



## **ABOITIZ POWER CORPORATION**

Interim Unaudited Financial Statements  
with Management Discussion and Analysis  
for the First Quarter of 2018

## Management's Discussion and Analysis of Financial Condition and Results of Operations.

*The following discussion and analysis of Aboitiz Power Corporation's (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.*

### 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 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.

The table below shows the comparative figures of the top five key performance indicators for the first three (3) months of 2018 and 2017, and as of December 31, 2017:

	MAR 2018	MAR 2017	DEC 2017
SHARE IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES	1,047,149	1,342,004	
EBITDA	11,910,428	10,716,403	
CASH FLOW GENERATED:			
Net cash flows from operating activities	5,153,588	7,288,596	
Net cash flows used in investing activities	(2,290,609)	(2,901,537)	
Net cash flows from (used in) financing activities	5,545,651	(5,723,843)	
Net increase (decrease) in cash & cash equivalents	8,408,630	(1,336,784)	
Cash & cash equivalents, beginning	35,699,631	47,094,741	
Cash & cash equivalents, end	44,329,525	45,738,582	
CURRENT RATIO	1.34		1.38
DEBT-TO-EQUITY RATIO	2.25		1.92

The Company's Share in net earnings of associates and joint ventures decreased by 22% compared to the same quarter in 2017. This was primarily due to lower contributions from SN Aboitiz Power-Magat, Inc. (SN Aboitiz Power-Magat) and SN Aboitiz Power – Benguet, Inc. (SN Aboitiz Power-Benguet) as both companies experienced lower hydrology during the first quarter of this year compared to same period last year, resulting in lower revenues for the first quarter of 2018.

Consolidated EBITDA grew by 11% year-on-year (YoY) as EBITDA contributions were recognized from the newly-operating Unit 3 of Pagbilao Energy Corporation (PEC), higher EBITDA from GNPowder-Mariveles Coal Plant Ltd. Co (GMCP) as a result of higher plant availability, and higher contracting levels at our retail electricity suppliers. These gains were partially offset by lower EBITDA from the Company's hydro units due to lower hydrology.

Proceeds from financing activities, as well as cash from operations, during the first quarter of 2018 led to an increase in Cash and Cash Equivalents.

The change in the Current Ratio, from 1.38x at the end of 2017 to 1.34 x at the end of the first quarter of 2018, was driven by a 26% increase in current liabilities compared to a 22% increase in current assets. The increase in current liabilities was mainly from higher trade and other payables, as the Company recognized dividends payable after the Company's Board of Directors approved the declaration of cash dividends in March 2018.

An increase in total liabilities coupled by a decrease in total equity led to movement of debt-to-equity ratio from 1.92 as of December 31, 2016 to 2.25 as of March 31, 2018.

## Results of Operations

During the first quarter of 2018 the Company recorded a 9% YoY decrease in its consolidated net income, from ₱4.37 billion (bn) to ₱3.97 bn. The Company recognized non-recurring foreign exchange losses on the revaluation of dollar denominated liabilities amounting to ₱1.19 bn (versus a non-

recurring loss of ₱577 million (mn) during the first quarter of 2017) due to movement in the peso-dollar exchange rate during the first quarter of 2018. Without the one-off adjustments, AboitizPower's core net income for the period totaled 5.17 bn, 4% higher YoY. The Company also recorded an 11% YoY increase in EBITDA for the first quarter of 2018, from ₱10.72 bn to ₱11.91 bn.

## Results of Operations

### *Power Generation and Retail Electricity Supply*

Fresh EBITDA from PEC's newly-operating 400-MW Pagbilao Unit 3, increase in EBITDA from GMCP due to higher plant availability, and higher contracting levels of its retail electricity suppliers, offset by lower EBITDA from the Company's hydro units due to lower hydrology, led to a ₱10.1 bn EBITDA from the Company's generation and retail electricity supply business. This was a 12% increase from the same period last year. After taking into account interest, depreciation and taxes, core net income at the end of the first quarter 2018 was ₱4.56 bn, which is 2% higher than the same period in 2017. Due to foreign exchange losses recognized on the restatement of dollar-denominated debt, non-recurring losses amounted to ₱715 mn during this period (versus last year's non-recurring loss of ₱307 mn) brought the generation and retail electricity supply net income contribution to ₱3.84 bn, which was 7% lower than the same period in 2017.

For the period in review, AboitizPower's capacity sold increased by 22% YoY as compared to the same period in 2017, from 2,630 megawatts (MW) to 3,215 MW, primarily driven by the new capacity of PEC and an increase in the number of power supply contracts in place.

### *Power Distribution*

Consolidated EBITDA for first quarter 2018 for the power distribution business was ₱1.84 bn, up 4% from the same period in 2017. Higher electricity sales across all customer segments drove the increase in EBITDA. Net income contribution increased by 9% compared to the same period in 2017, from ₱908 mn to ₱992 mn.

As a result of the lag in the recovery of purchased power costs, the power distribution business' gross margin remained flat from 2017's ₱1.59 per kWh.

AboitizPower's attributable sales in the distribution utilities group for the first quarter of 2018 was 1,298 gigawatt-hours (GWh), a 7% increase from the same period in 2017.

## 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 ₱3.97 bn are shown below:

Consolidated Net Income Attributable to Equity Holders of the Parent (January – March 2017)	<u>₱4,373,273</u>
Increase in operating revenues	2,076,725
Increase in operating expenses	-1,167,827
Decrease in interest income	-179,214
Decrease in interest expense	22,009
Decrease in share in net earnings of associates and joint ventures	-294,855

Increase in other expenses	-592,268
Lower provision for taxes	5,626
Increase in income attributable to non-controlling interests	-268,742
Total	<u>-398,546</u>
Consolidated Net Income Attributable to Equity Holders of the Parent (January – March 2018)	<u><u>₱3,974,727</u></u>

### **Operating Revenues**

*(8% increase from ₱26.79 bn to ₱28.87 bn)*

Operating revenues increased by ₱2.08 bn, mainly from higher revenues at the retail electricity supply companies of the Group coming from a combination of higher indices and higher contracting levels this period versus the same period in 2017.

Operating revenues for the distribution utilities also increased by 3%, as higher electricity sales across all customer segments was noted during the first quarter of 2018.

### **Operating Expenses**

*(6% increase from ₱19.54 bn to ₱20.70 bn)*

As PEC started operating its 400-MW Pagbilao Unit 3 during the first quarter of 2018, operating expenses recognized by the Group correspondingly increased. Higher cost of fuel and maintenance expenses also increased the operating expenses of various power generating plants, particularly Therma Luzon, Inc. (TLI), Therma South, Inc. (TSI), and AP Renewables, Inc. (APRI).

### **Interest Income**

*(49% decrease from ₱369 mn to ₱189 mn)*

Decrease is mainly due lower interest income recognized at certain subsidiaries due to lower average cash balances during the quarter in review.

### **Interest Expense and Other Financing Costs**

*(1% decrease from ₱2.89 bn to ₱2.86 bn)*

The decrease is from lower interest expenses at GMCP, due to lower interest rates on its refinanced loan.

### **Share in Net Earnings of Associates and Joint Ventures**

*(22% decrease from ₱1.34 bn to ₱1.05 bn)*

Lower hydrology during the first quarter of 2018 as compared to the first quarter of 2017, led to lower contributions from the two large hydroelectric power plants, SN AboitizPower - Magat and SN AboitizPower-Benguet.

### **Other Income (Expenses) - net**

*(175% increase in other expenses from ₱338 mn to ₱930 mn)*

Recognition of higher non-recurring foreign exchange losses for this period versus the same period 2017, mainly following the revaluation of dollar-denominated liabilities, led to the increase in other expenses.

### **Provision for Income Tax**

*(1% decrease from ₱982 mn to ₱977 mn)*

Lower provision for taxes taken up during this period by TLI, offset by new provisions taken up at PEC, led to the net decrease in this account.

### **Net Income Attributable to Non-controlling Interests**

*(69% increase from ₱387 mn to ₱656 mn)*

Higher income contributions from GMCP due to the plants higher availability during the period in review 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 14% during the first quarter of 2018 compared to the same period in 2017, mainly due to cumulative translation adjustments.

### **Changes in Registrant's Resources, Liabilities and Shareholders' Equity**

#### **Assets**

Total assets (as of March 31, 2018 vs. December 31, 2017) increased by 4% or ₱14.07 bn. The major movements of the accounts leading to the increase are discussed below:

- a) Cash and cash equivalents increased by 24% or by ₱8.63 bn during the first quarter of 2018. Cash generated from operations continue to provide significant liquidity for the Company, but the main driver to the increase in cash balances as of the end of first quarter of 2018 to the proceeds from GMCP's long term debt.
- b) Trade and other receivables increased by 12% (from ₱17.36 bn in 2017 to ₱19.53 bn in March 2018), due to higher trade and other receivable balances at GMCP as well as the recognition of dividends receivable from certain associates at the end of the quarter.
- c) Inventories decreased by 8% (from ₱5.64 bn at end 2017 to ₱5.18 bn in March 2018) as lower inventory balances at quarter-end 2018 were noted at the Company's thermal plants.
- d) As power plants reach the end of construction and approach commercial operations, Value Added Tax (VAT) input previously classified as other non-current assets are now classified as other current assets because these assets are expected to be used within the next twelve (12) months. This led to the increase in other current assets by 50%.
- e) The increase in the derivative assets by 40% or ₱135 mn (both current and non-current) in the first three months of 2018 was driven by fair value changes.
- f) Deferred tax assets increased by 24% as of quarter-end 2018, as the deferred tax benefits arising from unrealized foreign exchange losses were recorded during the current period.
- g) Other non-current assets decreased by 41% as of quarter-end 2018, as a result of the movement of VAT input previously classified as other non-current assets to the other current asset account.

#### **Liabilities**

Consolidated liabilities increased by 9%, from ₱237.50 bn as of December 31, 2017 to ₱259.94 bn as of March 31, 2018.

- a) Short term loans increased by 27% or ₱ 1.26 bn, mainly from higher short-term debt incurred by the distribution utilities to meet working capital requirements.

- b) The increase in trade and other payables by 51% or P10.18 bn resulted from the recognition of dividends payable after the Company's Board of Directors approved the declaration of cash dividends in March 2018.
- c) Long-term debt (current and non-current) increased by P10.52 bn (from P152.05 bn at end-2017 to P162.57 bn as of March 31, 2018). The increase was driven by GMCP's refinanced loan as well as the increase brought about by the revaluation on its dollar denominated debt. PEC also drew down on its project debt. The increase in the long-term debt account is net of the decrease of Therma Power, Inc. (TPI) debt as it made a pre-payment on its loan during the period, as well as of timely payments on other loan obligations.
- d) Derivative liabilities (current) decreased by 99% (from P48 mn as of end-2017 to P400,000 as of March 31, 2018) due to unrealized mark-to-market changes recognized on outstanding hedging instruments during the current period.
- e) Income tax payable increased by 79% mainly from higher provision for taxes at the Company's distribution utilities, as well as the recognition of pre-operating taxable obligations at PEC.
- f) Other non-current liabilities decreased by 100% during the first period of 2018, as non-current obligations to suppliers were settled during the period.

### **Equity**

Equity attributable to equity shareholders of the Parent decreased by 5% (from P115.40 bn at year-end 2017 to P110.19 bn at the end of the first quarter of 2018) after the declaration of dividends in March 2018, but net of income recognized during that period.

### **Material Changes in Liquidity and Cash Reserves of Registrant**

The Group continues to realize significant amount of cash generated from operations, which brought in P5.15 bn in the first three (3) months of 2018. As funds were deployed to support working capital requirements the cash generated from operations for the first quarter of 2018 was approximately P2.14 bn less compared to the same period in 2017.

The bulk of the Group's net cash used in investing activities, totaling P2.29 bn for the first quarter of 2018, continue to be spent on capital expenditure as the construction for various power plants are underway. Because these projects reach the tail end of their construction activities, the cash outflows for these activities were lesser than the previous periods.

For the first quarter of 2018, the cash flows from financing activities brought in P5.55 bn, a marked contrast from the cash flows used in financing activities at P5.72 bn for the same period last year. This includes the proceeds of GMCP's refinancing and, PEC's drawdown on project debt, as well as other project debt drawdowns for other plants that are under construction.

As of March 31, 2018, the Group's cash and cash equivalents increased by 24%, from P35.70 bn as of year-end 2017 to P44.33 bn.

### **Financial Ratios**

Current liabilities, mainly as a result of the recognition of dividends payable, increased by 26% versus the increase in current assets of 22%. These factors led to the change in current ratio from 1.38x as of December 31, 2017 to 1.34x as of the end of the first quarter 2018.

Consolidated debt to equity ratio was at 2.25x as of March 31, 2018 (versus year end 2017's 1.92x). The change is mainly due to the 9% increase in consolidated debt versus the 7% decrease in equity during the first quarter of 2018.

# Aboitiz Power Corporation and Subsidiaries

Unaudited Consolidated Financial Statements

As of March 31, 2018 (with Comparative Figures as of December 31, 2017) and  
For the Three-Month Period Ended March 31, 2018 and 2017



**ABOITIZ POWER CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Amounts in Thousands)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	₱44,329,525	₱35,699,631
Trade and other receivables	19,528,377	17,359,828
Derivative assets	72,328	228,644
Inventories	5,183,058	5,643,607
Other current assets	13,528,782	9,029,886
<b>Total Current Assets</b>	<b>82,642,070</b>	<b>67,961,596</b>
<b>Noncurrent Assets</b>		
Investments and advances	31,819,495	31,248,595
Property, plant and equipment	206,331,991	204,025,303
Intangible assets	46,420,814	46,344,658
Derivative assets - net of current portion	404,952	113,297
Available-for-sale (AFS) investments - net of allowance for impairment of ₱5,254	102,019	102,999
Net pension assets	56,400	56,400
Deferred income tax assets	1,738,278	1,406,796
Other noncurrent assets	6,032,695	10,217,355
<b>Total Noncurrent Assets</b>	<b>292,906,644</b>	<b>293,515,403</b>
<b>TOTAL ASSETS</b>	<b>₱375,548,714</b>	<b>₱361,476,999</b>

**LIABILITIES AND EQUITY****Current Liabilities**

Short-term loans	₱5,972,300	₱4,717,300
Current portions of:		
Long-term debts	21,375,583	20,692,751
Finance lease obligation	3,316,165	3,316,165
Long-term obligation on power distribution system	40,000	40,000
Derivative liabilities	400	47,577
Trade and other payables	30,031,630	19,852,383
Income tax payable	1,153,929	646,115
<b>Total Current Liabilities</b>	<b>61,890,007</b>	<b>49,312,291</b>

(Forward)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Noncurrent Liabilities</b>		
Noncurrent portions of:		
Long-term debts	₱141,198,070	₱131,360,749
Finance lease obligation	46,181,763	45,909,089
Long-term obligation on power distribution system	192,927	186,071
Customers' deposits	6,181,980	6,094,690
Asset retirement obligation	3,016,153	2,959,060
Net pension liabilities	361,228	361,228
Deferred income tax liabilities	920,393	912,601
Other noncurrent liabilities	–	402,756
<b>Total Noncurrent Liabilities</b>	<b>198,052,514</b>	<b>188,186,244</b>
<b>Total Liabilities</b>	<b>259,942,521</b>	<b>237,498,535</b>
<b>Equity Attributable to Equity Holders of the Parent</b>		
Paid-in capital	19,947,498	19,947,498
Net unrealized losses on AFS investments	(1,606)	(625)
Share in net unrealized valuation gains on AFS investments of an associate	124,121	124,121
Cumulative translation adjustments	712,727	113,637
Share in cumulative translation adjustments of associates and joint ventures	302,248	(144,507)
Actuarial losses on defined benefit plans	(601,605)	(601,461)
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	5,257	4,963
Acquisition of non-controlling interests	(259,147)	(259,147)
Excess of cost over net assets of investments	(421,260)	(421,260)
Loss on dilution	(433,157)	(433,157)
Retained earnings		
Appropriated	34,060,000	34,060,000
Unappropriated	56,752,575	63,006,308
	<b>110,187,651</b>	<b>115,396,370</b>
<b>Non-controlling Interests</b>	<b>5,418,542</b>	<b>8,582,094</b>
<b>Total Equity</b>	<b>115,606,193</b>	<b>123,978,464</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱375,548,714</b>	<b>₱361,476,999</b>

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

(Amounts in Thousands, Except Earnings Per Share Amounts)

(Unaudited)

	For the three months ended March 31	
	2018	2017
<b>OPERATING REVENUES</b>	<b>₱28,868,315</b>	<b>₱26,791,590</b>
<b>OPERATING EXPENSES</b>	<b>20,703,852</b>	<b>19,536,025</b>
<b>FINANCIAL INCOME (EXPENSES)</b>		
Interest income	189,325	368,539
Interest expense and other financing costs	(2,863,104)	(2,885,113)
	<b>(2,673,779)</b>	<b>(2,516,574)</b>
<b>OTHER INCOME (EXPENSES)</b>		
Share in net earnings of associates and joint ventures	1,047,149	1,342,004
Other income (expenses) - net	(930,333)	(338,065)
	<b>116,816</b>	<b>1,003,939</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>5,607,500</b>	<b>5,742,930</b>
<b>PROVISION FOR INCOME TAX</b>	<b>976,855</b>	<b>982,481</b>
<b>NET INCOME</b>	<b>₱4,630,645</b>	<b>₱4,760,449</b>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the parent	₱3,974,727	₱4,373,273
Non-controlling interests	655,918	387,176
	<b>₱4,630,645</b>	<b>₱4,760,449</b>
<b>Earnings Per Common Share</b>		
Basic and diluted, income for the period attributable to ordinary equity holders of the parent	<b>₱0.54</b>	<b>₱0.59</b>

*See Note H for the computation of Earnings per Common Share*

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

(Amounts in Thousands)

(Unaudited)

For the three months ended March 31

	2018	2017
<b>NET INCOME ATTRIBUTABLE TO:</b>		
Equity holders of the parent	<b>₱3,974,727</b>	₱4,373,273
Non-controlling interests	<b>655,918</b>	387,176
	<b>4,630,645</b>	4,760,449
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:</i>		
Movement in unrealized gain (loss) on AFS investments	<b>(981)</b>	512
Movement in cumulative translation adjustments	<b>755,397</b>	15,723
Share in movement in cumulative translation adjustment of associates and joint ventures	<b>446,755</b>	–
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	<b>1,201,171</b>	16,235
<i>Other comprehensive income (loss) that will not be reclassified to profit or loss in subsequent periods:</i>		
Actuarial gain (losses) on defined benefit plans, net of tax	<b>(144)</b>	33
Share in actuarial gains on defined benefit plans of associates and joint ventures, net of tax	<b>294</b>	–
Net other comprehensive gain (loss) not to be reclassified to profit or loss in subsequent periods	<b>150</b>	33
Total other comprehensive income for the year, net of tax	<b>1,201,321</b>	16,268
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱5,831,966</b>	₱4,776,717
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the parent	<b>₱5,019,741</b>	₱4,389,541
Non-controlling interests	<b>812,225</b>	387,176
	<b>₱5,831,966</b>	₱4,776,717

**ABOITIZ POWER CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE PERIODS ENDED MARCH 31, 2018, DECEMBER 31, 2017, AND MARCH 31, 2017**
**(Amounts in Thousands, Except Dividends Per Share Amounts)**

(Unaudited)

	Attributable to Equity Holders of the Parent													
	Paid-in Capital	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures	Actuarial Gains (Losses) on Defined Benefit Plans	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures	Acquisition of Non-controlling Interests	Excess of cost over net assets of investment	Loss on Dilution	Retained Earnings		Non-controlling Interests	Total
											Appropriated	Unappropriated		
Balances at January 1, 2018	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	3,974,727	655,918	4,630,645
Other comprehensive income	–	(981)	–	599,090	446,755	(144)	294	–	–	–	–	–	156,307	1,201,321
<b>Total comprehensive income (loss)</b>	–	(981)	–	599,090	446,755	(144)	294	–	–	–	–	3,974,727	812,225	5,831,966
Cash dividends - ₱1.39 a share	–	–	–	–	–	–	–	–	–	–	–	(10,228,460)	–	(10,228,460)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(4,434,894)	(4,434,894)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	459,117	459,117
<b>Balances at March 31, 2018</b>	<b>₱19,947,498</b>	<b>(₱1,606)</b>	<b>₱124,121</b>	<b>₱712,727</b>	<b>₱302,248</b>	<b>(₱601,605)</b>	<b>₱5,257</b>	<b>(₱259,147)</b>	<b>(₱421,260)</b>	<b>(₱433,157)</b>	<b>₱34,060,000</b>	<b>₱56,752,575</b>	<b>₱5,418,542</b>	<b>₱115,606,193</b>
Balances at January 1, 2017	₱19,947,498	(₱3,311)	₱114,920	(₱78,232)	(₱128,203)	(₱607,913)	(₱1,878)	(₱259,147)	(₱526,883)	₱–	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220
Net income for the year	–	–	–	–	–	–	–	–	–	–	–	4,373,273	387,176	4,760,449
Other comprehensive income	–	512	–	15,723	–	33	–	–	–	–	–	–	–	16,268
<b>Total comprehensive income (loss)</b>	–	512	–	15,723	–	33	–	–	–	–	–	4,373,273	387,176	4,776,717
Cash dividends - ₱1.36 a share	–	–	–	–	–	–	–	–	–	–	–	(10,007,702)	–	(10,007,702)
Cash dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(446,437)	(446,437)
Change in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(50,727)	(50,727)
<b>Balances at March 31, 2017</b>	<b>₱19,947,498</b>	<b>(₱2,799)</b>	<b>₱114,920</b>	<b>(₱62,509)</b>	<b>(₱128,203)</b>	<b>(₱607,880)</b>	<b>(₱1,878)</b>	<b>(₱259,147)</b>	<b>(₱526,883)</b>	<b>₱–</b>	<b>₱34,060,000</b>	<b>₱46,963,139</b>	<b>₱6,984,813</b>	<b>₱106,481,071</b>

	Attributable to Equity Holders of the Parent													
	Paid-in Capital (Note 20a)	Net Unrealized Loss on AFS Investments	Share in Net Unrealized Valuation Gains on AFS Investments of an Associate (Note 10)	Cumulative Translation Adjustments	Share in Cumulative Translation Adjustments of Associates and Joint Ventures (Note 10)	Actuarial Gains (Losses) on Defined Benefit Plans (Note 27)	Share in Actuarial Gains (Losses) on Defined Benefit Plans of Associates and Joint Ventures (Note 10)	Acquisition of Non- controlling Interests	Excess of cost over net assets of investment (Note 9)	Loss on Dilution	Retained Earnings		Non-controlling Interests	Total
											Appropriated (Note 20b)	Unappropriated (Note 20b)		
Balances at January 1, 2017	₱19,947,498	(₱3,311)	₱114,920	(₱78,232)	(₱128,203)	(₱607,913)	(₱1,878)	(₱259,147)	(₱526,883)	₱-	₱34,060,000	₱52,597,568	₱7,094,801	₱112,209,220
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	20,416,442	2,571,985	22,988,427
Other comprehensive income	-	2,686	9,201	191,869	(16,304)	6,452	6,841	-	-	-	-	-	177,747	378,492
Total comprehensive income (loss) for the year	-	2,686	9,201	191,869	(16,304)	6,452	6,841	-	-	-	-	20,416,442	2,749,732	23,366,919
Reversal of excess of cost over net assets of investments	-	-	-	-	-	-	-	-	105,623	-	-	-	-	105,623
Loss on dilution	-	-	-	-	-	-	-	-	-	(433,157)	-	-	-	(433,157)
Cash dividends - ₱1.36 a share (Note 20b)	-	-	-	-	-	-	-	-	-	-	-	(10,007,702)	-	(10,007,702)
Cash dividends paid to non- controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,281,223)	(1,281,223)
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	18,784	18,784
Balances at December 31, 2017	₱19,947,498	(₱625)	₱124,121	₱113,637	(₱144,507)	(₱601,461)	₱4,963	(₱259,147)	(₱421,260)	(₱433,157)	₱34,060,000	₱63,006,308	₱8,582,094	₱123,978,464

**ABOITIZ POWER CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in Thousands)

(Unaudited)

For the three months ended March 31

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	₱5,607,499	₱5,742,930
Adjustments for:		
Interest expense and other financing costs	2,863,104	2,885,113
Depreciation and amortization	1,970,177	1,808,348
Net unrealized foreign exchange losses	1,491,300	537,136
Unrealized fair valuation loss on derivatives	112,891	171,095
Loss (gain) on disposal of property, plant and equipment	104,573	(585)
Interest income	(189,325)	(368,539)
Share in net earnings of associates and joint ventures	(1,047,149)	(1,342,004)
Operating income before working capital changes	10,913,070	9,433,494
Increase in operating assets	(4,732,571)	(1,495,684)
Increase (decrease) in operating liabilities	277,909	(542,848)
Net cash generated from operations	6,458,408	7,394,962
Income and final taxes paid	(1,304,820)	(106,366)
Net cash flows from operating activities	5,153,588	7,288,596
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Cash dividends received	137,892	781,263
Interest received	178,271	325,305
Proceeds from redemption of shares	80,216	–
Decrease in other noncurrent assets	382,437	368,699
Additions to:		
Property, plant and equipment	(2,812,702)	(4,115,790)
Intangible assets - service concession rights	(25,821)	(10,921)
Additional investments	(230,902)	(250,093)
Net cash flows used in investing activities	(2,290,609)	(2,901,537)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net proceeds from (payments of) long-term debt	9,218,503	(1,887,882)
Net availments of short-term loans	1,255,000	344,900
Payments of finance lease obligation	(2,246,663)	(2,146,679)
Changes in non-controlling interests	(1,109,291)	(446,437)
Interest paid	(1,571,898)	(1,587,745)
Net cash flows from (used in) financing activities	5,545,651	(5,723,843)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,408,630</b>	<b>(1,336,784)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>221,264</b>	<b>(19,374)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>35,699,631</b>	<b>47,094,740</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>₱44,329,525</b>	<b>₱45,738,582</b>

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### CONSOLIDATED FINANCIAL STATEMENTS SCHEDULES AND DISCLOSURES

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

#### A. Tax Effects Relating to Each Component of Other Comprehensive Income

	January - March 2018		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Movement in cumulative translation adjustments	₱755,397	₱–	₱755,397
Share in movement in cumulative translation adjustment of associates and joint ventures	446,755	–	446,755
Share in actuarial gains on defined benefit plans of associates and joint ventures - net of tax	294	–	294
Actuarial gain (losses) on defined benefit plans - net of tax	(144)	–	(144)
Movement in unrealized gain (loss) on AFS investments	(981)	–	(981)
<b>Other comprehensive income for the period – net of tax</b>	<b>₱1,201,321</b>	<b>₱–</b>	<b>₱1,201,321</b>

	January - March 2017		
	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Movement in cumulative translation adjustments	₱15,723	₱–	₱15,723
Actuarial gain (losses) on defined benefit plans - net of tax	33	–	33
Movement in unrealized gain (loss) on AFS investments	512	–	512
<b>Other comprehensive income for the period – net of tax</b>	<b>₱16,268</b>	<b>₱–</b>	<b>₱16,268</b>

#### B. Joint Operations

Name of Joint Operation	Nature of Business	Percentage of Ownership
		March 31, 2018
Pagbilao Energy Corporation (PEC)	Power generation	50.00

\* PEC's principal place of business and country of incorporation is the Philippines;

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

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



### C. Investments and Advances

	March 31, 2018	December 31, 2017
Acquisition cost:		
Balance at beginning of the year	₱28,140,556	₱27,528,339
Additions during the year	230,902	1,499,035
Step acquisition to subsidiary	–	(878,009)
Redemptions during the year	(80,216)	(8,809)
Balance at end of year	<b>28,291,242</b>	28,140,556
Accumulated equity in net earnings:		
Balance at beginning of the year	3,666,971	3,618,877
Share in net earnings	1,047,149	4,697,864
Step acquisition to subsidiary	–	528,697
Dividends received or receivable	(1,073,984)	(5,178,467)
Balance at end of year	<b>3,640,136</b>	3,666,971
Share in net unrealized valuation gains on AFS investment of an associate	124,121	124,121
Share in actuarial gain (loss) on defined benefit plans of associates and joint ventures	5,257	4,963
Share in cumulative translation adjustments of associates and joint ventures	302,248	(144,507)
	<b>431,626</b>	(15,423)
	<b>32,363,004</b>	31,792,104
Less allowance for impairment losses	568,125	568,125
Investments at equity	<b>31,794,879</b>	31,223,979
Advances	24,616	24,616
	<b>₱31,819,495</b>	₱31,248,595

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

	Nature of Business	March 31, 2018
Manila-Oslo Renewable Enterprise, Inc. (MORE) <sup>1</sup>	Holding company	83.33
GNPower Dinginin Ltd. Co. (GNPD)*	Power generation	50.00
Hijos de F. Escaño, Inc. (Hijos)	Holding company	46.73
San Fernando Electric Light & Power Co., Inc. (SFELAPCO)	Power distribution	43.78
Pampanga Energy Ventures, Inc. (PEVI)	Holding company	42.84
La Filipina Elektrika, Inc.*	Power generation	40.00
STEAG State Power, Inc. (STEAG)	Power generation	34.00
AEV Aviation, Inc. (AAI)	Service	26.69
Cebu Energy Development Corporation (CEDC)	Power generation	26.40
Redondo Peninsula Energy, Inc. (RPEI)*	Power generation	25.00
Southern Philippines Power Corporation (SPPC)	Power generation	20.00
Western Mindanao Power Corporation (WMPC)	Power generation	20.00

<sup>1</sup> Joint ventures.

\* No commercial operations as of March 31, 2018.

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

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

	<b>March 31, 2018</b>	December 31, 2017
GNPD	<b>₱12,662,900</b>	₱12,251,529
MORE	<b>9,633,750</b>	9,926,376
STEAG	<b>4,112,630</b>	3,787,507
CEDC	<b>3,231,654</b>	3,019,192
RPEI	<b>710,715</b>	714,191
PEVI	<b>466,515</b>	523,356
SFELAPCO	<b>380,617</b>	365,809
Hijos	<b>235,922</b>	201,337
WMPC	<b>114,299</b>	112,420
SPPC	<b>91,390</b>	86,537
Others	<b>154,487</b>	235,725
	<b>₱31,794,879</b>	₱31,223,979

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#### D. Trade and Other Payables

	<b>March 31, 2018</b>	December 31, 2017
Trade payables	<b>₱7,865,577</b>	₱7,813,066
Dividends payable	<b>10,228,460</b>	–
Others	<b>11,937,593</b>	12,039,317
	<b>₱30,031,630</b>	₱19,852,383

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

Others include nontrade payables, output VAT, amounts due to contractors, accrued taxes and fees, withholding taxes and other accrued expenses and are generally payable within 12 months from the balance sheet date.

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#### E. Short-term Loans

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

## F. Long-term Debts

	Annual Interest Rate	March 31, 2018	December 31, 2017
Company:			
Bonds due 2021	5.21%	₱6,600,000	₱6,600,000
Bonds due 2026	6.10%	3,400,000	3,400,000
Bonds due 2027	5.34%	3,000,000	3,000,000
Subsidiaries:			
GMCP			
Financial institutions - secured	LIBOR + 1.7% - 4.00%	42,854,656	30,706,949
TVI			
Financial institutions - secured	5.50% - 6.91%	29,890,000	29,890,000
TSI			
Financial institutions - secured	4.51% - 5.15%	22,660,043	22,660,043
TPI			
Financial institutions - unsecured	LIBOR + 1.10%	13,222,560	15,153,755
APRI			
Financial institutions - secured	4.53% - 6.00%	9,999,520	10,624,640
Hedcor Bukidnon			
Financial institutions - secured	4.75% - 6.78%	9,327,700	9,327,700
Hedcor Sibulan			
Fixed rate corporate notes - unsecured	4.11% - 5.42%	4,000,200	4,097,000
VECO			
Financial institution - unsecured	4.49% - 4.81%	1,176,000	1,176,000
LHC			
Financial institutions - secured	2.00% - 2.75%	1,155,344	1,105,950
DLP			
Financial institution - unsecured	4.49% - 4.81%	882,000	882,000
HI			
Financial institution - secured	5.25%	513,000	540,000
AI			
AEV - unsecured		300,000	300,000
SEZ			
Financial institution - unsecured	5.00%	226,000	226,000
CLP			
Financial institution - unsecured	4.49% - 4.81%	176,400	176,400
Joint operation (see Note B)			
Financial institutions - secured	5.50% - 8.31%	14,951,500	14,066,500
		<b>164,334,923</b>	153,932,937
Less deferred financing costs		<b>1,761,270</b>	1,879,437
		<b>162,573,653</b>	152,053,500
Less current portion - net of deferred financing costs		<b>21,375,583</b>	20,692,751
		<b>₱141,198,070</b>	₱131,360,749

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## G. Debt Securities

The Company registered and issued ₱10 billion worth of peso denominated fixed rate retail bonds on September 10, 2014.

On July 3, 2017, the Company issued the first tranche on the ₱30 billion registered in June 2017.

Terms of the bonds are as follows:

<b>MATURITY</b>	<b>INTEREST RATE</b>	<b>AMOUNT</b>
12-year bonds to mature on September 10, 2026	6.10%/p.a.	₱3,400,000
10-year bonds to mature on September 10, 2021	5.21%/p.a.	₱6,600,000
10-year bonds to mature on July 3, 2027	5.3367%/p.a.	₱3,000,000

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## H. Earnings Per Common Share

Earnings per common share amounts were computed as follows:

	For the three months ended March 31	
	2018	2017
a. Net income attributable to equity holders of the parent	<b>₱3,974,727</b>	₱4,373,273
b. Weighted average number of common shares issued and outstanding	<b>7,358,604,307</b>	7,358,604,307
Earnings per common share (a/b)	<b>₱0.54</b>	₱0.59

There are no dilutive potential common shares as of March 31, 2018 and 2017.

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## I. Operating Segment Information

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

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

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

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

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

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

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

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

**March 31, 2018**

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
<b>REVENUE</b>					
External	₱12,961,564	₱10,463,400	₱5,443,351	₱-	₱28,868,315
Inter-segment	6,733,110	273,974	1,123,990	(8,131,074)	-
<b>Total Revenue</b>	<b>₱19,694,674</b>	<b>₱10,737,374</b>	<b>₱6,567,341</b>	<b>(₱8,131,074)</b>	<b>₱28,868,315</b>
Segment Results	₱6,004,049	₱1,404,864	₱755,550	₱-	₱8,164,463
Unallocated corporate income - net	(1,224,311)	146,029	147,949	-	(930,333)
<b>INCOME FROM OPERATIONS</b>	<b>₱4,779,738</b>	<b>₱1,550,893</b>	<b>₱903,499</b>	<b>-</b>	<b>₱7,234,130</b>
Interest expense	(2,401,910)	(72,673)	(388,521)	-	(2,863,104)
Interest income	63,097	12,131	114,097	-	189,325
Share in net earnings of associates and joint ventures	981,627	31,950	4,037,767	(4,004,195)	1,047,149
Provision for income tax	(311,977)	(415,173)	(249,705)	-	(976,855)
<b>NET INCOME</b>	<b>₱3,110,575</b>	<b>₱1,107,128</b>	<b>₱4,417,137</b>	<b>(₱4,004,195)</b>	<b>₱4,630,645</b>
<b>OTHER INFORMATION</b>					
Investments	₱30,556,105	₱847,131	₱121,307,422	(₱120,915,779)	₱31,794,879
<b>Segment Assets</b>	<b>₱261,898,811</b>	<b>₱27,234,385</b>	<b>₱164,931,038</b>	<b>(₱78,515,520)</b>	<b>₱375,548,714</b>
<b>Segment Liabilities</b>	<b>₱186,784,400</b>	<b>₱20,548,447</b>	<b>₱59,842,074</b>	<b>(₱7,232,400)</b>	<b>₱259,942,521</b>
Depreciation and Amortization	₱1,693,246	₱231,443	₱6,372	₱39,116	₱1,970,177

March 31, 2017

	Power Generation	Power Distribution	Parent Company/ Others	Eliminations and Adjustments	Consolidated
<b>REVENUE</b>					
External	₱13,162,064	₱10,298,446	₱3,464,665	₱ (133,585)	₱26,791,590
Inter-segment	4,165,694	–	656,824	(4,822,518)	–
<b>Total Revenue</b>	<b>₱17,327,758</b>	<b>₱10,298,446</b>	<b>₱4,121,489</b>	<b>(4,956,103)</b>	<b>₱26,791,590</b>
Segment Results	₱5,834,749	₱1,254,360	₱ 166,456	₱–	₱7,255,565
Unallocated corporate income - net	(572,167)	228,612	5,490	–	(338,065)
<b>INCOME FROM OPERATIONS</b>					
Interest expense	5,262,582	1,482,972	171,946	–	6,917,500
Interest income	(2,673,164)	(63,989)	(147,960)	–	(2,885,113)
Share in net earnings of associates and joint ventures	337,596	7,396	23,547	–	368,539
Provision for income tax	1,315,754	25,819	4,524,839	(4,524,408)	1,342,004
	(532,902)	(386,801)	(62,778)	–	(982,481)
<b>NET INCOME</b>	<b>₱3,709,866</b>	<b>₱1,065,397</b>	<b>₱4,509,594</b>	<b>(₱4,524,408)</b>	<b>₱4,760,449</b>
<b>OTHER INFORMATION</b>					
Investments	₱30,102,515	₱834,245	₱110,559,626	(₱110,121,622)	₱31,374,764
Segment Assets	₱272,616,930	₱24,057,794	₱123,175,639	(₱61,803,465)	₱358,046,898
Segment Liabilities	₱213,480,689	₱18,622,163	₱23,196,127	(₱3,153,364)	₱252,145,615
Depreciation and Amortization	₱1,550,155	₱213,717	₱5,360	₱39,116	₱1,808,348

## J. Financial Risk Management Objectives and Policies

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

The Group also enters into derivative transactions, particularly foreign currency forwards, to economically hedge its foreign currency risk from foreign currency denominated liabilities and purchases.

### Risk Management Structure

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

#### *Financial risk committee*

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

#### *Treasury service group*

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

The main risks arising from the Group's financial instruments are interest rate risk resulting from movements in interest rates that may have an impact on outstanding long-term debt; credit risk involving possible exposure to counter-party default on its cash and cash equivalents, AFS investments and trade and other receivables; liquidity risk in terms of the proper matching of the type of financing

required for specific investments; and foreign exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated placements and borrowings.

#### Liquidity risk

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

In managing its long-term financial requirements, the Group's policy is that not more than 25% of long-term borrowings should mature in any twelve-month period. 11.31% of the Group's debt will mature in less than one year as of March 31, 2018 (December 31, 2017: 11.58%). For its short-term funding, the Group's policy is to ensure that there are sufficient working capital inflows to match repayments of short-term debt.

The financial assets that will be principally used to settle the financial liabilities presented in the following table are from cash and cash equivalents and trade and other receivables. Cash and cash equivalents can be withdrawn anytime while trade and other receivables are expected to be collected/realized within one year.

The following tables summarize the maturity profile of the Group's financial liabilities as of March 31, 2018 based on contractual undiscounted principal payments:

	Total carrying value	Contractual undiscounted principal payments				
		Total	On demand	<1 year	1 to 5 years	> 5 years
Short-term loans	₱5,972,300	₱5,972,300	₱-	₱5,972,300	₱-	₱-
Trade and other payables	15,788,472	15,788,477	₱1,661,427	₱14,127,050	-	-
Long-term debts	162,573,653	164,334,922	-	₱21,662,867	₱72,190,355	₱70,481,700
Customers' deposits	6,181,980	6,181,980	-	₱24,396	₱76,731	₱6,080,853
Finance lease obligation	49,497,928	72,916,480	-	₱6,760,800	₱50,630,880	₱15,524,800
Long-term obligation on power distribution system	232,927	400,000	-	₱40,000	₱200,000	₱160,000
Derivative liabilities	400	400	-	₱400	-	-
	₱240,247,660	₱265,594,559	₱1,661,427	₱48,587,813	₱123,097,966	₱92,247,353

#### Market Risk

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

#### *Interest rate risk*

The Group's exposure to market risk for changes in interest rates relates primarily to its long-term debt obligations. To manage this risk, the Group determines the mix of its debt portfolio as a function of the level of current interest rates, the required tenor of the loan, and the general use of the proceeds of its various fund raising activities. As of March 31, 2018, 19% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 81% have annual fixed interest rates ranging from 4.00% to 8.31%. As of December 31, 2017, 21% of the Group's long-term debt had annual floating interest rates ranging from 1.88% to 3.00%, and 79% have annual fixed interest rates ranging from 4.00% to 7.38%.

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

**As of March 31, 2018**

	<b>&lt;1 year</b>	<b>1-5 years</b>	<b>&gt;5 years</b>	<b>Total</b>
<b>Floating rate - long-term debt</b>	<b>₱15,305,739</b>	<b>₱10,833,013</b>	<b>₱3,950,878</b>	<b>₱30,089,629</b>

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

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

	Increase (decrease) in basis points	Effect on income before tax
<b>March 31, 2018</b>	<b>200</b>	<b>(₱601,793)</b>
	<b>(100)</b>	<b>300,896</b>
March 31, 2017	200	(₱788,606)
	(100)	394,303

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

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

	for the three months ended March 31	
	<b>2018</b>	2017
Short-term loans and long-term debt	<b>₱1,452,290</b>	₱1,482,743
Finance lease obligation	<b>1,403,205</b>	1,394,279
Customers' deposits	<b>753</b>	885
Other long-term obligations	<b>6,856</b>	7,206
	<b>₱2,863,104</b>	₱2,885,113

*Foreign exchange risk*

The foreign exchange risk of the Group pertains significantly to its foreign currency denominated obligations. To manage its foreign exchange risk, stabilize cash flows and improve investment and cash flow planning, the Group enters into foreign currency forward contracts aimed at reducing and/or managing the adverse impact of changes in foreign exchange rates on financial performance and cash flows. Foreign currency denominated borrowings account for 38% and 35% of total consolidated borrowings as of March 31, 2018 and December 31, 2017, respectively.

Presented below are the Group's foreign currency denominated financial assets and liabilities as of March 31, 2018 and December 31, 2017, translated to Philippine Peso:



	March 31, 2018		December 31, 2017	
	US Dollar	Philippine Peso equivalent <sup>1</sup>	US Dollar	Philippine Peso equivalent <sup>2</sup>
Loans and receivables:				
Cash and cash equivalents	\$238,507	₱12,440,525	\$106,561	₱5,320,591
Trade and other receivables	34,875	1,819,069	34,880	1,741,562
<b>Total financial assets</b>	<b>273,382</b>	<b>14,259,594</b>	<b>141,441</b>	<b>7,062,153</b>
Other financial liabilities:				
Trade and other payables	2,298	119,875	41,457	2,069,939
Long-term debt	253,500	13,222,560	303,500	15,153,755
Finance lease obligation	509,774	26,589,812	519,370	25,932,144
<b>Total financial liabilities</b>	<b>765,572</b>	<b>39,932,247</b>	<b>864,327</b>	<b>43,155,838</b>
<b>Total net financial liabilities</b>	<b>(\$492,190)</b>	<b>(₱25,672,653)</b>	<b>(\$722,886)</b>	<b>(₱36,093,685)</b>

<sup>1</sup>\$1 = 52.16

<sup>2</sup>\$1 = 49.93

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, of the Group's income before tax as of March 31, 2018:

	Increase/ (decrease) in US Dollar	Effect on income before tax
<b>US Dollar denominated accounts</b>	<b>US Dollar strengthens by 5%</b>	<b>(₱1,283,633)</b>
<b>US Dollar denominated accounts</b>	<b>US Dollar weakens by 5%</b>	<b>1,283,633</b>

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

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

#### Credit risk

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

#### *Concentration Risk*

Credit risk concentration of the Group's receivables according to the customer category as of March 31, 2018 and December 31, 2017 is summarized in the following table:

	March 31, 2018	December 31, 2017
Power distribution:		
Industrial	₱4,333,562	₱4,573,703
Residential	1,750,392	1,083,524
Commercial	641,419	1,198,568
City street lighting	40,431	31,680
Power generation:		
Power supply contracts	7,470,538	7,815,795
Spot market	1,499,906	1,676,552
	<b>₱15,736,248</b>	<b>₱16,379,822</b>

### Capital Management

Capital includes equity attributable to the equity holders of the parent. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

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

Gearing ratios of the Group as of March 31, 2018 and December 31, 2017 are as follows:

	March 31, 2018	December 31, 2017
Short-term loans	₱5,972,300	₱4,717,300
Long-term debt	212,071,581	201,278,754
Cash and cash equivalents	(44,329,525)	(35,699,631)
Restricted cash	(3,627,972)	(2,642,327)
Net debt (a)	170,086,384	167,654,096
Equity	115,606,194	123,978,465
Equity and net debt (b)	₱285,692,578	₱291,632,561
Gearing ratio (a/b)	59.53%	57.49%

No changes were made in the objectives, policies or processes during the period ended March 31, 2018 and December 31, 2017.

## **K. Financial Instruments**

### Fair Value of Financial Instruments

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily available from an exchange, dealer, broker, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. For a financial instrument with an

active market, the quoted market price is used as its fair value. On the other hand, if transactions are no longer regularly occurring even if prices might be available and the only observed transactions are forced transactions or distressed sales, then the market is considered inactive. For a financial instrument with no active market, its fair value is determined using a valuation technique (e.g. discounted cash flow approach) that incorporates all factors that market participants would consider in setting a price.

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

	March 31, 2018		December 31, 2017	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
<b>Financial Liabilities</b>				
Finance lease obligation	₱49,497,928	₱43,225,428	₱49,225,254	₱43,462,850
Long-term debt - fixed rate	132,484,024	131,797,843	120,846,633	115,027,567
Long-term obligation on power distribution system	232,927	315,881	226,071	326,655
	<b>₱182,214,879</b>	<b>₱175,339,152</b>	<b>₱170,297,958</b>	<b>₱158,817,072</b>

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

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

*Fixed-rate borrowings.* The fair value of fixed rate interest-bearing loans is based on the discounted value of future cash flows using the applicable rates for similar types of loans.

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

*Finance lease obligation.* The fair value of the finance lease obligation was calculated by discounting future cash flows using applicable interest rates.

*Long-term obligation on PDS.* The fair value of the long-term obligations on power distribution system is calculated by discounting expected future cash flows at prevailing market rates.

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

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

*Derivative financial instruments.* The fair value of forward contracts is calculated by reference to prevailing interest rate differential and spot exchange rate as of valuation date, taking into account its

remaining term to maturity. The fair value of the embedded prepayment options is determined using Binomial Option Pricing Model which allows for the specification of points in time until option expiry date. This valuation incorporates inputs such as interest rates and volatility. The fair value of the interest rate swap and interest rate cap are determined by generally accepted valuation techniques with reference to observable market data such as interest rates.

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

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

The movements in fair value changes of all derivative instruments for the period ended March 31, 2018 and for the year ended December 31, 2017 are as follows:

	<b>March 31, 2018</b>	December 31, 2017
At beginning of year	<b>₱294,364</b>	(₱69,016)
Net changes in fair value of derivatives designated as accounting hedges	<b>223,726</b>	105,483
Net changes in fair value of derivatives not designated as accounting hedges	<b>(112,891)</b>	5,339
Derecognition recognized in cumulative translation adjustments	–	240,960
Fair value of settled instruments	<b>71,681</b>	11,598
At end of period	<b>₱476,880</b>	₱294,364

#### Fair Value Hierarchy

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

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

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

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

As of March 31, 2018, the Group held the following financial instruments that are measured and carried or disclosed at fair value:

	Total	Level 1	Level 2	Level 3
Carried at fair value:				
Derivative asset	₱477,280	₱–	₱477,280	₱–
Derivative liability	400	–	400	–
Disclosed at fair value:				
Finance lease obligation	43,225,428	–	–	43,225,428
Long-term debt - fixed rate	131,797,843	–	–	131,797,843
Long-term obligation on PDS	315,881	–	–	315,881

During the period ended March 31, 2018, there were no transfers between level 1 and level 2 fair value measurements and transfers into and out of level 3 fair value measurement.

## L. Disclosures

### 1. Corporate Information

Aboitiz Power Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission on February 13, 1998. The Company is a publicly-listed holding company of the entities engaged in power generation and power distribution in the Aboitiz Group. As of March 31, 2018, Aboitiz Equity Ventures, Inc. (AEV, also incorporated in the Philippines) owns 76.88% of the Company. The ultimate parent of the Company is Aboitiz & Company, Inc. (ACO).

The registered office address of the Company is 32nd street, Bonifacio Global City, Taguig City, Metro Manila.

### 2. Group Information

The consolidated financial statements comprise the financial statements of the Company, subsidiaries controlled by the Company and joint operation that are subject to joint control (collectively referred to as “the Group”). The following are the subsidiaries as of March 31, 2018 and December 31, 2017:

	Nature of Business	March 31, 2018		December 31, 2017	
		Direct	Indirect	Direct	Indirect
Aboitiz Renewables, Inc. (ARI) and Subsidiaries	Power generation	100.00	–	100.00	–
AP Renewables, Inc. (APRI)	Power generation	–	100.00	–	100.00
Aboitiz Power Distributed Energy, Inc. *	Power generation	–	100.00	–	100.00
Aboitiz Power Distributed Renewables, Inc. *	Power generation	–	100.00	–	100.00
Hedcor, Inc. (HI)	Power generation	–	100.00	–	100.00
Hedcor Sibulan, Inc. (HSI)	Power generation	–	100.00	–	100.00
Hedcor Tudaya, Inc. (Hedcor Tudaya)	Power generation	–	100.00	–	100.00
Luzon Hydro Corporation (LHC)	Power generation	–	100.00	–	100.00
AP Solar Tiwi, Inc. *	Power generation	–	100.00	–	100.00
Aseagas Corporation (Aseagas)*	Power generation	–	100.00	–	100.00
Bakun Power Line Corporation*	Power generation	–	100.00	–	100.00
Cleanergy, Inc.*	Power generation	–	100.00	–	100.00
Cordillera Hydro Corporation*	Power generation	–	100.00	–	100.00
Hedcor Benguet, Inc.*	Power generation	–	100.00	–	100.00
Hedcor Bukidnon, Inc. (Hedcor Bukidnon)*	Power generation	–	100.00	–	100.00
Hedcor Kabayan, Inc. *	Power generation	–	100.00	–	100.00
Hedcor Ifugao, Inc. *	Power generation	–	100.00	–	100.00
Hedcor Kalinga, Inc. *	Power generation	–	100.00	–	100.00
Hedcor Itogon Inc.*	Power generation	–	100.00	–	100.00
Hedcor Manolo Fortich, Inc. *	Power generation	–	100.00	–	100.00
Hedcor Mt. Province, Inc.*	Power generation	–	100.00	–	100.00
Hedcor Sabangan, Inc. (Hedcor Sabangan)	Power generation	–	100.00	–	100.00
Hedcor Tamugan, Inc.*	Power generation	–	100.00	–	100.00
Mt. Apo Geopower, Inc. *	Power generation	–	100.00	–	100.00
Negron Cuadrado Geopower, Inc. *	Power generation	–	100.00	–	100.00
Tagoloan Hydro Corporation*	Power generation	–	100.00	–	100.00
Luzon Hydro Company Limited*	Power generation	–	100.00	–	100.00
Hydro Electric Development Corporation*	Power generation	–	99.97	–	99.97
Therma Power, Inc. (TPI) and Subsidiaries	Power generation	100.00	–	100.00	–
Mindanao Sustainable Solutions, Inc. *	Services	–	100.00	–	100.00
Therma Luzon, Inc. (TLI)	Power generation	–	100.00	–	100.00
Therma Marine, Inc. (Therma Marine)	Power generation	–	100.00	–	100.00
Therma Mobile, Inc. (Therma Mobile)	Power generation	–	100.00	–	100.00
Therma South, Inc. (TSI)	Power generation	–	100.00	–	100.00
Therma Power-Visayas, Inc. *	Power generation	–	100.00	–	100.00
Therma Central Visayas, Inc. *	Power generation	–	100.00	–	100.00
Therma Subic, Inc. *	Power generation	–	100.00	–	100.00
Therma Mariveles Holding Cooperatief U.A.	Holding company	–	100.00	–	100.00
Therma Mariveles Camaya B.V.	Holding company	–	100.00	–	100.00
Therma Mariveles Holdings, Inc.	Holding company	–	100.00	–	100.00
GNPower Mariveles Coal Plant Ltd. Co. (GMCP)	Power generation	–	66.07	–	66.07

(Forward)

	Nature of Business	March 31, 2018		December 31, 2017	
		Direct	Indirect	Direct	Indirect
Therma Dinginin Holding Cooperatief U.A.	Holding company	–	100.00	–	100.00
Therma Dinginin B.V.	Holding company	–	100.00	–	100.00
Therma Dinginin Holdings, Inc.	Holding company	–	100.00	–	100.00
Therma Visayas, Inc. (TVI)*	Power generation	–	80.00	–	80.00
Abovant Holdings, Inc.	Holding company	–	60.00	–	60.00
AboitizPower International Pte. Ltd. (API)	Holding company	100.00	–	100.00	–
Aboitiz Energy Solutions, Inc. (AESI)	Retail electricity supplier	100.00	–	100.00	–
Adventenergy, Inc. (AI)	Retail electricity supplier	100.00	–	100.00	–
Balamban Enerzone Corporation (BEZ)	Power distribution	100.00	–	100.00	–
Lima Enerzone Corporation (LEZ)	Power distribution	100.00	–	100.00	–
Mactan Enerzone Corporation (MEZ)	Power distribution	100.00	–	100.00	–
Malvar Enerzone Corporation*	Power distribution	100.00	–	100.00	–
East Asia Utilities Corporation (EAUC)	Power generation	50.00	50.00	50.00	50.00
Cotabato Light and Power Company (CLP)	Power distribution	99.94	–	99.94	–
Cotabato Ice Plant, Inc.	Manufacturing	–	100.00	–	100.00
Davao Light & Power Company, Inc. (DLP)	Power distribution	99.93	–	99.93	–
Maaraw Holdings San Carlos, Inc. (MHSCI)	Holding company	–	100.00	–	100.00
San Carlos Sun Power, Inc. (Sacasun)	Power generation	–	100.00	–	100.00
AboitizPower International B.V.	Holding company	–	100.00	–	100.00
Subic Enerzone Corporation (SEZ)	Power distribution	65.00	34.98	65.00	34.98
Cebu Private Power Corporation (CPPC)	Power generation	60.00	–	60.00	–
Prism Energy, Inc. (PEI)	Retail electricity supplier	60.00	–	60.00	–
Visayan Electric Company (VECO)	Power distribution	55.26	–	55.26	–

\* No commercial operations as of March 31, 2018.

### 3. Basis of Financial Statement Preparation and Changes in Accounting Policies

#### Basis of Financial Statement Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2017 annual audited consolidated financial statements, and should be read in conjunction with the Group's consolidated financial statements as of and for the year ended December 31, 2017.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited condensed consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited condensed consolidated financial statements of the Group are presented in Philippine peso, the Group's functional currency, and rounded to the nearest thousands except for earnings per share and exchange rates and when otherwise indicated.

On April 30, 2018, the Audit Committee of the Board of Directors approved and authorized the release of the accompanying unaudited condensed consolidated financial statements of the Group.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the new and revised standards and Philippine Interpretations which were applied starting January 1, 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Except as otherwise indicated, adoption of the following new and amended standards and interpretations did not have any significant impact on the Group's consolidated financial statements:

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

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

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

These amendments are not applicable to the Group since it has no share-based payment arrangements.

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

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

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

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

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

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

- Identification of performance obligations

*Sale of power and electricity*

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

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

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

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

- Variable considerations

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

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



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

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

- *PFRS 9, Financial Instruments*

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

The Group is adopting this new standard without restating comparative information.

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

*(a) Classification and measurement*

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

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

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

*(b) Impairment*

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

(c) *Hedge accounting*

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

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

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

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

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

These amendments are not applicable to the Group since none of the entities within the Group is a venture capital organization or an investment entity, nor does the Group have investment entity associates or joint ventures.

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

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

Since the Group's current practice is in line with the clarifications issued, these amendments do not have an impact on its consolidated financial statements.

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

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

Since the Group's current practice is in line with the clarifications issued, this interpretation does not have any effect on its consolidated financial statements.

#### 4. Seasonality of Interim Operations

Operations of hydropower plants are generally affected by climatic seasonality. Seasonality and location have a direct effect on the level of precipitation. In Luzon where rainy and summer seasons are more pronounced, higher rainfall is normally experienced in the months of June to September. As such, the hydropower plants located in Luzon operate at their maximum capacity during this period. In contrast, the hydropower plants in Mindanao experience a well-distributed rainfall throughout the year, with a slightly better precipitation during the months of December to April. This precipitation seasonality greatly affects subsidiary companies HI, HSI, Hedcor Tudaya, Hedcor Sabangan and LHC, which operate 'run-of-river' hydropower plants since these plants do not have any means to impound water.

Any unexpected change in the seasonal aspects will have no material effect on the Group's financial condition or results of operations.

#### 5. Property, Plant and Equipment

During the three months ended March 31, 2018, the Group's additions to property, plant and equipment amounted to ₱2.84 billion, including acquisition of distribution assets and costs relating to the construction of power plant facilities.

A significant portion of the Group's property, plant and equipment relates to various projects under "Construction in progress" as of March 31, 2018, as shown below:

Project Company	Estimated cost to complete	
	(in millions)	% of completion
TVI	₱9,051	77%
Hedcor Bukidnon	2,531	78%
PEC (see Note D)	–	100%

For the period, construction costs for the various projects amounted to ₱1.82 billion, which includes capitalized borrowing costs amounting to ₱735.1 million.

## **6. Material Events and Changes**

### a) Dividend declaration

On March 8, 2018, the BOD approved the declaration of regular cash dividends of ₱1.39 a share (₱10.23 billion) to all stockholders of record as of March 22, 2018. The cash dividends are payable on April 12, 2018.

Except for the above developments and as disclosed in some other portions of this report, no other significant event occurred that would have a material impact on the registrant and its subsidiaries, and no other known trend, event or uncertainty came about that had or were reasonably expected to have a material favorable or unfavorable impact on revenues or income from continuing operations, since the end of the most recently completed fiscal year. There were also no significant elements of income or loss that did not arise from the continuing operations of the registrant and its subsidiaries.

Other than those disclosed above, no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships with unconsolidated entities or other persons entities or other persons were created during the interim period. There were also no events that would trigger substantial direct or contingent financial obligations or cause any default or acceleration of an existing obligation.

Likewise, there were no other material changes made in such items as: accounting principles and practices, estimates inherent in the preparation of financial statements, status of long-term contracts, changes in the composition of the issuer, and reporting entity resulting from business combinations or dispositions.

Lastly, there were no changes in estimates of amounts reported in prior interim period and financial year that would have a material effect in the current interim period.

## **7. Material Adjustments**

There were no material, non-recurring adjustments made during period that would require appropriate disclosures. All other adjustments are of a normal recurring nature.

## **8. Contingencies**

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

The Company obtained Standby Letters of Credit and is acting as surety for the benefit of certain associates and a subsidiary in connection with loans and credit accommodations.

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## M. Schedule of Relevant Financial Ratios

	<b>Formula</b>	<b>March 31, 2018</b>	December 31, 2017
<b>LIQUIDITY RATIOS</b>			
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<b>1.34</b>	1.38
Acid test ratio	$\frac{\text{Cash + Marketable securities} + \text{Accounts receivable} + \text{Other liquid assets}}{\text{Current liabilities}}$	<b>1.03</b>	1.08
<b>SOLVENCY RATIOS</b>			
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Total equity}}$	<b>2.25</b>	1.92
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	<b>3.25</b>	2.92
Net debt to equity ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total Equity}}$	<b>1.47</b>	1.35
Gearing ratio	$\frac{\text{Debt - Cash \& cash equivalents}}{\text{Total Equity} + (\text{Debt - Cash \& cash equivalents})}$	<b>59.53%</b>	57.49%
Interest coverage ratio *	$\frac{\text{EBIT}}{\text{Interest expense}}$	<b>n.a</b>	3.60
<b>PROFITABILITY RATIOS</b>			
Operating margin *	$\frac{\text{Operating profit}}{\text{Total revenues}}$	<b>n.a</b>	29%
Return on equity *	$\frac{\text{Net income after tax}}{\text{Total equity}}$	<b>n.a</b>	21%

*Ratio marked \* is deemed not applicable (n.a.) for the interim reporting period since this would not be comparable to the ratio reported in the previous period.*

## ABOITIZ POWER CORPORATION AND SUBSIDIARIES

### 1.) AGING OF RECEIVABLES

As of March 31, 2018

	30 Days	60 Days	90 Days	Over 90 Days	Total
<b>Trade receivables</b>					
Power Distribution Customers	2,838,732	633,191	110,527	599,473	4,181,923
Power Generation Customers	4,421,760	2,097,754	103,631	2,347,299	8,970,444
Management & Other Services Customers	2,579,896	-	-	3,985	2,583,881
	9,840,388	2,730,945	214,158	2,950,757	15,736,248
<b>Less : Allowance for impairment losses</b>					1,792,041
<b>Net trade receivables</b>					13,944,207
<b>Non-trade receivables</b>	5,574,283	-	-	9,887	5,584,170
<b>Grand Total</b>	15,414,671	2,730,945	214,158	2,960,644	19,528,377

### 2.) ACCOUNTS RECEIVABLE DESCRIPTION

Type of Receivable	Nature / Description	Collection Period
Trade	uncollected billings to customers for sale of power, goods and services	30 - 60 days
Non-Trade	claims, operating cash advances and advances to suppliers & employees	30 - 120 days

### 3.) NORMAL OPERATING CYCLE

Power Subsidiaries

- Distribution - 60 days
- Generation - 65 days