loan obligation and any other such cumulative obligations), will exceed 3:1. In compliance with this, the Net Debt to Consolidated Equity Ratio of AboitizPower, after giving effect to the Second Tranche Bonds, is 0.14 and is compliant with the covenant under the 2017 Bonds.

## INDEPENDENT AUDITORS AND COUNSEL

### LEGAL MATTERS

All legal opinions/matters in connection with the issuance of the Second Tranche Bonds will be passed upon by the Legal Management Services of Aboitiz Equity Ventures, Inc., the parent company of the Company, for the Company and Sycip Salazar Hernandez & Gatmaitan ("SycipLaw"), for the Sole Issue Manager and the Joint Lead Underwriters. SycipLaw has no direct interest in the Company.

SycipLaw may from time to time be engaged to advise in the transactions of the Company and perform legal services on the basis that SycipLaw provides such services to its other clients.

### INDEPENDENT AUDITORS

The consolidated financial statements of the Company as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017 have been audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young, independent auditors, in accordance with Philippine Standards on Auditing as set forth in their report thereon appearing elsewhere in this Prospectus.

The partner-in-charge is Maria Veronica Andresa R. Pore.

### EXTERNAL AUDIT FEES AND SERVICES

The following table sets out the aggregate fees billed for each of the last three (3) fiscal years for the professional services rendered by the Company's external auditors:

Fee Type	2017	2016
<b>Audit Fees</b>		
Audit Fees	₱442,000.00	₱403,000.00
Audit Related Fees	31,500.00	-
<b>Total</b>	<b>473,500.00</b>	<b>403,000.00</b>
<b>Non-Audit Fees</b>		
Financial and Tax Due Diligence Fees	7,480,000.00	-
Bond Related Fees	3,500,000.00	-
<b>Total</b>	<b>10,980,000.00</b>	-
<b>Total Audit and Non-Audit Fees</b>	<b>₱11,453,500.00</b>	<b>₱403,000.00</b>

SGV was engaged by the Company to audit its annual financial statements. In 2017, the Company also engaged SGV to conduct post reviews and other procedures for the purpose of issuing a comfort letter in connection with the issuance of the ₱3 bn Series "A" 2017 Bonds. The Company also engaged SGV to provide financial and tax due diligence in 2017 in relation to the Company's participation in biddings, acquisitions, and other projects.

As a policy, the Board Audit Committee makes recommendations to the Board of Directors concerning the choice of external auditor and pre-approves audit plans, scope, and frequency before the audit is conducted.

Audit services of SGV for 2017 and 2016 were pre-approved by the Board Audit Committee. The Board Audit Committee also reviewed the extent and nature of these services to ensure that the independence of the external auditors was preserved. SGV does not have any direct or indirect interest in the Company.

## **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

The Company has engaged the services of SGV during the two most recent fiscal years. There are no disagreements with SGV on accounting and financial disclosure.

### **BOARD AUDIT COMMITTEE**

In giving effect to its duly approved charter, the Board Audit Committee of the Company provides assistance to the Board of Directors in fulfilling its oversight responsibility to the Company and its stakeholders by providing guidance relating to:

1. the adequacy and efficiency of the Company's system of internal controls, governance and risk management processes;
2. the quality and integrity of the Company's accounting, auditing, legal, ethical and regulatory compliances;
3. the annual independent audit of the Company's financial statements and the external auditors' qualifications and independence;
4. due observance of applicable laws and regulations that may have financial and other material exposure to the Company; and
5. providing an avenue of communication among the independent auditors, the management, the internal audit and the Company.

The chairperson of the Board Audit Committee is Mr. Carlos C. Ejercito. The members are Romeo L. Bernardo, Eric Ramon O. Recto, Mikel A. Aboitiz and Erramon I. Aboitiz.

As part of this process, SyCip Gorres Velayo & Co. reports to the Board Audit Committee. The Board Auditing Committee is required to ensure that corporate accounting and reporting practices of the Company are in accordance with all legal requirements and are of the highest quality.

## TAXATION

*The statements herein regarding taxation are based on the laws in force as of the date of this Prospectus and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Second Tranche Bonds and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective purchasers of the Second Tranche Bonds are advised to consult their own tax advisers concerning the overall tax consequences of their ownership of the Second Tranche Bonds.*

*As used in this section, the term “non-resident alien” means an individual whose residence is not within the Philippines and who is not a citizen of the Philippines. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines”; however, a non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year may be considered a “non-resident alien not engaged in trade or business within the Philippines”. A “non-resident foreign corporation” is a foreign corporation not engaged in trade or business within the Philippines.*

### TAXATION OF INTEREST

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Second Tranche Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Second Tranche Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Second Tranche Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Second Tranche Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

### TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE

Bondholders who are exempt from or are not subject to final withholding tax on interest income or entitled to be taxed at a preferential rate may claim such exemption or avail of such preferential rate by submitting the necessary documents. Said Bondholder shall submit the following requirements:

1. Proof of Tax Exemption or Entitlement to Preferential Tax Rates
  - i. For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;

- ii. For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;
- iii. For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; and
- iv. For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)).

In addition, upon the request of the Underwriter, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form.

Only the originals should be submitted to the Underwriter.

- 2. A duly notarized declaration (in the prescribed form) warranting that the Bondholder’s tax-exemption certificate or ruling has not been revoked or cancelled and that there are no material changes in character, purpose or method of operation of the Bondholder which are inconsistent with the basis of its income tax exemption, or the warranting the Bondholder’s entitlement to preferential treaty rates, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities arising from the non-withholding or reduced withholding of the required tax; and
- 3. Such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities.

Failure to submit any of the documents provided under (1), (2) and (3) above, as may be applicable, will result in the application of the normal income tax rate provided under the Tax Code.

The foregoing notwithstanding, the Issuer, the Registrar and the Paying Agent shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar.

The foregoing requirements shall be submitted, (i) in respect of an initial issuance of Second Tranche Bonds, to the underwriters or selling agents who shall then forward the same with the Application to Purchase to the Registrar; or (ii) in respect of a transfer from a Bondholder to a purchaser, to the Registrar within three days from settlement date.

## **VALUE-ADDED TAX**

Gross receipts arising from the sale of the Second Tranche Bonds in the Philippines by dealers in securities shall be subject to a 12% value-added tax. The term “gross receipt” means gross selling price less acquisition cost of the Second Tranche Bonds sold.

## **GROSS RECEIPTS TAX**

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less: 5%

Maturity period is more than five years: 1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:

Maturity period is five years or less: 5%

Maturity period is more than five years: 1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Second Tranche Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

## **DOCUMENTARY STAMP TAX**

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Second Tranche Bonds, at the rate of ₱1.00 for each ₱200, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Issuer for its own account.

## **TAXATION ON SALE OR OTHER DISPOSITION OF THE SECOND TRANCHE BONDS**

### **Income Tax**

Any gain realized from the sale, exchange or retirement of Second Tranche Bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to the regular rates of 35%, 25%, or 30%, as the case may be. If the Second Tranche Bonds are sold by a seller, who is an



individual and who is not a dealer in securities, who has held the Second Tranche Bonds for a period of more than 12 months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Tax Code, any gain realized from the sale, exchange or retirement of bonds with an original maturity date of more than five years (as measured from the date of issuance of such bonds) shall not be subject to income tax. As the Second Tranche Bonds have maturities of 5.25 and 10 years, any gains realized by a holder on the trading of the Second Tranche Bonds shall be exempt from income tax. However, any gains realized by a holder through redemption of the Second Tranche Bonds prior to the lapse of 5 years may be subject to income tax. This is in view of the BIR's ruling that one of the conditions for the exemption is that the maturity period must be more than 5 years.

Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits.

### **Estate and Donor's Tax**

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Second Tranche Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at 6%. A Bondholder shall be subject to donor's tax of 6% computed on the basis of the total gifts in excess of P250,000.00 exempt gift.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor.

The estate tax and the donor's tax, in respect of the Second Tranche Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Second Tranche Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Second Tranche Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes.

### **Documentary Stamp Tax**

No documentary stamp tax is imposed on the subsequent sale or disposition of the Second Tranche Bonds, trading the Second Tranche Bonds in a secondary market or through an exchange, provided that such sale or disposition does not constitute a renewal or extension of maturity of the Second Tranche Bonds or carried with it a renewal or issuance of new instruments in the name of the transferee to replace the old ones. However, if the transfer constitutes a renewal or extension of the maturity of the Second Tranche Bonds, documentary stamp tax is payable anew.

## REGULATORY FRAMEWORK

*The information in this section has been derived from various government and private publications or obtained from communications with various government agencies unless otherwise indicated and has not been prepared or independently verified by the Company or the Sole Issue Manager, the Joint Lead Underwriters or any of their respective affiliates or advisors. The information may not be consistent with other information compiled within or outside the Philippines.*

### EPIRA

Since the enactment of the Electric Power Industry Reform Act (“**EPIRA**”) in 2001, the Philippine power industry has undergone and continues to undergo significant restructuring. Through the EPIRA, the Government began to institute major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

1. to ensure and accelerate the total electrification of the country;
2. to ensure the quality, reliability, security and affordability of the supply of electric power;
3. to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
4. to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
5. to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
6. to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
7. to assure socially and environmentally compatible energy sources and infrastructure;
8. to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
9. to provide for an orderly and transparent privatization of the assets and liabilities of National Power Corporation (“**NPC**”);
10. to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
11. to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the Department of Energy (“**DOE**”), in consultation with the relevant government agencies, electric power industry participants, non-government organizations, and electricity consumers, promulgated the law’s Implementing Rules and Regulations (“**IRR**”) outlining its policy on 27 February 2002.

The policy governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular governmental authorities involved in implementing the structural reforms in the industry, namely, the DOE, NPC, the National Electrification Administration (“**NEA**”), Energy Regulatory Commission (“**ERC**”) and Power Sector Assets and Liabilities Management Corporation (“**PSALM**”).

### Reorganization of the Electric Power Industry

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (1) the generation sector; (2) the transmission sector; (3) the distribution sector; and (4) the supply sector. The goal is for the generation and supply sectors to be fully competitive, while the transmission and distribution sectors will remain regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

## **The Generation Sector**

The EPIRA provides that power generation is not a public utility operation. Thus, generation companies are not required to secure legislative franchises. However, generation companies must obtain a Certificate of Compliance (“**COC**”) from the ERC, as well as health, safety and environmental clearances from the appropriate government agencies under existing laws.

Generation companies are also subject to the ERC’s rules and regulations on abuse of market power and anti-competitive behavior. Generation companies are required to submit financial statements to determine abuse of market power and anti-competitive behavior. The ERC may impose fines and penalties for violation of the EPIRA and the Implementing Rules and Regulations policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, with the private sector expected to take the lead in introducing additional generation capacity. Generation companies will compete either for contracts with various suppliers, electric cooperatives and private distribution utilities, or through spot sale transactions in the Wholesale Electricity Spot Market (“**WESM**”). Competition will be based largely on pricing, subject to availability of transmission lines to wheel electricity to the Grid and/or buyers. Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine the reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. While generation charges are intended to be passed through to customers by distribution utilities, the process is not automatic. Upon commencement of Retail Competition and Open Access, generation rates, except those intended for the Captive Markets, will cease to be regulated.

Open Access is defined as the system of allowing any qualified person the use of electric power transmission and distribution system and associated facilities. On the other hand, Retail Competition refers to the provision of electricity to contestable market by licensed suppliers through Open Access. Lastly, Captive Markets are electricity end-users who do not have the choice of a supplier of electricity.

In line with the Government’s policy to promote competition within the generation sector, and additionally, to lessen the debt of NPC, the EPIRA required the privatization of all generation assets of the NPC. The EPIRA created PSALM, which is charged with the privatization of the assets of NPC.

Currently, PSALM has already privatized thirty-one (31) generating plants with a total rated capacity of 4,601.43MW and has successfully transferred a total contracted capacity of 3,607.52MW to Independent Power Producer Administrators (“**IPPAs**”)

Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

## **The Transmission Sector**

With the turn-over of the control, operation and management of the grid to the private concessionaire on 14 January 2009, the National Grid Corporation of the Philippines (“**NGCP**”) together with the National Transmission Corporation (“**TransCo**”) (which, under law, remains the owner of the transmission assets), comprise the transmission sector. The principal function of TransCo is to ensure and maintain reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code. TransCo is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity is subject to transmission wheeling charges. Inasmuch as the transmission of electric power is a regulated public utility business, transmission wheeling charges, even under the concessionaire arrangement, are subject to regulation and approval by the ERC.

## **The Distribution Sector**

The distribution of electric power to end-users may be undertaken by private distribution utilities, electric cooperatives, local government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from Congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a Certificate of Public Convenience and Necessity (“CPCN”) from the ERC to operate as a public utility.

All distribution utilities are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Distribution Code (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA, which took effect on 22 March 2002.

The distribution sector is and will continue to be regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. Likewise, the retail rate imposed by distribution utilities for the supply of electricity to its captive customers is subject to ERC approval. In addition, as a result of the Government’s policy to promote free competition and Open Access, distribution utilities are required to provide universal and non-discriminatory access into their systems within their respective franchise areas following commencement of retail Open Access.

## **The Supply Sector**

The supply of electricity refers to the sale of electricity directly to end-users or Contestable Customers. The supply of electricity to the Contestable Market is not considered a public utility operation and will not require a legislative franchise, although it is considered a business affected with public interest. As such, the EPIRA requires all suppliers of electricity to the Contestable Market to obtain a license from the ERC in accordance with the ERC’s rules and regulations.

Retail Competition and Open Access (“RCOA”) started on 26 June 2013. Since then, Contestable Customers (end-users with demand above the 1MW threshold) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. By June 2017, the threshold was intended to be dropped to 750kW per hour to allow more establishments to benefit from competition among power producers. However, as discussed in further detail below, by virtue of a Temporary Restraining Order (“TRO”) issued by the lowering of the threshold to 750kW is suspended pending resolution of the case filed before the Supreme Court.

## **Role of the ERC**

With a view towards the establishment of a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market, the ERC was created pursuant to the EPIRA as an independent quasi-judicial body charged with regulating the electric power industry. The ERC replaced the former Energy Regulatory Board, and plays a critical role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

1. to determine, fix and approve, after conducting public hearings, transmission and distribution and wheeling charges, and retail rates, and to fix and regulate the rates and charges to be imposed by distribution utilities and their captive End-users, including self-generating entities;
2. to grant, revoke, review or modify the CPCNs, COCs required of generation companies and the licenses required of suppliers of electricity in the Contestable Market;
3. to enforce a Grid Code and a Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;

4. to enforce the rules and regulations governing the operations of the WESM, the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;
5. to ensure that the electric power industry participants and NPC functionally and structurally unbundle their respective business activities and rates and to determine the levels of cross-subsidies in the existing retail rates until the same is removed in accordance with the different sectors;
6. to set a lifeline rate for marginalized end-users;
7. to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
8. to determine the electricity end-users comprising the Contestable and Captive Markets;
9. to fix user fees to be charged by Transco for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
10. to monitor and adopt measures to discourage/penalize abuse of market power, cartelization and any anti-competitive or discriminatory behavior by any electric power industry participant;
11. to review and approve the terms and conditions of service of Transco or any distribution utility or any changes therein;
12. perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry;
13. have the original and exclusive jurisdiction over all cases contesting rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy sector relating to the foregoing powers, functions and responsibilities;
14. act on applications for cost recovery and return on Demand-Side Management projects;
15. verify the reasonable amounts and determine the manner and duration for the full recovery of stranded debts and stranded contract costs of NPC and the distribution utilities; and
16. handle consumer complaints and ensure promotion of consumer interests.

### **Role of the DOE**

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

1. Prepare and update annually the Philippine Energy Plan and the Philippine Power Development Program, and thereafter, integrate the latter into the former;
2. ensure the reliability, quality and security of supply of electric power;
3. exercise supervision and control over all government activities pertaining to energy projects;
4. encourage private investments in the electricity sector and promote the development of indigenous and renewable energy sources for power generation;
5. facilitate reforms in the structure and operations of distribution utilities for greater efficiency and lower costs;
6. promote incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
7. educate the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
8. establish the WESM in cooperation with electric power industry participants, and to formulate rules governing its operations.

### **Role of the Joint Congressional Power Commission**

The Joint Congressional Power Commission created pursuant to the EPIRA consists of fourteen (14) members selected from the members of the Philippine Senate and the House of Representatives. Its responsibilities and functions include, among others, the following:

1. Set the guidelines and overall framework to monitor and ensure the proper implementation of the EPIRA;
2. Endorse the PSALM initial privatization plan for approval by the President of the Philippines;

3. Ensure transparency, require the submission of reports from government agencies concerned on the conduct of public bidding procedures regarding privatization of NPC's generation and transmission assets;
4. Review and evaluate the adherence of industry participants to the objectives and timelines under the EPIRA;
5. Submit periodic reports to the President of the Philippines and Congress; and
6. Recommend necessary remedial legislation or executive measures to correct the inherent weaknesses in the EPIRA.

### **Role of PEZA**

The PEZA was created under Section 11 of Republic Act No. 7916, otherwise known as "The Special Economic Zone Act of 1995" (the "PEZA Act"). "Ecozones" or "Special Economic Zones" refer to selected areas with highly developed or which have the potential to be developed into agro-industrial, industrial, tourist, recreational, commercial, banking, investment and financial centers whose metes and bounds are fixed or delimited by Presidential Proclamations. An Ecozone may contain any or all of the following: industrial estates, export processing zones, free trade zones and tourist/recreational centers. PEZA has authority over "Ecozone Utilities Enterprises" which refers to business entities within an Ecozone that is duly registered with and/or franchised/licensed by PEZA to act as contractors/operators of light and power systems, water supply and distribution systems, communications and transportation systems within an Ecozone and other similar or ancillary activities as may be determined by PEZA's board of directors. Ecozone Utilities Enterprises are entitled to the following incentives: (a) exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5.0% on gross income; (b) additional deductions for training expenses; (c) incentives provided under R.A. 6957 as amended by R.A. 7718, otherwise known as the Build Operate and Transfer Law, subject to such conditions as may be prescribed by PEZA's board; and (d) other incentives available under the Omnibus Investments Code of 1987.

Section 12 (c) of the PEZA Act grants PEZA's board the power to regulate and undertake the establishment, operation and maintenance of utilities in an Ecozone and to fix just, reasonable and competitive rates therefor. With the subsequent enactment of the EPIRA, the ERC was vested with the power to regulate the distribution of electricity and to oversee generation companies.

On 11 March 2004, the ERC and PEZA entered into a Memorandum of Agreement and agreed to cooperate and coordinate efforts to oversee the operations of power generation and distribution utilities within Ecozones. The agreement provides that PEZA must register all new generation utilities enterprises for power to be supplied exclusively to economic zone locator enterprises operating within Ecozones as well as self-generation facilities of economic zone locator enterprises, and endorse the same to the ERC for the issuance of the required COC. Existing power generation utilities, including entities with self-generation facilities, must apply for the issuance of a COC with the ERC. PEZA-registered power generation utilities enterprises and economic zone locator enterprises that own generation facilities are required to comply with the same technical, financial and environmental requirements and/or standards of the Philippine Grid Code and the Philippine Distribution Code.

In a memorandum by the Department of Justice to the Office of the President dated 5 February 2007, the Secretary of Justice opined that the repealing clause of the EPIRA did not repeal Section 12 (c) of the PEZA Act, which grants PEZA the power to regulate and undertake the establishment, operation and maintenance of utilities, other services and infrastructure in Ecozones and to fix rates therefor. However, it has been opined that the repealing clause clearly refers to Section 12 (c) considering that the provision repealed by the EPIRA does not have a paragraph (c). However, the EPIRA did expressly repeal Section 5(f) of Republic Act No. 7227, the Bases Conversion and Development Act of 1992, which provides that the Bases Conversion and Development Authority (whose operating and implementing arm is the SBMA) is vested with the power to construct, own, lease, operate and maintain public utilities as well as infrastructure facilities within former U.S. military bases in the Philippines which includes the SBFZ.

## COMPETITIVE MARKET DEVICES

### Wholesale Electricity Spot Market

A significant change introduced by the EPIRA is the organization and establishment of the WESM. The WESM shall provide a venue whereby generators may sell power, and at the same time suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two. The WESM will also provide a venue for establishing merit order dispatch for generation companies whether or not they have bilateral contracts.

The EPIRA mandates the DOE to establish the WESM within one (1) year from its effectivity and directs the DOE and the electric power industry participants to formulate detailed rules therefor. In June 2002, the DOE, in cooperation with electric power industry participants, promulgated detailed rules for the WESM. These rules provide a mechanism to set electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On 18 November 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising of an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM. The PEMC was tasked to undertake the preparatory work for the establishment of the WESM pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules.

### ***WESM in Luzon, Visayas, and Mindanao***

The WESM in Luzon started its commercial operations on 26 June 2006, while WESM in Visayas started on 26 December 2010. The WESM has been operating ever since with the following framework:

1. Bid-based
2. Gross pool
3. Net settlements
4. One-hour intervals
5. Locational marginal price
6. Mandatory market

Under DOE's draft Department Circular, "Declaring the Launch of the WESM in Mindanao and Providing for Transition Arrangements," the initial target launch of the WESM in Mindanao was 26 June 2017, subject to the fulfillment of the following criteria:

1. All systems and procedures including all interfaces with the participants and service providers necessary for the operation of the WESM in the Mindanao grid are in place and pursuant with the requirements set under the WESM Rules;
2. The Trial Operations Program was implemented successfully commencing on 26 February 2017 with the System Operator and on 26 March 2017 with the Market Participants;
3. The forecasting, scheduling, dispatch, pricing, metering, and settlement processes of the WESM are fully operational in the Mindanao grid;
4. Training programs shall have been conducted for the WESM Mindanao Trading Participants;
5. The price determination methodology for the enhanced WESM design has been approved by the ERC and duly published; and
6. The Market Dispatch Optimization Model has been certified as compliant with the WESM Rules by an independent auditor.

The DOE conducted consultations until March 2017 with WESM in Mindanao for its initial launch on 26 June 2017. However, the DOE encountered difficulties and is expected to launch the WESM in Mindanao before the end of 2018.

The WESM is guided by the WESM Rules and Manuals, where any change is duly approved by the DOE. The Price Determination Methodology, meanwhile, goes through the ERC approval process.

### ***Interim Mindanao Electricity Market (IMEM)***

The DOE issued Department Circular No. 2013-05-0008 “Promulgating the Interim Mindanao Electricity Market Implementing Rules”. Correspondingly, DOE also issued DC No. 2013-09-0020 approving pertinent IMEM Manuals.

The IMEM has the following features:

1. Day-ahead pricing and scheduling;
2. Zonal pricing
3. IMEM is for available resource capacity after taking out bilateral contract quantities
4. In-Day Market is for imbalances or deviation from day-ahead schedules only
5. Deviations from day-ahead schedule will be subject to penalties and incentives

The IMEM started on 03 December 2013 and the first IMEM billing period ended on 25 December 2013. The first IMEM billing period has not been fully settled and succeeding billing periods were still not billed by PEMC.

The implementation of IMEM was suspended in early 2014.

### ***Open Access and Retail Competition***

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

1. Establishment of the WESM;
2. Approval of unbundled transmission and distribution wheeling charges;
3. Initial implementation of the cross subsidy removal scheme;
4. Privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
5. 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 provision, 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 RES license from the ERC.

### ***Commencement of Open Access***

In June 2011, ERC declared 26 December 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 26 December 2012. Open Access commercial operations under an interim development system have been implemented starting 26 June 2013.

The implementation of Open Access enabled Aboitiz Power to increase its contracted capacity through the delivery of power to affiliate and non-affiliate RES companies. Aboitiz Power has two wholly owned subsidiaries, Aboitiz Energy Solutions, Inc. and Advent Energy, Inc., that are licensed Retail Electricity Suppliers (“RES”). Open Access allowed Aboitiz Energy Solutions, Inc. and Advent Energy, Inc. to enter into contracts with eligible contestable customers. Moreover, Open Access facilitated Aboitiz Power to contract with other RES companies.



### ***ERC Resolution No. 22 Series of 2013***

ERC issued revised licensing regulation for RES companies operating in the Retail Supply Segment on 25 November 2013. Items amended include the following:

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

Since Resolution 22 Series of 2013 limits the retail suppliers and creates non-assurance of renewal of RES license for existing retailers, the Retail Electricity Suppliers Association (RESA) challenged its legality at the Pasig RTC. The Supreme Court, however, enjoined the hearing of the case and allowed the DOE and ERC to implement the Resolution.

The ERC subsequently mandated Contestable Customers to enter into a RES supply contract with a RES by 26 December 2016 or be meted a penalty of either disconnection or payment of a 10% premium on their contract price or the WESM price, whichever is higher. The deadline was later extended to 27 February 2017.

On 21 February 2017, or six (6) days before the extended deadline, the Supreme Court issued a TRO which in effect suspended the deadline for the mandatory migration. On November 29, 2017, the DOE issued Department Circular No. DC 2017-12-0013 on 29 November 2017 which provides for policies on the implementation of RCOA for Contestable Consumers in the Philippine Electric Power Industry. Bayan Muna has filed an intervention in the Supreme Court, seeking to clarify whether the TRO covered portions of Department Circular No. DC 2017-12-0013.

### ***Reserve Market***

The DOE issued Department Circular No. DC2013-12-0027, "Declaring the Commercial Launch for the Trading of Ancillary Service in Luzon and Visayas under the Philippine Wholesale Electricity Spot Market" dated 2 December 2013. The said Department Circular sets the responsibility of the Philippine Electricity Market Corporation (PEMC), NGCP, NEA and all WESM Members with regard to the operation of the Reserve Market.

The trial operations started on 26 February 2014, and PEMC is still reviewing its results before certifying market readiness. The Pricing and Cost Recovery Mechanism of the Reserve Market is still under review by the ERC under ERC Case # 2007-004RC.

On 26 March 2014, the DOE declared the commercial launch date of the Reserve Market on 26 May 2014, subject to the approval by the ERC. It also directed the implementation of the Central Scheduling and Dispatch of Energy and Contracted Reserves which aims to provide better monitoring of all available generation capacity in both energy and reserve and provide more preparations to the participants for the eventual commercial operation of the Reserve Market. The launch was deferred pending regulatory approval.

On 2 December 2014, the DOE approved the adoption of the Protocol for the Central Scheduling and Dispatch of Energy and Contracted Reserves as well as the WESM Market Manual on the Protocol. The implementation of the Protocol shall immediately cease upon the commercial operation of the Reserve Market or upon declaration of its cessation by the DOE.

On 12 November 2015, the DOE declared the commercial operation of the Central Scheduling and Dispatch of Energy and Contracted Reserves in the WESM.

### ***Unbundling of Rates and Removal of Subsidies***

The EPIRA mandates that generation, distribution and wheeling charges be unbundled from retail rates and that rates reflect the respective costs of providing each service. The EPIRA also states that cross-subsidies shall be phased out within a period not exceeding three (3) years from the establishment by the ERC of a universal charge, which shall be collected from all electricity end-users. However, the ERC may extend the period for the removal of the cross-subsidies for a maximum of one (1) year if it determines there will be material adverse effect upon the public interest or an immediate, irreparable, and adverse financial effect on a distribution utility.

These arrangements are now in place, in satisfaction of the conditions for open access and retail competition.

The EPIRA likewise provides for a socialized pricing mechanism called a lifeline rate to be set by the ERC for low-income, captive electricity consumers who cannot afford to pay the full cost of electricity. These end-users will be exempt from the cross-subsidy removal for a period of ten years, unless extended by law.

### ***Implementation of PBR***

On 13 December 2006, the ERC issued the Rules for Setting Distribution Wheeling Rates for privately-owned distribution utilities entering PBR for the second and later entry points, setting out the manner in which this new PBR rate-setting mechanism for distribution-related charges will be implemented. PBR replaces the RORB mechanism which has historically determined the distribution charges paid by customers. Under PBR, the distribution-related charges that distribution utilities can collect from customers over a four-year regulatory period is set by reference to projected revenues which are reviewed and approved by the ERC and used by the ERC to determine the distribution utility's efficiency factor. For each year during the regulatory period, the distribution utility's distribution-related charges are adjusted upwards or downwards taking into consideration the utility's efficiency factor as against changes in overall consumer prices in the Philippines.

The ERC has also implemented a PIS whereby annual rate adjustments under PBR will take into consideration the ability of a distribution utility to meet or exceed service performance targets set by the ERC, such as the: (i) average duration of power outages, (ii) average time of restoration to customers and (iii) average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

Cotabato Light's 2nd Regulatory Period ended on 31 March 2013. A reset process should have been initiated eighteen (18) months prior to the start of the 3rd Regulatory Period covering 1 April 2013 to 31 March 2017. The reset process, however, has been delayed due to the issuance of an Issues Paper on the Implementation of PBR for Distribution Utilities under the RDWR by the ERC in 2013. This paper aims 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.

In March 2013, VECO and Davao Light filed their rate translation application for the fourth regulatory year from July 1, 2013 to June 30, 2014. The ERC set the distribution, supply and metering charges of Davao Light and VECO in its Decisions dated 24 June 2013. In the case of VECO, since its implementation of the rate translation in the third regulatory year was delayed by five months, recovery for the under-recovery was included in its MAP recalculation for the fourth regulatory year. A motion for reconsideration was filed by VECO on 26 July 2013 for the ERC to amend its rate design to fully achieve the correct Annual Revenue Requirement for the fourth regulatory year. The said motion was decided upon by the ERC in an Order dated 9 December 2013 (docketed January 16, 2014) modifying the approved rates in the previous Decision. The under-recoveries arising therefrom may be recovered in the next rate filing under the K-factor (correction factor) of the Maximum Average Price formula.

For SEZ's and SFELAPCO's second regulatory year covering 1 October 2012 to 30 September 2013, SEZ was able to implement the new rate schedule in January 2013 while SFELAPCO's implementation began in April 2013. Consequently, the resulting under-recoveries from the lag starting from 1 October 2012 were included by SFELAPCO and SEZC as under-recoveries in its rate filings in the third regulatory year. The said applications are under the ERC's review as of year-end 2013. SEZC and SFELAPCO entered its fourth regulatory year on 1 October 2014.

### ***Competitive Selection Process***

On October 20, 2015, the ERC issued ERC Resolution No. 13, series of 2015 ("**ERC CSP Rules**") which required all distribution utilities to conduct a competitive selection process ("**CSP**") prior to entering into a Power Supply Agreement ("**PSA**") with a generation company. A PSA may only be entered into by direct negotiation if the CSP fails twice. The ERC CSP Rules stated that the CSP requirement would not apply to PSAs already filed with the ERC for approval as of the effectivity of the ERC CSP Rules. For PSAs which were already executed but were not yet filed with the ERC, and those that were still in the process of negotiation during the time of the effectivity of the ERC CSP Rules, the relevant distribution utility already had to comply with the CSP requirement before its PSA application would be accepted by the ERC. The ERC CSP Rules took immediate effect following its publication on November 6, 2015.

Subsequently, the ERC issued ERC Resolution No. 1, series of 2016 which extended the date of the effectivity of the CSP requirement to April 30, 2016. It further stated that all PSAs executed on or after said date would be required, without exception, to comply with the provisions of the ERC CSP Rules. There is a case pending before the Supreme Court challenging the validity of ERC Resolution No. 1, series of 2016.

## **REDUCTION OF TAXES AND ROYALTIES ON INDIGENOUS ENERGY RESOURCES**

To equalize prices between imported and indigenous fuels, the EPIRA mandates the President of the Philippines to reduce the royalties, returns and taxes collected for the exploitation of all indigenous sources of energy, including but not limited to, natural gas and geothermal steam, so as to effect parity of tax treatment with the existing rates for imported coal, crude oil, bunker fuel and other imported fuels. Following the promulgation of the implementing rules and regulations, President Arroyo enacted Executive Order No. 100 to equalize the taxes among fuels used for power generation. This mechanism, however, is yet to be implemented.

## **GOVERNMENT APPROVAL PROCESS**

As set forth in the EPIRA, power generation is not considered a public utility operation. Thus, an entity engaged or intending to engage in the generation of electricity is not being required to secure a franchise. However, no person or entity may engage in the generation of electricity unless such person or entity has complied with the standards, requirements and other terms and conditions set by the ERC and has received a COC from the ERC to operate facilities used in the generation of electricity. A COC is valid for a period of five years from the date of issuance.

In addition to the COC requirement, a generation company must comply with technical, financial and environmental standards. A generation company must ensure that all its facilities connected to the grid meet the technical design and operational criteria of the Grid Code and Distribution Code promulgated by the ERC. In this connection, the ERC has issued "Guidelines for the Financial Standards of Generation Companies," which sets the minimum financial capability standards for generation companies. Under the guidelines, a generation company is required to meet a minimum annual interest cover ratio or debt service coverage ratio of 1.5x throughout the period covered by its COC. For COC applications and renewals, the guidelines require the submission to the ERC of, among other things, comparative audited financial statements, a schedule of liabilities, and a five-year financial plan. For the duration of the COC, the guidelines also require a generation company to submit to the ERC audited financial statements and forecast financial statements for the next two fiscal years, among other documents. The failure by a generation company to submit the requirements prescribed by the guidelines may be a ground for the imposition of fines and penalties.

In the course of developing a power plant, other permits, approvals and consents must also be obtained from relevant national, provincial and local government authorities, relating to, among others, site acquisition, construction, operation, including environmental licenses and permits. See the section entitled “*Environmental Laws*” below.

Retail rates charged by Retail Suppliers to Contestable Customers will not require ERC approval, only the retail rates charged by Distribution Utilities to their Captive Customers will be subject to the approval of ERC.

## **ENVIRONMENTAL LAWS**

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an ECC prior to commencement. The Department of Environment and Natural Resources, through its regional offices or through the Environmental Management Bureau, determines whether a project is environmentally critical or located in an environmentally critical area. As a requisite for the issuance of an Environmental Compliance Certificate (“**ECC**”), an environmentally critical project is required to submit an Environmental Impact Statement (“**EIS**”) to the Environmental Management Bureau while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination to the proper Department of Environment and Natural Resources regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory.

The EIS refers to both the document and the study of a project’s environmental impact, including a discussion of the direct and indirect consequences to human welfare and ecological as well as environmental integrity. The Initial Environmental Examination refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas.

While the terms and conditions of an EIS or an Initial Environmental Examination may vary from project to project, as a minimum, it contains all relevant information regarding the project’s environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved Environmental Management Plan in the EIS or, if an Initial Environmental Examination was required, that it shall comply with the mitigation measures provided therein.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the Department of Environment and Natural Resources to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are required to include a commitment to establish an Environmental Monitoring Fund when an ECC is eventually issued. In any case, the establishment of an Environmental Monitoring Fund must not be later than the initial construction phase of the project. The Environmental Monitoring Fund shall be used to support the activities of a multi-partite monitoring team which will be organized to monitor compliance with the ECC and applicable laws, rules and regulations.

## **RENEWABLE ENERGY ACT OF 2008**

Republic Act No. 9513, otherwise known as the Renewable Energy Act of 2008 (the “**RE Law**”) was approved in 2008. The RE Law provides for the acceleration and development of renewable resources. It aims to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of Aboitiz Power.

The RE Law became effective on 31 January 2009. The RE Law stipulates the acceleration and development of renewable resources. Its policy is to increase the utilization of renewable energy which will provide enhanced market and business opportunities for the renewable energy generation subsidiaries of AbotizPower.

DOE Department Circular No. 2009-05-0008, or the Rules and Regulations Implementing Republic Act No. 9513, was issued on 25 May 2009. However, to fully implement the RE Law, the Renewable Portfolio Standards, the RE Market and the changes in the WESM Rules for intermittent generation should still be implemented.

## FINANCIAL AND OTHER INFORMATION

1. Audited Financial Statements for the fiscal year ended 31 December 2017, **Annex A**
2. 17-Q Report for the quarter ended 30 June 2018, **Annex B**
3. Audited Financial Statements for the fiscal year ended 31 December 2017 of Davao Light and Power Company, Inc., **Annex C**